Real Estate Articles by Victoria Wright

Investment Properties – Where Your Income Comes From (word count: 356)

Everyone has heard about "investment properties", but other than house flipping or buying to gain rental income, many people are not aware of the other ways investment properties offer income. In most cases, investment properties serve as an income source in four basic ways. These are tax shelters, equity builders, net operating income (NOI), and capital appreciation. Let's take a look at each of these cash flow sources and learn a bit more about how it works.

Tax Shelters

The Encarta dictionary defines "tax shelter" as being "an investment activity that tends to reduce income tax liability". Investment properties can often provide a tax shelter in one of three ways: depreciation, tax credits, or carryover loss. Carryover losses can actually reduce your amount of tax liability on income coming from other sources.

Equity Build-up

Equity is figured by subtracting the amount still owed on your loan from the current total value of your property. Building your equity means you are actively decreasing the ratio of loan value to property value, which is a really good thing. Certain types of investment properties can offer great equity build-up potential.

Net Operating Income (NOI)

The NOI is your profit, or the amount of money left after the deduction all other related expenses. These expenses would include any amounts paid for maintenance, taxes, utilities, insurances and other fees or ongoing expenditures. The capitalization rate, or CAP rate, is a percentage rate figure that is used to evaluate the performance of an investment property. The CAP rate is determined by the ratio of NOI to the starting purchase value.

Capital Appreciation

Capital appreciation is often discussed when talking about any real estate transaction. It is something that is, in almost all cases, very hard to predict. Capital appreciation is the amount of increase in market value of a property over a period of time. Until an investment property is sold, the actual cash flow from capital appreciation will not be seen or be obtainable. Due to its unpredictable nature, if the income flow from a property is based largely on anticipated capital appreciation, it is no longer considered an "investment" property.

Residential Real Estate Appraisals – What You Need To Know (word count: 541)

Whether you're a buyer or a seller, an accurate residential real estate appraisal is extremely important. This appraisal will provide the facts on the property's current market value, and depending on the purpose of your appraisal, you could be hoping for a number on the high or low side.

Who Needs an Appraisal and Why?

When you're buying or selling a piece of property, both the buyer and seller want appraisal values to be high. The owner wants to prove value to potential buyers, while the buyer will need appraisal values for submission to lenders. In both cases the client hopes to see a high figure. On the other hand, current owners trying to lower tax values of their property may look to an appraisal to prove the property is not worth the high value at which it is being taxed. While appraisals for this purpose are not required, in cases of significant monetary values owners may use this type of report to their advantage.

How Do They Assess the Value?

There are two types of residential real estate appraisal techniques. For newer properties where build costs are available and current, a cost approach may be taken. In most cases though, a sales comparison method is employed. This will use data specific to the subject property and for comparable properties in the area. This method requires more time and analysis, since a property *exactly* like yours will not exist.

Who does the appraisal and what does it tell me?

Appraisals are done by professionals that have been licensed within their state. They have had to complete courses and internship hours in order to receive their certification. The appraiser may be sent from a mortgage company's staff or you may have to locate one on your own. If the choice is up to you, be sure to look for an appraiser that is familiar with your property type. For example, if you live in a rural area, you wouldn't want an appraiser that primarily works with in-city properties with in-city amenities, like fire hydrants and sewer systems. If an appraiser is not familiar with processing values for your property type, you will likely have differences in opinion concerning certain sections of the report.

Your residential appraisal report will offer details about the "subject property", as it is called. This appraisal report will cover everything from a detailed description of the location, type of property, structures on the property and information concerning the property's overall condition. Any structural problems, areas obviously needing repair, poor lot conditions and other noticeable flaws will be included. There should also be a comparison between this property and 3 like properties in the general vicinity. This data will all be used to generate an overall evaluation of the area's real estate market.

Remember – this is not a home inspection!

While obvious flaws and issues are noted, the appraiser is not a home inspector. They will not test plumbing or electrical systems. The do not inspect for roof leaks or minor damage not easily seen. The

residential appraisal report is a tool used as part of the financial end of a deal. In order to learn a property's actual condition, a licensed home inspector will need to be called.