DIFFERENT PERSPECTIVES OF THE REAL ESTATE MARKET

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Physical Characteristics
Economic Characteristics

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

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

Factors Affecting Supply
g. Supply of Land
   - Cost of Land, Labor and Materials, Changes
h. Construction Costs
   - (If costs are too high you won’t build)
i. Government Controls
   - Zoning
j. 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)
I. 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?

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How to Exclude $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

OWN
OWN
USE
USE
(occupy)
Sales Date
5/20/XX

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)