

Hot Rental Property Market

By Jeff Cooper

Real estate values have risen rapidly in many areas over the past few years. Rental property owners may be wondering whether they should take some profits now, or increase their holdings. Here are ideas to consider:

1. You can profit from your income properties without selling them by refinancing and taking cash out. Many real estate investors make a practice of doing this regularly.
2. Additional real estate can be purchased by using an equity line of credit on one property to obtain the funds for a down payment on another. Homeowners who don't have income properties also can use this strategy to help buy a vacation house.
3. Escalating home values mean that many owners who are considering a move now could rent their current house for more than their existing mortgage payment. In addition to the positive cash flow, you'd also gain tax deductions from mortgage interest and property tax payments, depreciation, and ongoing expenses. However, not everyone wants to be a landlord. You must be willing to screen tenants, and keep the property in good shape. Doing so can be difficult if you're moving out of the area. If you try being a landlord and later decide to sell your previous home, you generally should make that decision within three years. You can shield home sale gains of up to \$500,000 from taxes if you've owned and occupied a property as your principal residence for a total of at least two of the preceding five years at the time of sale.
4. Last year the maximum capital gains tax rate was lowered to 15 percent. However, this break currently is scheduled to end in 2008. Low taxes and high real estate prices may make this a good time to enjoy some profits. Go over these ideas with your tax and financial advisers before taking action, in order to make sure they'll work for you.