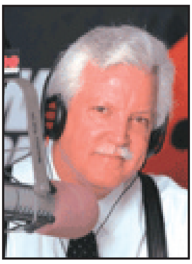
Ask the Financial Expert

by Aubrey Morrow, Certified Financial Planner®



Own Investment Real Estate?

For those of us who own investment real estate with simple inflation and given periods of supply and demand, we have seen our property values dramatically increase in value over time. Other than dealing with what we refer as "those terrible T's" including tenants, toilets, trash, turnover, toddlers, teenagers, telephone calls, termites and taxes, we treasure our rentals as part of our family. What we often don't take time to consider is "what are my current and long-term plans for my properties?"

As financial advisors who provide overall comprehensive personal financial planning, we also have an expertise in helping our clients evaluate options for their investment properties. We discuss the pros and cons of many options including:

✔KEEPING THE PROPERTY IN THE FAMILY
✔REFINANCE
✔SELL AND PAY TAXES
✔INSTALLMENT SALE
✔EXCHANGE INTO ACTIVE OWNERSHIP
✔EXCHANGE INTO PASSIVE OWNERSHIP
✔CHARITABLE REMAINDER TRUST

As part of our evaluation, we are reminded that generally we are provided three basic benefits of investment property ownership: Tax benefits, income and potential appreciation. Many of the tax benefits of depreciation and other expenses decrease as years pass and tax benefits fade. As we age, our goal of long-term appreciation many times moves to a goal of income as a priority.

As part of our personal financial planning, we evaluate exactly how much income you are "taking home" after expenses. I am reminded of a client who happily said he had $1 million equity in his duplex and was receiving $5,000 per month (6%) in rental income. A simply review of his tax return (Schedule E) indeed showed gross income of $60,000; however, after expenses, his actual "take home" was $20,000 annually or $1,600 per month, or approximately only 2%.

Our "rule of thumb" is a take home of at least 5%. He was, unfortunately, also surprised to learn his $20,000 was also fully taxable (line 17 of tax from 1040) pushing him into a higher tax bracket.

If you own investment real estate, be sure to consider your current and long-term goals for your property and work with experienced advisors who can assist you in helping you make choices that match you and your family's financial goals.

Aubrey Morrow, president of Financial Designs, Ltd., is a Certified Financial Planner, Registered Investment Advisor Representative with more than 30 years of experience. He is the co-author of six books on personal financial planning and is the host of "The Financial Advisors" radio series at 8 a.m. every Saturday on AM 600 KOGO. His firm provides comprehensive fee-based personal financial planning. He can be reached at 858-597-1980. Visit www.MoneyTalkRadio.com. Securities and advisory services offered through Independent Financial Group LLC (IFG), a registered broker-dealer and investment advisor. Member FINRA and SIPC. IFG and FDL are not affiliated entities.