



WHY REAL ESTATE INVESTING?

We realize not all of the readers of this eBook are current investors. If you are a newbie or considering entry into real estate investing, this eBook is for you. We list some pros and cons of real estate investing, and we keep it real, so read on.

S A F E H A R B O R R E N T S . C O M

THE PROS OF REAL ESTATE INVESTING

Buying rental properties for financial gain can be a great opportunity for individuals with a lot of fix it skills, and the people skills and patience to manage residents. However, you do need capital to provide for up-front maintenance or renovation costs and to cover vacant months.

- Provides regular income and properties can “appreciate” – translation: grow in value over time.
- Maximizes capital through leverage – translation: using debt to acquire additional financial capital.
- Real Estate investing offers many tax-deductible associated expenses – translation: tax breaks. Who doesn't like that?



THE CHALLENGES OF REAL ESTATE INVESTING

Managing residents can be difficult at best. Collecting rent, completing repairs and managing evictions and legal processes is not easy.

- Residents don't always love the property as much as you do – and will cause damage, sometimes serious damage. Pets are just one threat to your investment property – and require careful paperwork to protect yourself.
- Vacancies are frustrating, though uncommon in today's South Sound market. But they can be a reality. If repairs are necessary, a unit will lose rent income daily, which can hit your bottom line. The mortgage will always come due, whether rent comes in or not.



DOES REAL ESTATE INVESTING BRING TAX ADVANTAGES?

The short answer is yes. The long answer is a long list. There are definitely advantages to buying and owning real estate – there is a long list of things you can write off - and deductions as well.

1 People who own the property they're renting out might be able to deduct up to 20% of their income.

While most landlords will carry a mortgage, there is a HUGE benefit to having a property paid off. The 'Pass-through' deduction Qualified Business Income (QBI deduction) is a great deduction, but many people don't know about it since it is not an 'above-the-line' deduction.

2 If the rental property is renovated, Section 179 can be used to help deduct costs.

Recent changes allow owners to write off the cost of fire systems, security systems, roofs, and HVACs for properties they are renting as vacation properties. The limits to this deduction were recently raised, so if this is your situation, you may be eligible.



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3 Costs of personal property like appliances and furniture can be deducted if it's acquired between September 27, 2017 and the end of 2022.

Another recent law changed the amount of personal property that can be deducted. This recent increase will expire soon, so act fast!

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Limits of interest deductions for mortgage amounts decreased from \$1,000,000 to \$750,000 in 2018 for newly acquired debt. But that change is not an issue if it is a rental property. Don't miss this deduction!

5 If expenses were paid with either loans or a credit card, those interest payments can be deducted as a business expense.

While this deduction is not allowed for personal property, it still is in force for rental properties as a business expense.

DOES REAL ESTATE INVESTING BRING TAX ADVANTAGES?

6

Rental property owners are able to treat property taxes as a business deduction.

The Tax Cuts and Jobs Act (TCJA) also lowered the amount that can be taken as a personal deduction for property taxes to \$10,000 but that law doesn't affect rental properties. So deduct away!

7

If any part of your rental property is covered by insurance, those insurance payments can be deducted.

Be sure that the amount deducted is for the specific tax year only. If you prepaid your insurance, you can only deduct the specific year's amount.

8

Rental companies charge a "Finder's Fee" for each lease executed. Deduct these fees.

It doesn't matter if it is a 'per lease' fee or a yearly management fees; these fees are business expenses. Just be sure to keep good records.



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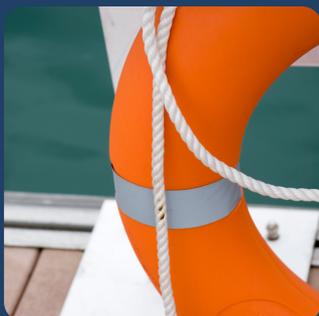
9 Expenses obtained while traveling overnight for rental property-related business can be deducted.

Travel, lodging, meals or mileage incurred in the normal running of your rental business are all deductible. This would include if you travel to inspect a repair or go to a seminar.

10 Home Office Expenses

Should you run your business from a home office, you can deduct expenses for anything relating to your home office. This includes equipment, furniture, and some costs of utilities. Recently, the IRS has made a quick deduction for home office that may or may not be your best option. Therefore, good record keeping is a must. Talk to your accountant.

There you go! 10 great deductions that people who rent their property can take advantage of.



WHOSE AT THE TABLE?

Watching the Seahawks huddle-up before every play reminded me of the importance of having a great team around you. When you go into Real Estate Investing, you will need to have a great group of professionals around you.

First of all, you need a great *Real Estate Attorney*. This professional knows both the laws and the potential pitfalls of any transactions you may undertake. Before you sign anything, you will want to make sure you get the thumbs-up from your lawyer.

