

## Three Ways to Survive a Real Estate Downturn

by Diane Kennedy, CPA and Tax Strategist

Is it too late for real estate? I've been investing in real estate for twenty-four years, and I've seen the ups and downs of the real estate market. I've made some bad investments, but most of them have turned out great--as long as I was prepared to *stay through the bad times*.

There's been a lot of talk lately about the *real estate bubble bursting*. What if real estate values go down where you live? Here are three possible strategies for a real estate downturn.

### Strategy #1: Don't sell

How serious is the problem really? Let's say that the home you live in, your rental property, or the property you bought as a "fix and flip" goes down in value. Well, if you weren't planning to sell right away, would it matter? Hang on until the market comes back. Historically, in the bigger picture, a real estate market will always come back. Of course, this sounds really simplistic. Don't sell. Wouldn't it be nice if everything was that simple? Maybe it really is, though, if you've followed the **Tax Loopholes Strategies** for making sure you have enough cash for your debt. A lot of people forget that when the emotions run high.

In the late 1980s and early 1990s, the real estate market really started crashing in Phoenix. In 1995, I got a new tax client. She was a real estate broker in Phoenix. The Phoenix market was recovering well by that time. But, the broker said she'd never own real estate investment property again. She said she'd lost a ton of money in the downturn. Her story, as it unfolded, was that she owned a number of single family residences that were rented for a positive cash flow. The market turned down and suddenly she was upside down on some of the houses. She panicked and sold all of them. In some cases, she actually needed to come up with money to close the deal.

The part that I didn't understand was why she felt the need to sell. The properties had a positive cash flow. By selling, she locked in the loss. At that point, someone bought the properties and waited out the downturn to take advantage of the upswing. Why couldn't she have done the same thing?

She was afraid that the market would get worse. She was afraid that her tenants might move out, and even though there are generally more renters when a market turns down, she was afraid she couldn't get more tenants. Basically, she was afraid and made an emotional decision.

The market has been running hot in many areas and actually over-heated in other markets. Phoenix is one of those markets. My husband and I are putting more cash away in case the market turns down and we need to wait a little bit for it to settle. We also want to make sure we have plenty of options when the deals start showing up. But, we are not panicking and selling. If we sell, it's part of a well-thought-out plan.

### Strategy #2: Run your investments like a business

I'm going to talk about some strategies that are **worst case only**. Remember that real estate is nothing more than a product. If you're good at a business and know how to thoroughly research a product and its market, you can sell toasters or you can sell a

house. It's all the same.

Of course, not too many people rent toasters and toasters don't appreciate, and that's why real estate is such an easy business for so many people to jump into. That's also why there are so many catastrophic failures. It's too easy to make money in real estate if the market is going hot, even if the investor does everything wrong. They have forgotten (or never knew) the fundamentals of business.

One of the fundamentals of business is to look for a way to create more value in what you're selling. Remember if you're renting a property, lease optioning it, doing a rent to own, or straight out selling--regardless of what you're doing, you're selling something. And, if no one is buying (or renting), ask yourself why? Is there a way to add more value by making it more desirable for the buyer/renter?

Some ideas might include changing the property--adding additional features that no one else has or making more favorable terms for a potential buyer.

One more comment on the people who say the end is coming for real estate. In a lot of cases, the doomsayers who happen to have money as well, are people who've gotten lucky. They're now afraid that they can never recreate that wealth, and so they're just plain afraid of everything. They realize, at some level, they had nothing to do with the wealth they've gotten, and so they're afraid they will lose it.

Having strong business skills means you have the ability to look at any market in any climate and figure out what to do next *without panicking*.

### **Strategy #3: Keep your eyes on the *real* goal.**

No matter what type of business or investments you have, you need to have fundamental skills. That's what Strategy #2 was all about.

Face it, I'm a CPA and Tax Strategist. For me, one of the biggest benefits of investing in real estate is all the great tax loopholes that you get. And, you'll get those loopholes no matter what happens with the market. Of course, I don't want you to do anything just for the write-offs. You have to make money, too. At least in the long run.

Are you sure you're getting all the tax loopholes for your investments? How about your business structures? Are they set up correctly, and are you operating them in the best way possible? And, probably the biggest problem facing real estate investors, are you accounting for your real estate correctly? If you don't do the accounting right, you're going to miss the tax write offs.

Remember, you can make money in real estate regardless of which way the market goes. The key is to have good business skills first. Learn more with the **Real Estate Investors Guide to Tax Loopholes Package**.

*Diane Kennedy, the nation's preeminent tax strategist, is owner of Diane Kennedy & Associates, a leading tax strategy and accounting firm that works with clients throughout the US. Diane is the author of The Wall Street Journal and Business Week bestsellers, Loopholes of the Rich and Real Estate Loopholes and co-author of The Insider's Guide to Real Estate Investing Loopholes, and The Insider's Guide to Making Money in Real Estate. Diane's website, [www.taxloopholes.com](http://www.taxloopholes.com) provides critical tax law updates, advice on the latest tax loopholes as well as wealth-building.*

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