



51A Middle Street Newburyport MA 01950

Phone: 800-588-7039

contact@bhfe.com

www.bhfe.com

Course Information

Course Title: Real Estate Investing

#374224

Number of continuing education credit hours recommended for this course:

In accordance with the standards of the CFP Board, the IDFA, the IWI, and the National Registry of CPE Sponsors CPE credits have been granted based on a 50-minute hour.

CFP®: 5.5 CFP Board of Standards Sponsor ID Number: 1008

CIMA®, CPWA®, RMA®: 6 Course # 24BCNHF008, IWI CE Sponsor ID# 222740

CDFA®: 7 (Registered with the Institute for Divorce Financial Analysts)

CPA: 7 (Accepted in all states)

National Registry of CPE Sponsors ID Number: 107615.

Sponsor numbers for states requiring sponsor registration:

Florida Division of Certified Public Accountancy: 0004761 (Ethics #0011467)

Hawaii Board of Accountancy: 14003

New York State Board of Accountancy (for ethics): 002146

Ohio State Board of Accountancy: CPE.51 PSR

Pennsylvania Board of Accountancy: PX 178025

Texas State Board of Accountancy: 009349

Course Description

Investing in real estate can be an extremely profitable endeavor, but only if you know the pitfalls to avoid. In the *Real Estate Investing* course, we discuss every aspect of locating, evaluating, purchasing, financing, and operating an investment property. Topics covered include conducting a local market analysis, analyzing leases, valuing a property, and how to conduct due diligence. The course also addresses the tax aspects of real estate investing, including like-kind exchanges, installment sales, and the tax basis of property.

Course Content

Publication/Revision date: 10/29/2021.

Author: Steven M. Bragg, CPA.

Final exam (online): Thirty five questions (multiple-choice).

Program Delivery Method: Self-Study (NASBA QAS)

Subject Codes/Field of Study

NASBA (CPA): Specialized Knowledge; CFP Board, IDFA: Investment Planning; IWI: Wealth Management.

Course Level, Prerequisites, and Advance Preparation Requirements

Program level: Overview

Prerequisites: None

Advance Preparation: None

Learning Objectives

- Identify the advantages and disadvantages of real estate investing.
- Specify the different types of real estate investments.
- Describe the different avenues to pursue to acquire property.
- Identify the characteristics of an ideal seller.
- Specify the features of the different types of mortgages.
- Identify the fees associated with a lending arrangement.
- Recall the contents of a personal financial statement.
- Specify the tasks to include in regional and local real estate analyses.
- Describe the different types of barriers to entry for a geographic region.
- Specify the issues that can increase the value of a property lease.
- Specify the factors that can increase the value of a property.
- Recall the different metrics used to evaluate a property.
- Recall the different types of revenue that can be extracted from tenants.
- Specify how common area maintenance charges are calculated.
- Identify the options for negotiating with a seller over the price of a property.
- Recall the reasons why an earnest money deposit is paid.
- Recall the due diligence items associated with a property purchase.
- Specify the characteristics of the legal entities that can be used to own property.
- Identify which parties pay the various closing costs.
- Recall the advantages and disadvantages of personally managing a property.
- Specify the interviewing topics to be used when selecting a property management firm.
- Identify which operating policies can be impacted by government regulation.
- Recall the best techniques for showing a property.
- Specify how coinsurance works.
- Recall how the original and adjusted bases of a property are calculated.
- Recall the tax impact of mortgage financing.
- Specify the depreciation durations that can be applied to property.
- Identify how the passive activity loss rules apply to a real estate investment.

