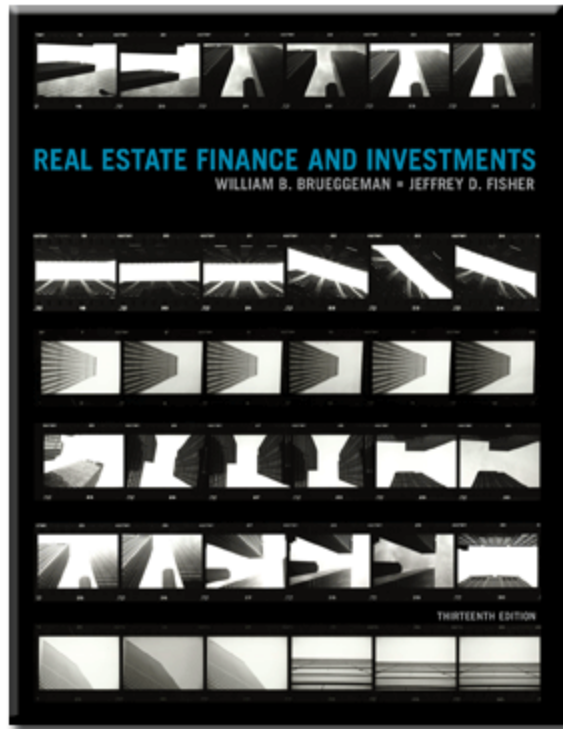
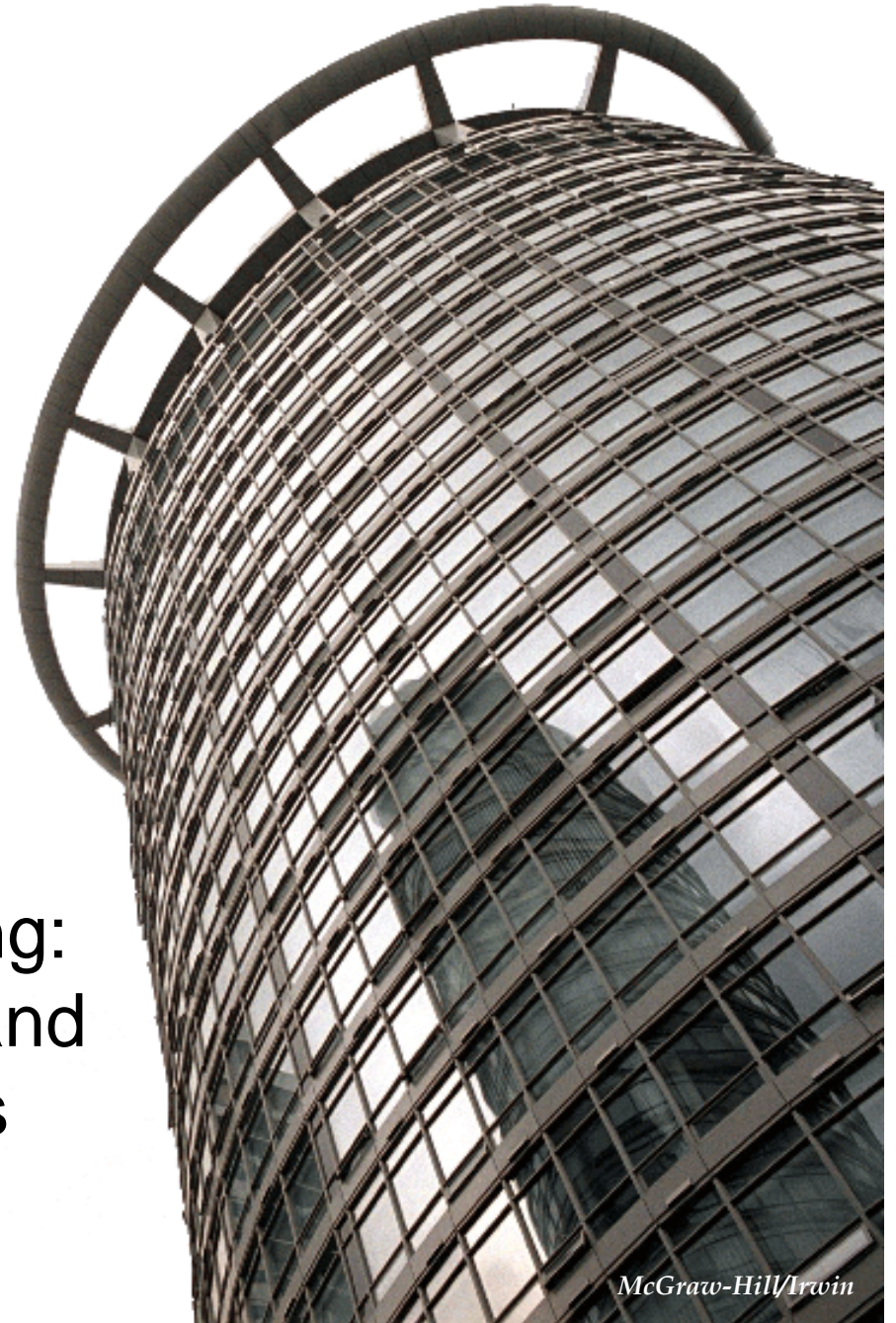


