

Managing Your Risk in Real Estate, Part II

Investing in anything requires much more study, analysis and obligation than typically meets the eye. Taxes, insurance, legal fees, security and liability are all involved in the process, and must be managed correctly in order to deal correctly in managing risk in real estate.

Prior to purchasing any investment properties, a prospective buyer should immediately take a look at the current state of the market. Determine what home sales are doing, if prices are rising or falling, what types of interest rates are available to buyers, and rates of new home construction. This will help to determine the best local area to look to for investment opportunities.

If you plan on building a new home or structure, risk can be managed by reviewing demand for the type of structure you want to build. Study the demographics and population in local commercial buildings, look at statistics found online, and compare your market with adjoining regions. You should also ensure you know, understand, and are applying all environmental regulations that are currently or will soon be in force.

Insurance is perhaps the best way to minimize risk. In the event of any drastic natural event or man-made damage to your property, ensure you have purchased enough insurance to cover anything which you cannot comfortably pay cash for on the spot.

Always remember to conserve cash when possible. Low rates are available on long-term mortgage finance loans, saving you additional cash. Also, find a balance between making a larger down payment, but without losing money needed for other expenses.

If your home loan mortgage provider offers you an ARM, or adjustable rate mortgage, walk away and find another one. This is, of course, unless you have terrible history and need a bad credit home loan. Then an ARM may be your only option. Also, if you have a buyer already lined up to flip the home, an ARM may lower your initial costs.

Forming a partnership or corporation to handle your investments may be one of the best ways to avoid undue tax liability at the end of the year. Investment properties do not qualify for the same deductions as residences, but as a legit business you'll be able to write off repairs and maintenance expenses related to the properties involved.

Always demand the best in anyone you depend on for advice or work to be done on your properties. Calling just any contractor to fix that leak in the kitchen could end up in a botched job and thousands of dollars in additional repairs. Also ensure you have retained the services of a good real estate attorney, tax professional and insurance agent to guide you along the right path.

An attorney and CPA can take a look at your structure to advise how it should be changed for minimal risk assessments and tax liabilities, and your insurance provider should be able to find small improvements or other policies that can be written to lower your premiums significantly.