



Alaska REAL ESTATE BY DAVE WINDSOR

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4 REASONS TO OWN INCOME PROPERTY

When most people think about purchasing income property, be it a duplex, fourplex, or even a larger apartment building, they tend to think of “Cash Flow”. Will the property provide additional monthly income in exchange for the investment and effort of being a Landlord?

Now, certainly, Cash-on-Cash return is one of the major benefits of owning income property (request an explanatory publication from windsor@alaska.net), but this is only 1 of 4 financial benefits of ownership. In fact, in other parts of the world, investors will even purchase rental properties with a negative cash flow when the other 3 benefits are calculated.

Apart from cash flow, the 2nd reason to own an income property is “Capital Appreciation”. If the value of property is appreciating in your area, this also is a financial gain taking place year after year, albeit invisibly until you sell the property - e.g. you purchase a 4-Plex in 2016 for \$300,000 but sell it in 2020 for \$415,000. This is a profit of 8.5% per annum. While this is just an example, investors should be aware that ‘appreciation’ is a real gain, and taxes on the sale can be deferred through Section 1031 of the Internal Revenue Code.

The 3rd reason to own income property is “Depreciation”. Accelerated depreciation rates available to you on a multi-family building reduce your income tax. This is a financial benefit (see your C.P.A. for details). In fact, there are other tax benefits also, which your tax accountant will talk to you about.

Finally, let’s not forget that your tenants are actually paying off your mortgage loan because you use their rent to make your payments. In other words, you are receiving “Increasing Equity” free of personal cost.

If the stars match up on all 4 of these studies for your potential purchase, and you can stand the rigors of being a landlord, this is a definite path to wealth. Keep in mind that investments up to a 4 unit property are easy to finance but, above 4 units, the financing is strictly commercial and technically more complex. We will address the financing of income properties in a future column.

Be sure to engage the services of one of the many fine Realtors in your region who is suitably qualified for the mathematics that investments of any kind require.

Dear Dave: Is there an urgency, in 2016, to purchase our next home in the light of interest rate hikes coming, which we hear about on television?

Answer: In my view – Maybe. The current FHA rate for a 30 year fixed-rate home loan in Anchorage is 3.25%. This rate is incredibly generous.

Even if the rate goes to 4.25% early next year, which is quite possible, this rate is way below the 7% and 8% that people paid some 5 years ago. Money is cheap to borrow and the Federal Reserve Board (Fed) will have to keep rates low for the next few years (at least 2).

It is true that a 1% increase in the 30 year rate will add around \$100 per month on your average single family home payment, but this is still worth your trouble compared to renting and, keep in mind, that rate is fixed for 30 years ahead. In less than 5 years time, your friends will be paying 7% to 8% and wishing they had been as smart as you.

Interest rates on home loans will not return to the 3’s

again in the foreseeable future after the end of this year, but you can take advantage of the 3's now, and the 4's in 2017. If you have secure employment and a stable marriage, go for it.

Dear Dave: We have our home in Juneau listed for sale. Do we have to leave when it is being shown by an agent?

Answer: No, you don't have to leave your property. However, you should keep in mind that, if you want to sell, you should leave the property for showings. Buyers just don't feel comfortable looking at the home, checking out closet space, mentally arranging their own furniture, and a host of other things, with you hovering around the space. Sellers remaining onsite during showings is a definite negative influence in trying to sell a home.

Talk to your Realtor also about the staging. A few tweaks in furniture layout, de-cluttering knick-knacks, and removing personal or religious paraphernalia (including hunting trophies) all help to neutralize the atmosphere and create space for buyers to think about.

Dave

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