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NEI's Real Estate Report

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Property Sales Tax Breaks

by Phoebe Chongchua

Real estate prices are being driven up by the purchase of second homes, which account for as much as 40 percent of the market.

"There's so much equity that's been built up throughout the last five years or more. People don't want to pay capital gains taxes which can be as high as 30 percent of the gain," says attorney David Greenberger who is president of 1031 Exchange Advantage, Inc.

He says investors can pay no sales tax on their investments regardless of whether or not they lived in them previously by using IRS Sections 121 and 1031.

Many people are familiar with IRS Section 121 -- the homeowners' exclusion. This law applies to your principal residence and allows a gain exclusion of \$250,000 for single people and \$500,000 for married people filing jointly. The gain exclusion funds do not have to be reinvested. There are requirements, such as the property must have been your residence for at least two years out of the past five-year period.

"[The 1031 exchange] can even be used on a personal residence that's converted into an exchange property, and the way you do it is you move out of your residence and a year later it can be an exchange property," he says.

A 1031 exchange is basically an unlimited tax break -- as long as you roll the money from the investment, non-owner-occupied property into another real estate purchase within six months, you will not incur property sales tax.

Combining Sections 121 and 1031 can create an even greater tax shelter for your real estate transaction. If a couple lives in a multi-family unit building, Section 1031 can be used to exchange the portion of the property that they do not live in and no taxes on the transaction are incurred when they purchase another real estate investment property. Section 121 can be applied to the unit the couple lives in.

"In this way, the unit they reside in is sheltered up to \$500,000 in gain, and the remainder of the building is valued and exchanged as investment property under section 1031," Greenberger says.

Dividing the value between your residence and your investment property can be determined by the calculation of square footage or an appraisal of the unit that you are living in.

"You don't ever have to pay capital gains taxes if you plan it, but what is required is that your next move always be a trade into something else ..." he says.

Using the 1031 exchange, you can buy an investment property and, after just one year you can live in it. Greenberger also says that you can sell one investment property and exchange it for more than one property.

He says, "The clear victory comes when the taxpayer who resides in a mixed-use property takes advantage of Sections 121 and 1031 to remove all taxes on gains and diversify into other properties." Greenberger adds "Clearly, living in a property that appreciates and does not present you with a tax bill when you leave makes for a very welcomed stay."

Tips for Successful Grilling



Everything tastes better of the grill. And nothing could be simpler, right? Well...there is more to barbecue than tossing a steak on the grill. Experience is a great teacher, but before you spend years perfecting that secret recipe, you might want to go over the basics.

Food Handling

Do not allow raw meat and fish to come in contact with other foods. Use separate cutting boards for each.

Do not carve cooked meat on the board used to hold or cut raw meat.

Cut the fatty edge of steaks and chops to prevent curling. Slice through the fat at 2 to 3 inch intervals, cutting jut to the meat.

Marinades should be boiled if they are to be used as basting sauce as well.

Poking and stabbing the meat will cause the loss of juices that keep you meat moist and tender. Do not attempt to turn the meat with a carving fork. Instead use long handled tongs or spatulas to turn the meat.

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*Happy
Father's Day*

Thinking of buying or selling a home in the near future, please call

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Practical Things to Remember When Home Shopping

by M. Anthony Carr

Most folks are always looking for the ever-elusive "dream home." Not too long after settling into a new dwelling, many residents begin to pick apart the house they just rented or bought.

Someone who really likes the idea of a laundry chute (great, no more walking the dirty clothes to the laundry room), rethink that idea when they now have to climb up two flights of steps to put away the clothes.

Here are some practical things to think about when you're looking through your pool of homes that you're hoping to buy.

Measure your furniture
I mentioned this recently about a couch that wouldn't fit into my basement once I finished the space. You might say the excitement about the two sleeper sofas dimmed to the degree that I was realizing I couldn't use them the way I had planned. Fortunate for me, I had hired the perfect decorator who pointed me back to the furniture manufacturer who directed me to a couple of fellas that dismantle, move and reassemble furniture. Thus -- when shopping for a home, don't forget the measurements of your large furniture: couches, big screen TVs, mattresses, pianos, etc. More than likely, they will convey with the house.

Why is that conveying?
Okay, so it sounds great that the pool table (or 2 sleeper sofas) conveys. Be sure to ask yourself -- Why? Why would the owner part with this piece of furniture, extra refrigerator, etc.? Play a quick game of pool, see if the refrigerator really freezes and cools, and why would they let go of these two perfectly good sleepers? Sometimes, it may be they just won't have room in the next house for them or no longer need them. Meanwhile, they may be handing over a white elephant to the next owners.

Sounds great. What if it breaks?
So the hot tub stays? Great. What if it breaks down? Again, is this really a benefit to the house or is it something that has cost the owners hundreds or thousands of dollars a year to maintain? Find out if a large piece of equipment, appliance, etc., has had any repair problems.

What about conveniences?
Sure, the house is located deep into the community on a cul-de-sac, but what does that mean when you need a

bag of sugar or flower? Is the shopping just a few minutes down the road or does it mean a 15-minute jaunt down Hwy. 1? If it's a newer development, how long before they will be constructing the business section of the development?

What kind of wiring?

This analysis has become more important as homeowners look more toward broadband, high-speed Internet access for work and pleasure. When walking through an older home, be sure to really understand what all the coaxial connections really attach to: antenna, cable, digital cable, satellite. In addition, if you're accustomed to other type connections, such as DSL or Fiber Optics, at least find out if these services are available if the house doesn't have them connected already.

Planes, trains and automobiles

If you're looking for a quiet neighborhood, don't forget to come by and check out the community during rush hour. It may be convenient to the main thoroughfares, but are those roadways so close that you can hear the traffic (or see it) before tuning to Traffic on the Nines? How about the sounds from above? I've talked with many owners who, aware that the community was near the airport, had no idea they would have to straighten up their pictures on the walls after each airplane flew over.

HOA Documents

Don't just thumb through the homeowners association documents. Be sure to really understand your limits under these binding documents. In a community near Washington, D.C., for instance, no residents can park a pickup truck on their property. Imagine the surprise to a new homeowner who just didn't happen to read about that limitation in the docs. When I've bought properties, this is one of the sections of the HOA docs I turn to immediately.

More detail is better than the big picture when it comes to selecting your next property. Research, drive by and really get to know your target property before making a final decision. Happy home shopping.

JUNE AT A GLANCE...



14 Flag Day



18 Father's Day



21 Summer Solstice



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