

1

DIFFERENT PERSPECTIVES OF THE REAL ESTATE MARKET

Page 18 of the Outline

Physical Characteristics

Economic Characteristics

2

Physical Characteristics

Immobility

- The land can be changed, but it cannot be moved

Indestructibility

- The land can be changed, but it cannot be destroyed

Non-homogeneity

- All parcels of land are unique

3

Economic Characteristics

Relative Scarcity

- Land in the immediate areas may be limited or unavailable

Modification or Improvements

- One property can affect the uses and values of many properties

Fixity or Permanence Of Investment

- Real estate investments tend to be long-term and relatively stable

Area Preference / Situs

- Refers to people's preferences and choices in an area

The Real Estate Market

Supply and Demand

- When SUPPLY increases and DEMAND remains stable, prices go down
- When DEMAND increases and SUPPLY remains stable, prices go up

Factors Affecting Supply & Demand of Real Estate

- Wage Levels and Stability of Income
- Employment Opportunities
 - (When job opportunities are scarce or wage levels low, demand for real estate usually drops)
- Personal Savings and Supply of Mortgage Funds
- Interest Rates and Taxation
- Land Use Controls
- Rent Levels and Vacancies

Factors Affecting Supply

- Supply of Land
 - Cost of Land, Labor and Materials, Changes
- Construction Costs
 - (If costs are too high you won't build)
- Government Controls
 - Zoning
- Government Monetary Policies
 - Financial Policies

Any government action has some effect on the real estate market.

Factors Affecting Demand

- k. Population
(Changes, amount of space available)
- l. Demographics
(family size, age of children, lifestyle)
- m. Births, Deaths and Divorce Rates

B. Advantages & Disadvantages of Real Estate

Tangible vs. Intangible
Appreciation Potential is Good
Equity
Income Producing
Hedge Against Inflation
Leverage

Advantages of Real Estate

- Tax Treatment*
- **Income Tax Deductions**
 - **Interest and Property Taxes**
 - **Capital Gain (Profit or Loss)**
 - **Personal Residence**
 - **Investment Property**
 - **Trade or Business Property**
 - **Dealer Property (limit of 5 properties)**
Income treated as ordinary income
 - **1031 Exchange**

Subject to Capital Gains Tax?

Page 25 of Module 1 Handout

How to Exclude the \$500,000 of Gain on the Sale of Your Personal Residence. (Pg. 25 of handout)

Either Spouse Owns 2 out of the last 5 Years

Both Spouses Use 2 out of the last 5 Years

Neither Spouse has Excluded Gain in the Last 2 years

"Married Filing Jointly"

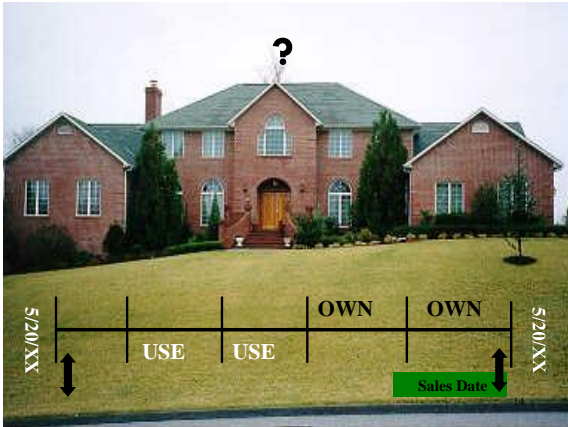


The Ownership Test



The Use Test





Deferring Capital Gain

Advantages of Real Estate

Tax Treatment

- 1031 Exchange

"No gain shall be recognized if property is exchanged solely for property of **like kind**"

Disadvantages of Real Estate

- Not Liquid
- Requires Management
- Large Dollar Amounts
- Immobility (Fixed Location)
