

NEXT MEETING

DATE Tuesday March 2, 2010

PLACE *Holiday Inn*

17201 Northline Road

Southgate (at I-75 Exit #37)

TIME - 6:00 PM TO 7:00 PM

OPEN TO THE PUBLIC

FREE - Investor Educational Forum at 6:00 pm
or Dinner w/other members and investors

Single meeting fee for non-members is
\$20.00 per person, which will be applied to the
annual dues if you join the next month.

— Registration - 7:00 pm

BUY • SELL • TRADE

— Meeting at 7:30 pm Sharp!

SPEAKER/TOPIC

Guest is \$20.00 per person, which will be
applied to the annual dues if you join the
next month.

Home Depot- Pro Sales Manager **Bernie Stafford**
and **Colleen Weaver** will be speaking on their —

- rebate program
- volume pricing program
- tool rental
- home delivery of supplies and truck rentals

Welcome

To New & Returning Members

Chris & Margaret Ochocinski - R

James Buslepp - R

Carl Dollins - R

Dean Clemons - N

Charles Owderwood - G

Mohammad Javed - G

Sammy Kokash - G

Adam Chmiel - G

Earl Whitaker - G

Nate Stull - G

Membership Application

New Member () Renewal ()

ANNUAL DUES Family — \$125.00 - (One Address — 2 People)

Single meeting fee for non-members is \$20.00 per person, which will be applied to the annual dues if you join the next month.

(we hope this will encourage people to join)

Fill Out Form and Mail to: R.E.I.A. • 2962 Fort St • Lincoln Park, Michigan 48146 • (313) 347-1401

Make Check Payable to: REIA

Name _____ Spouse _____

Mailing Address _____

City/State/Zip _____

Phone No.: Home _____ Work _____

How did you hear about us??: _____ Referred by a member?? Their Name _____

Business Name(if applicable) _____

EMAIL ADDRESS _____ Can you volunteer some time, talent or information??
Tell us the companies you use and see if we can advertise for them.

FOR RENEWING MEMBERS: Any questions/comments on how to better our organization??

Next Meetings

REGULAR MEETING

- **Tuesday March 2, 2010**
- **Tuesday April 6, 2010**

BOARD OF DIRECTORS

Members Welcome (CALL FOR TIME & LOCATION)

- **Tuesday March 9, 2010**
- **Tuesday April 13, 2010**

Real Estate Investors Association of Wayne County

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This newsletter is warranted to be free from defects but NOT Guaranteed!!

— LIBRARY - Keith Lenard 1/2 hr before Meeting —
ASSISTANTS: ----- MARGE MARTIN • BOB COUSINO

Around Town with Real Estate Investor Groups

(call each group for details)

- **OAKLAND R.E.I.A.** *2nd Thursday of the Month*
811 W. Square Lake Rd
MSU-MEC (Just East of Crooks Rd)
www.ReiaofOakland.com
- **D.O.L.L.A.R.S. Group** *3rd Thursday of the Month*
Mound & 13 Mile
www.dollars.org
- **Macomb Property Owners Association** *1st Thursday of the Month*
Cocktails/Dinner 6-6:30 pm • Meeting 7:00 pm
For More Info Call: 586-977-7372
- **Monroe County Landlord Association** *4th Thursday of every Month*
6:30-7:30 pm Social/Dinner • 7:30 pm Meeting
(734) 457-5758
- **American Landlord Association** *3rd Tuesday of every Month*
Northwest Activity Center
877-247-3372
- **Real Estate Investors Association of Wayne County**
(REIA of Wayne Co) *1st Tuesday of every Month*
6:00 pm Networking
7:15 Announcements of Property for Sale
7:30 pm Meeting
(313) 347-1401 • 24 hr Answering Machine
- **Jackson Area Landlords** *4th Monday of every Month*
6:30 pm Meeting
- **Toledo Real Estate Investors**
Sullivan Hall @Gescu Parish
2049 Parkside @Bancroft
6:45 pm Meeting
(419) 283-8427
- **Southeast Michigan Real Estate Investor Association**
1st and 3rd Wednesday of every Month
39555 Orchard Hill Place
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MAKE EVERY DROP COUNT!

USE WATER MORE EFFICIENTLY AND YOU

could cut your annual water and sewer bill by two-thirds (the average U.S. household pays \$500 annually). Your local water utility may even pay you to cut back (check its Web site for rebates and other incentives). Here are the top three ways to stem your home's thirst:

Fix leaks. Every drip from a leaky faucet means 35 gallons of water wasted annually. Toilets are the biggest water guzzlers in most homes, and, worse, up to a third of them leak, often unnoticed. To check, place a dye tablet or food coloring in the tank; if water in the toilet bowl colors within 15 minutes, you have a leak. For more tips on identifying and repairing household water leaks, visit www.h2ouse.org.

