

Real Estate Market Slowdown Offers Good Opportunities to Buy Investment Properties

By Val Cook-Watkins



They say there are two sides to every coin, and that is particularly true in real estate. While the recent slowdown in the housing market has softened prices for home sellers, it also has resulted in an unusually good opportunity to buy rentals and other investment properties at outstanding values.

Inventories of homes for sale have climbed steadily over the past couple of years, which has put downward pressure on prices. In particular, the larger number of bank-owned properties, or REOs, in the outlying areas of Contra Costa County has resulted in a bigger inventory at the lower end of the market. As a result, many rentals are selling at discounted prices.

Owning a rental prop-

erty has always been a wise investment, given the many tax advantages. More tax deductions and are available for this type of property than for just about any other investment. But the dynamics of this market have made owning investment properties an even better value.

Adding to the lure of investment real estate right now is the fact that mortgage rates remain near historic lows and monthly rents throughout Contra Costa County are climbing once again due to an increase in the number of people looking to rent units. It all adds up to a very good investment climate.

There are many advantages of owning a rental, including depreciation and other tax write-offs. But the

greatest benefit of all may be long-term appreciation. It is often said that you make your profits in real estate when you buy, not when you sell. So getting into the market at a low price point only increases your returns down the road.

What are some of the other advantages of owning investment property?

- **Deducting your expenses.** You may be able to deduct from your federal taxes many expenses associated with rental properties, including repairs, cleaning and maintenance, taxes, utilities and insurance. Perhaps the best deduction of all is depreciation of the property over 27.5 years.
- **Lower, capital gains tax rates.** When you sell real estate, you currently pay just 15 percent on the capital gains for federal taxes compared to your ordinary income tax rate for other income, such as CDs and bonds.
- **Deferring taxes.** You can defer capital gains taxes by doing a 1031 exchange, where you replace your property with a like-kind one. The rules are complicated, so be sure to get expert help with this.
- **A Balanced Investment Portfolio** –By buying a rental property, second home or other investment real estate you can diversify your assets

beyond stocks, bonds and CDs. In the long run, that means a more stable portfolio and a more secure future retirement.

Investment properties are a very specialized form of real estate. As a result, it's particularly important to work with a professional Realtor® who has expertise in this field to find the right property for you. In addition, tax laws can be complicated, so seek the advice a CPA or other tax professional.

Val Cook-Watkins, Manager of Coldwell Banker Residential Brokerage's Orinda offices, provides the above tips. A 30-year real estate veteran, Watkins oversees a talented team of 78 real estate professionals in the East Bay. Her offices are located at 5 Moraga Way and 2 Theatre Square, Suite 211, in Orinda. She can be reached at 925-253-4600 or by e-mail at vcCookwatkins@cbnorcal.com.