Instructions for Taking This Course

- Log in to your secure account at www.bhfe.com. Go to "My Account."
- You must complete this course within one year of purchase (If the course is "Expired," contact us and we will add the latest edition of the course to your account (no charge).
- **To retain the course-PDF after completion (for future reference) and to enable enhanced navigation:** From "My Account," Download and save the course-PDF to your computer. This will enable the search function (Menu: Edit>Find) and bookmarks (icon on left side of document window).
- **Complete the course by** following the learning objectives listed for the course, studying the text, and, if included, studying the review questions at the end of each major section (or at the end of the course).
- **Once you have completed studying the course** and you are confident that the learning objectives have been met, answer the final exam questions (online).

Instructions for Taking the Online Exam

- Log in to your secure account at www.bhfe.com. Go to "My Account."
- A passing grade of at least **70%** is required on the exam for this course.
- You will have three attempts to pass the exam (call or email us after three unsuccessful attempts for instructions).
- The exam is not timed, and it does not need to be completed in one session.
- For a printed copy of the exam questions, open the exam and press "Print Exam."
- Once you pass the exam, the results (correct/incorrect answers) and certificate of completion appear in "My Account." A confirmation email is also sent.
- CFP Board and IRS credit hours, if applicable, are reported on Tuesdays and at the end of the month.

Have a question? Call us at 800-588-7039 or email us at contact@bhfe.com.

About the Author

Steven Bragg, CPA, has been the chief financial officer or controller of four companies, as well as a consulting manager at Ernst & Young. He received a master's degree in finance from Bentley College, an MBA from Babson College, and a Bachelor's degree in Economics from the University of Maine. He has been a two-time president of the Colorado Mountain Club, and is an avid alpine skier, mountain biker, and certified master diver. Mr. Bragg resides in Centennial, Colorado. He has written more than 250 books and courses, including *New Controller Guidebook*, *GAAP Guidebook*, and *Payroll Management*.

Copyright © 2024 by AccountingTools, Inc. All rights reserved.

Published by AccountingTools, Inc., Centennial, Colorado.

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, except as permitted under Section 107 or 108 of the 1976 United States Copyright Act, without the prior written permission of the Publisher. Requests to the Publisher for permission should be addressed to Steven M. Bragg, 6727 E. Fremont Place, Centennial, CO 80112.

Limit of Liability/Disclaimer of Warranty: While the publisher and author have used their best efforts in preparing this book, they make no representations or warranties with respect to the accuracy or completeness of the contents of this book and specifically disclaim any implied warranties of merchantability or fitness for a particular purpose. No warranty may be created or extended by written sales materials. The advice and strategies contained herein may not be suitable for your situation. You should consult with a professional where appropriate. Neither the publisher nor author shall be liable for any loss of profit or any other commercial damages, including but not limited to special, incidental, consequential, or other damages.

Table of Contents

Chapter 1 - Introduction to Real Estate Investing	1
Introduction	1
Advantages of Investing in Real Estate	1
Disadvantages of Investing in Real Estate.....	3
Types of Real Estate Investments.....	4
Purchase a Residence.....	4
Convert a Residence to a Rental	4
Upgrade and Sell Your Home.....	4
Buy a Second Home	5
Buy a Timeshare.....	5
Buy a Residential Property	6
Flip a Residential Property	7
Buy Commercial Property	7
Buy Undeveloped Land.....	8
How to Acquire Real Estate	8
Foreclosures.....	8
Probate Sales.....	10
Short Sales	10
Acquisition Advisors	11
The Ideal Seller.....	13
Like-Kind Exchanges	13
Installment Sales.....	14
Real Estate Investment Best Practices	15
Summary.....	17
Review Questions	18
Chapter 2 - Property Financing	19
Introduction	19
Asset Allocation Issues.....	19
Your Personal Credit.....	19
The Need for Cash.....	20
Options for Obtaining a Down Payment.....	20
Mortgage Options.....	21
Mortgage Fees	23
Application Fee.....	23
Appraisal Fee.....	23
Credit Report Fee.....	23
Environmental Assessment Fee	23
Inspection Fee.....	24
Points	24
Mortgage Duration	24
Finding a Lender.....	24
Recourse and Nonrecourse Financing	25
Your Personal Financial Statement	25
Assets.....	26
Liabilities	28
Income and Expenses	28
Summary.....	31
Review Questions	32
Chapter 3 - Evaluating Properties	33
Introduction	33
Where to Invest.....	33
Regional Analysis.....	33

