

TIPS ON GENERATING STEADY CASH FLOW THROUGH REAL ESTATE INVESTMENTS

More and more, people are turning to real estate as a viable investment option. The market is flooded with homes and if done right, purchasing property for the purpose of investment can provide a lucrative return.

Here is some helpful information specific to real estate investing:

Creating Positive Cash Flow Through Rentals

No matter what kind of real estate you decide to invest in, obtaining monthly rent from tenants is critical to your success. Whether you are looking at a pre-tax or after-tax, you will require rental income. The best way to ensure you receive your monthly income on time is to do everything possible to secure quality tenants. Ways in which to do that include thorough credit checks, verification of employment, and past rental history references.

Tax Deductions

Tax incentives for people who invest in real estate can make a huge difference in the tax rates. To offset wage income, deductions for rental property can often be used. In addition, tax breaks enable investors to turn a loss into a profit, which is a huge benefit.

Specific items investors can get tax breaks on include:

Deductions for actual costs incurred for financing, management, and ongoing operations and maintenance of the rental property, which include some of the following examples: Real estate taxes, Insurance, Interest payments, Maintenance and repairs, Property management fees, Advertising

These expenses can be deducted from your adjusted gross income when you determine your personal income tax. Keep in mind that these deductions cannot exceed the amount of real estate income you receive annually.

In addition to the deductions you can receive for operating expense, you can also receive depreciation breaks. Over time, all buildings deteriorate, although at different levels of severity depending on what the structure is made of, the geographical location of the property, etc. These so-called "losses" can be deducted regardless of the property's current market value. Since depreciation is a non-cash expense, you aren't really spending any money. Therefore, when working with the tax codes, it can get a little confusing and tricky. The best advice is to work with a qualified tax advisor to help you through this process.

Growing Your Equity Through Real Estate

Investing in real estate is complex and you need to know what you are doing, but in the long run, it's well worth the efforts made. The return on investment for real estate opposed to other types of investments such as CD's or bonds is usually greater.

The secret to investing in real estate is the equity. When you first purchase a property, you should determine how much equity you want to achieve. Once you reach that desired amount, you should either sell the property or refinance. You need to do your homework and seek professional advice before venturing into these kinds of endeavors.

There is a lot of hype and info-commercials about buying homes at sheriff's auctions or foreclosures. Some seek to make a living through fixing these homes up and reselling them. This has been beneficial to some, but many dabblers have been burned by inexperience. Once again it is important to seek professional advice when venturing into these waters.

Determining Your Leverage

Probably the most important factor when determining a solid investment is how much equity you're purchasing. Equity is the difference between the actual property value and the balance currently owed on the mortgage loan, therefore, the more equity in the property, the better.