CHAPTER 7



Single Family Housing: Pricing, Investment, and Tax Considerations

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Homeownership

- Shelter
- Investment
- Price Influences
 - Income and Employment
 - Interest Rates
 - Immigration
 - Social Trends
 - Government Policy
 - Cost of Renting



Tax Considerations

- Interest Deduction
 - Qualified residence
 - Maximum deduction
- Points
- Property Taxes
- Capital Gains Exclusion
 - \$250,000 and \$500,000
 - Primary residence rules and occurrence rules



Regional Dynamics

- Speculative Housing Bubbles
- Regional Economic Drivers
 - Growth or Decline?
- Regional Comparative Advantage
 - Natural Advantages
 - Employee Characteristics
 - Access to Transportation
 - Quality of Life



Regional Dynamics

- Base & Service Industries
 - Conceptually
 - Base industries bring money to a region
- Location Quotient
 - $LQ > 1$ is a base industry
 - $LQ < 1$ is a service industry
- Employment Multiplier



Housing Supply

- Housing Starts
- Existing Home Sales
- Local Supply Influences
 - Interest Rates
 - Zoning
 - Building Codes
 - Land Terrain



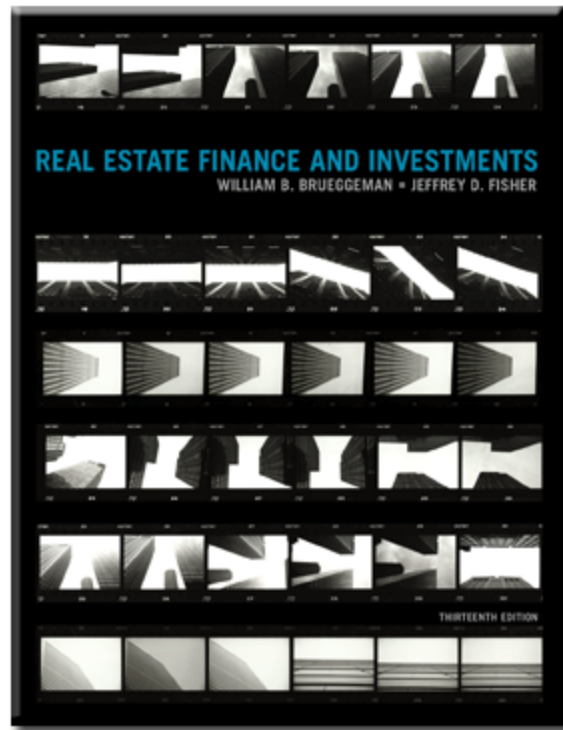
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Housing Supply

- Neighborhood Influences
 - Public goods
 - School quality
- Capitalization Effect
 - Public services provided relative to taxes paid
- Optimal City Size



CHAPTER 10



Single Family Housing: Pricing, Investment, and Tax Considerations

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Appraisal: Qualifying the Property

- Establish Market Value
 - Most probable price under competitive market conditions
- Price vs. Cost vs. Market Value
- What are market conditions?
- What are submarket conditions?
- What is the neighborhood?



Sales Comparison (Market) Approach

- “Subject” is the property being appraised
- “Comparables” are recently sold similar properties
- Estimate value of subject by adjusting the sales price of the comparables for any differences
- Subject Value Estimate =
Comparable Sales Price \pm Feature Differences

Cost Approach

- Subject Value Estimate =
Cost New – Depreciation + Land Value
- Depreciation
 - Physical
 - Functional
 - External
- Depreciation is often estimated straight-line

Appraisal: Qualifying the Property

- 1) The **sales comparison** approach is most effective for active residential markets
- 2) The **cost approach** is most effective for special use property or newer homes
- 3) The **income approach** is most effective for cash flow generating property

Appraisal: Additional Techniques

- **Gross Rent Multiplier** or "GRM" is the ratio of the price of a real estate investment to its annual rental income before expenses.
- Gross Rent Multiplier (GRM) = Sale Price / Potential Gross Income

Appraisal: Additional Techniques

- GRM = 100
- Subject monthly rent is \$2,000 per month
- Subject Value Estimate =
- $100 \times \$2,000 = \$200,000$

- The GRM techniques are good starting points for further analysis.

Distressed Property

- Below Market Value Property
- Reasons:
 - Financial
 - Legal
 - Personal



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Current Event Foreclosures

- Realty Trac
- <http://www.realtytrac.com/trendcenter/>

Distressed Property

- Financial Framework
 - Acquisition Phase
 - Holding Period Phase
 - Disposition Phase
 - Profitability



Distressed Property

- Acquisition Phase
 - Information sources for distressed property
 - Legal Research: Title Quality
 - Auction Process
 - Lenders at auctions
 - Equitable Rights
 - Market research
 - Inspections



Distressed Property

- Holding Period Phase
 - Financial Issues
 - Renovation cost
 - Carrying costs
 - Taxes and insurance
- Disposition Phase
 - Selling
 - Renting
 - Occupying

