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## Rental Home Upgrades Trim Tax, Boost Landlord Income

By KATHLEEN DOLER, FOR INVESTOR'S BUSINESS DAILY

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New landlords can get extra depreciation for some spruce-ups this year. iStockphoto [View Enlarged Image](#)

Randel says. And those smaller personal property spruce-ups — carpets, appliances, window coverings — are extra landlords can take the extra depreciation on, if they make those updates in 2012 and this is their first year of ownership. Sherrin Fielder in Truckee, Calif.

### First-Year Tax Perk

This extra depreciation will lower a landlord's taxes on income from his new rental, she says.

How does it work? If a landlord buys a \$1,000 refrigerator (it must be new to qualify for the IRS rule), "you can take that appliance this year," Fielder said. Then, because appliances are on a 5-year schedule, you'd take the regular depreciation (the remaining value of \$500), or \$100.

Other new fixtures that are considered part of the house (cabinets or toilets, for example) don't qualify for the bonus affixed to the wall it's structural" and doesn't qualify, she said.

The single-family rental home market is booming, drawing in new investors into the game. New landlords can up the ante to get a special tax benefit, while others make overhauls to help their properties stand out.

"Rents are up, but the rental market is quite competitive," says Randel, a Westport, Conn., landlord and author of *Real Estate Entrepreneur*.

He says tenants want "cosmetic comfort and a clean and safe."

Crucial for the new landlords, an IRS rule on deducting property improvements is set to expire in January after 9/11, this rule lets businesses take extra depreciation on certain updates made in the first year of ownership.

Cosmetic improvements are often less expensive.

Landlords should keep in mind that all property updates must be depreciated according to set IRS depreciation schedules to be expensed. These schedules vary greatly for different improvements. For example, "the assigned life/depreciation period for a building is 27.5 years, and for an appliance it's just five," Fielder said.

What are some easy and affordable rental updates that pay off? Curb appeal counts in rentals just as much as it does according to property managers.

"A lot of owners neglect the landscaping — they don't seem to be as sensitive as they should be to curb appeal," says Nelson, president of Excalibur Home Management in Atlanta.

Individual landlords are being out-spent by institutional investor groups, which are the new competition in single-family rental properties. "Institutional investor groups are coming in and basically making these rental properties brand new inside," said Anne McCawley of Property Management in Phoenix. "Their properties are the more desirable property eight times out of 10, because they spend in as much money."

She says the big investors are "starting at the floor and going up, doing new flooring, two-tone paint and bathroom cabinets, and brand new cabinets and all new appliances."

McCawley adds that small updates can go a long way to making a rental look fresh — new lighting, new cabinet pulls, new window coverings make a home appear contemporary, and can make it competitive.

Year-end can be a good time to make at least minor changes, with the 2012 tax year in mind. Rental updates and improvements can be depreciated, with the tax benefit of offsetting rental income.

Some smaller landlords are not doing much, however.

"Right now we're doing painting for (individual) rental landlords; they're just not doing much more than that," said Rick Greenwood of Greenwood Contracting in Phoenix.

He says in the last 10 to 15 rentals he went into, the landlords "really didn't want to do anything, other than just clean up." Smaller landlords also need to stay competitive in their marketing and management.

"All of the institutionally owned properties are professionally managed," McCawley said.

Individual landlord Lee Casey, who owns rentals in the Phoenix area, has taken several steps to stay competitive.

### **Tactical Landlording**

First Casey updated his three single-family rental properties with fresh paint, new fixtures, new window coverings and new window treatments. Then, when he was ready to rent them, Casey says, he "doubled the typical commission rate for the rental agents to 10%."

Casey also bought a home warranty on each of the properties, which Bennett professionally manages, so he won't have to worry about repair when it comes up.

Even without the deep pockets of institutional investors, smaller landlords can add personal touches to make their properties stand out.

"I think meeting my tenants is a good idea," Casey said. "And you should let tenants know that you have an interest in their lives and the things they need."

Randel shows his appreciation by giving each tenant a \$25 gift certificate at the holidays. "Newbie landlords really underestimate the value of residential real estate as a service business," he said. "In a medium-size or smaller community the word gets out if you take care of your tenants."

"It's not just 'here's the key' but 'here's the key and here's my commitment to making this a good living experience for you.'"