Let's talk about the difference between a 'hard money or soft money' loan before we talk about loans.



In a nutshell, a *hard money loan* is based on the value of the asset in question. A *soft money loan* is based on the credit of the borrower. So if you are planning to purchase a home and make repairs, the Hard Money Lender would create an after repair value or ARV on which to base the loan. They will look at comps, upgrades, and market forces to come to this value. While the interest is higher, the paperwork is easier, the terms are shorter, and for a home-flipper, these are genuine benefits.

This means on your team; you will want both a *Hard Money Lender* as well as a *Soft Money Lender*.



HARD MONEY LENDER

Your Hard Money Lender will be there to help with some of the tricky financial situations you will get into if you choose to flip or flip a home. Some expensive repairs are one-time expenses that need to get done quickly before you can sell the home. Hard money loans are great for these types of expenses.

SOFT MONEY LENDER

Your Soft Money Lender will help with loans for the home you will live in or rent out. These loans require extensive paperwork, a lengthy credit-check and are based on your past credit history.

The upside is these loans are the traditional mortgage length with a lower interest rate. You will feel empowered to hold onto the property and let it appreciate while you rent for a profit.



WHOSE AT THE TABLE?

The next person on your team will be your *Contractor*. The contractor is responsible for any repairs or remodels, even if they chose to subcontract specific tasks. You will want to find a contractor with great references since their work will be the basis of the property you rent out for decades. Their ability to project the immediate repairs as well as look into the future to see issues to be aware of will be the basis to build your business and cash flow around.

Sometimes the best way to avoid a problem is to not enter into the problem to begin with. This is why you want a great *Inspector* on your team. Having a good inspector will be that extra set of discerning eyes that will help you see the realities of each piece of property you investigate. An experienced inspector also knows the history of homes built in specific eras that can help you identify diamonds-in-the-rough from money pits. There is a good chance your contractor has a few ideas on inspectors' reputation in your area.

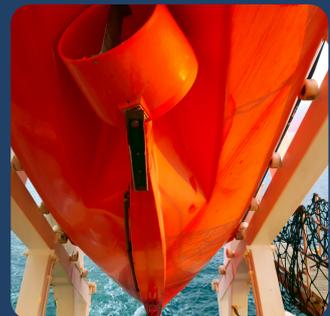
Your *Property Manager* will be the person dealing with the day-to-day issues at your property. Your residents will be working with you through this person. A good property manager is both personal and firm; able to make the tenants feel at home as well as being able to protect your asset. Also, your Property Manager has relationships with all of the above players and we are an excellent source to build your unique team.

WHOSE AT THE TABLE?

A frequently overlooked part of the team is the *Title Representative*. This person works with the entire Real Estate team as the sale moves forward. They are usually independent and very efficient in communicating all the elements of the real estate transaction process.

One thing you will learn quickly in the Real Estate world is that every escrow is different. Having an *Escrow Closer* that you get used to and work well with will make your life easier and keep your headaches at bay. Ask your Safe Harbor property management professional for a list of contacts for you to interview.

In a competitive field like Real Estate, the difference between making or losing money in a year may come down to a few percentage points on every little project. If the positions listed above are all working together to make you a success, you can rest assured every decision has the potential to be a great decision.





Are you feeling brave and ready to pursue your first investment property? We love helping people just entering the world of investment properties. And maybe you want to buy the properties and not have Safe Harbor manage them?

That is what we do – we provide professional property management services to investment property owners. Many don't realize we also buy and sell real estate and help others do the same. We can join you on a tour of a property you are considering purchasing, as a “get to know each other” meeting – or even help out with funding source recommendations or a referral to a list of CPA'S. We are an excellent resource to help you find Real Estate deals and increase you Return On investment (ROI).



SAFE HARBOR PROPERTY MANAGEMENT

Why “Safe Harbor”? We all enjoy the benefits of good transactions. Whether that is between a buyer and a seller, a landlord and a resident or a property manager and a vendor. We like to use the analogy “Safe Harbor” - Do no harm in the transaction be it with Owner, Resident or Vendor Is how we approach all transactions. With safety, fairness, and consideration for all interests.

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Safe Harbor Property Management

Whether you are new to the real estate investing world or old hat at all the tricks – Safe Harbor has something to offer you. We love working with new investors – to round out their portfolio and also offer professional property management services if you don't want to manage them yourself. We are a family owned property management company in Lakewood, Washington – with over 30 years of real estate and property management experience under our collective belts.

We specialize in multi-family, single family property management and treat single family properties with the same business acumen. We have an in house managing broker and also assign our owners in the buying and selling of real estate.

*Safe Harbor Property Management,
we look out for your interests.*

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