

purchase the already improved house at the higher price. Both are priced at a point where the rental income would almost covers the cost of ownership.

The questions haunting me are is now the right time to buy and how will the tax code affect the housing markets?

A: Your questions raise quite a number of issues. We'll start with the recently enacted federal tax law changes. While the law takes away the ability to deduct real estate taxes and state income taxes over \$10,000, the question is what will that change do to the real estate market?

The short answer is that we don't know but surmise that people still need to live in those areas regardless of whether they can take the full deduction of real estate taxes and state income taxes. The tax law makes owning a home in those areas more expensive.

Keep in mind that people have moved to those areas as home prices have gone up, and that hasn't deterred anyone from buying homes. As you evaluate your prospect of owning a home, make sure you understand the risks, figure out what people want in the area you are buying in, know how easy it is to rent a home in that area, understand the local laws relating to residential rentals and figure out if you're have what it takes to be a landlord.

We also believe that the broader market conditions will have a greater impact on home prices. If the New York area or the U.S. as a whole enters into a recession, the economy will have a far greater impact on real estate. Granted, certain pockets will be affected more than others. Lower priced homes where people's incomes are lower will generally not be impacted by the tax law changes, only those whose state income taxes and property taxes (and city or local taxes where you have them), will feel the pain.

Since we don't know what will come of the tax law or other tax law changes that might come up as a result of the these changes, your best bet is to evaluate the purchase for what it is now. You need to know what it will take to own the home, including improvements and repairs you will have to make to the home. Also, since this is an investment property for you, you should be able to deduct the real estate taxes to offset the income you receive from rent.

But you should know that the tax law may have made owning real estate a bit better for some real estate investors. It might be worthwhile for you to sit down with your tax advisor or an enrolled agent and run through the numbers of owning the home in your own name or in the name of a company. Those real estate deductions and right to depreciate real estate may be different for you depending on your overall tax situation.

While eventually the investment property might become your primary residence, you need to figure out from the federal tax perspective how you should own the property, what happens if you put money into the property, whether you benefit from real estate tax deductions and other tax benefits more on the personal side or if it would be more advantageous tax-wise if the property is owned by a company you set up.

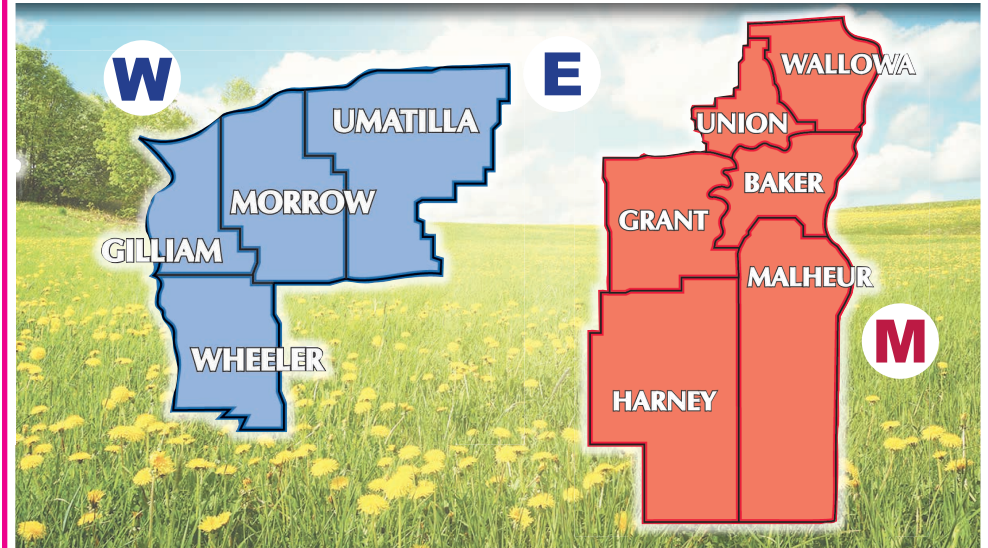
These factors will help you decide whether buying a home and fixing it up will be a business for you. And if it is, you might benefit by becoming a real estate investor for federal income tax purposes. Again, you seem to be savvy enough to run the numbers and ask the right questions, but you should sit down with someone with substantial knowledge in real estate investing and figure out what will be best for you.

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