Local Market Analysis.....	35
Indicators of Supply and Demand	35
Other Local Market Issues.....	36
Investing Near Infrastructure.....	36
Barriers to Entry	37
The Real Estate Cycle.....	37
The Core Elements of an Investment.....	38
Rent Control	38
The Summary Page.....	38
Summary.....	39
Review Questions	40
Chapter 4 - Property Income Issues.....	41
Introduction	41
The Nature of a Lease.....	41
The Value of a Lease	41
The Rent Roll	43
Summary.....	43
Review Questions.....	44
Chapter 5 - Property Valuation.....	45
Introduction	45
The Drivers of Value	45
The Highest and Best Use Concept	46
How to Derive a Property Value	46
The Return on Property Investment.....	47
Net Operating Income	48
Gross Potential Income.....	50
Capital Expenditures.....	51
Common Area Maintenance Charges.....	51
Appraiser Valuation Methods.....	51
Sales Comparison Basis.....	52
Cost Basis	53
Income Capitalization Basis	53
The Reconciliation of Valuation Methods.....	54
Summary.....	55
Review Questions	56
Chapter 6 - Property Acquisition	57
Introduction	57
The Negotiation Element.....	57
The Emotional Hook	58
Contract Essentials	58
Contracts with Minors	58
Contracts with Mentally Incompetent Individuals.....	59
The Offer	59
Offer Terminations	59
Offer Acceptance.....	60
Consideration.....	60
Written Contract	60
Contents of the Purchase Agreement.....	60
Earnest Money Deposit.....	61
Assignment of Interests	61
Closing Date	61
Contingencies	62
Personal Property.....	62
Vacant Property	62
Escrow Extension	62

Opening Escrow	62
Due Diligence.....	63
Disclosure Requirements.....	65
The Entity That Will Hold Title	65
Sole Proprietorship	65
Partnership.....	66
Corporation.....	67
Limited Liability Company	67
Concurrent Ownership.....	68
Closing the Transaction.....	69
Transfer of Ownership.....	70
Summary.....	70
Review Questions.....	71
Chapter 7 - Property Management	72
Introduction	72
Managing a Property Yourself.....	72
Outsourcing Work	73
Testing for Environmental Issues.....	73
Setting Rental Policies.....	74
Ongoing Tenant Relations	74
Conducting a Pre-Showing Review	75
Showing a Property	75
Screening Applicants.....	76
The New Tenant Move-In	77
Upgrading a Property.....	77
Risk Management Issues	77
Insurance Coverage	78
Creating a Filing System	80
Summary.....	80
Review Questions.....	81
Chapter 8 - Tax Considerations	82
Introduction	82
Tax Impact of Property Acquisitions.....	82
Acquisition Costs.....	82
Basis	82
Original Basis	83
Costs Relating to Constructed Assets	86
Real Estate Financing Issues	86
Mortgage Financing.....	86
Interest Issues	87
Passive Activity Losses	87
At-Risk Rules	88
Depreciation	89
Depreciation Conventions	89
Section 179.....	91
Tax Impact of Real Estate Disposition	91
Sale of Real Estate.....	91
Characterization of Gains and Losses.....	91
Depreciation Recapture	92
Property Exchanges	92
Installment Sales.....	92
Home Use for Rental.....	92
Home Converted to Investment Property	93
Tax Management Strategies	93
Tax Deferral Strategy	93

Cash-Basis Tax Deferral Strategies	93
Accrual-Basis Tax Deferral Strategies.....	93
Tax Acceleration Strategy	94
Summary.....	94
Review Questions	95
Answers to Chapter Questions	96
Glossary	104
Index	107