Wean your lawn. We dump about a third of the water we use on our grass and shrubs, much of it wasted by inefficient automatic irrigation. If you have such a system, make sure it's in tip-top shape and reprogrammed monthly to reflect your yard's changing water needs. An irrigation audit (about \$200 to \$600) will identify problems. To find an auditor visit www.irrigation.org or www.epa.gov, and search "landscape, irrigation services."

You can largely avoid watering by planting drought-tolerant native species. If you must water, install a drip system, which uses 20% to 50% less water than a conventional I system.

Upgrade equipment. Replace your home's oldest toilet (especially one made before 1994), or the one that's used most, with a WaterSense-labeled model (www.epa.gov/watersense). It typically costs \$130 to \$410, and can save a family of four more than \$90 annually on their water bill. It's \$2,000 over the lifetime of the toilet. And instead of springing for a more expensive dual-flush toilet (\$300 to \$500, plus installation), retrofit your model with Perfect Flush (\$99; www.brondell.com), a device that halves water volume for lighter jobs.

Time to replace a dishwasher or clothes washer? New Energy Star standards for dishwashers set the limit per load at 5.8 gallons, just over half what a typical machine used 15 years ago. A new, more stringent standard for clothes washers will apply in 2011. But even if you replace a clothes washer made in 2000 with an Energy Star front- or top-loading machine made since 2008, you'll save about \$100 annually in water and electricity (based on 392 loads a year).

 HOME BUYERS  INVESTORS 

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FREE ADVERTISING

The **Commercial Segment** is just before the regular meeting, at 7:15 P.M..

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If you have any suggestions for speakers, drop us

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or email our newsletter group at:

apprint1@aol.com

Seven steps for cutting energy costs

By Barbara Swenson

As energy costs soar, it's important to develop a plan to deal with this challenge. This involves evaluating your consumption and investigating alternative sources of energy to supply your overall needs. The following seven steps can help you cut your energy costs:

1. Do an Energy Evaluation

Go through each room and determine what uses energy. The circuit breakers on your electrical box will show you the various electrical circuits. Also, go through the structure of each room, looking at the insulation and other areas that influence energy efficiency. If you don't want to conduct the evaluation yourself, you can contact your local energy provider for an audit or hire an independent energy consultant. Home Energy Saver has an energy audit tool that can help you evaluate your energy usage.

2. Create a Plan

Draw up a plan for cutting your energy costs. This plan looks at how much you spend on energy as a whole. Then you can examine how energy can be used more efficiently and how to conserve it. Assign priorities in terms of your energy needs, creating an efficiency plan that details your strategies for cutting your energy costs through smart purchases, home improvements, reducing overall usage and utilizing alternative sources of energy.

3. Track Your Energy Usage

Take regular electrical readings to determine how much you spend on electricity on a daily, monthly and yearly basis. Also, track how much you spend on other energy sources such as propane gas. Read your electric meter by starting with the leftmost dial and reading the number the pointer indicates. If the pointer is between numbers, write down the lower number. When done, go to the next dial to the right and read it the same way, writing down the number. Moving to the right, write down the reading for each dial until you reach the end. By keeping track of these numbers, you can determine your daily usage patterns and note when usage spikes.

4. Evaluate Electronic Devices

Chart the energy use of each device, appliance or machine in terms of your whole energy costs. The Federal Trade Commission requires that most home appliances have EnergyGuide labels on them. These labels estimate how much energy the device uses or how efficient it is. Generally, you calculate the wattage of a device coupled with the amount it is using to give an idea of how much it is costing you.

5. Buy Products That Use Less Energy

Purchase products that consume less energy while still giving you the output you need for your operations. For example, energy-saving light bulbs use 23 watts of energy while delivering 100 watts of power. The Energy Star label designates products that are more energy-efficient by federal standards.

6. Reduce Your Energy Usage

Using less energy, such as heating in the winter and airconditioning in the summer, while maintaining your lifestyle can be a real challenge. Turn off lights, appliances and computers when not in use. Seal cracks in windows and doorways where heating and cooling can escape. Use the energy priorities outlined in your energy plan. Cut back on the areas that aren't as important to you, while more efficiently maintaining the areas that are.

7. Use Alternative Forms of Energy

Alternative energy sources continue to increase, particularly as conventional forms of energy rise in price. Consumers in some areas can purchase renewable energy directly from power suppliers. In addition, you can use the sun, wind and water for power. Solar cells, wind turbines, fuel cells and hydropower stations continue to offer a low-cost alternative to energy in both your home and your business.

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12/10



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GENE AND DIANE DeJoannis of Manchester, Conn., thought they had cut their electricity use to the bone. But to double-check, Gene, 66, a semi-retired engineer, installed a home-energy monitor that continuously displays the home's electricity usage in kilowatt-hours (kWh). In the following year, the couple cut their electricity use by an additional one-third and their annual bill by 15% (from \$715 to \$606), despite a 15% increase in their electric rate.

Home-energy monitors come in several models, but Gene made a good choice by purchasing a TED (\$120; www.theenergydetective.com). The TED sits on the couple's kitchen counter, plugged into a nearby outlet. It receives data through the home's wiring from a processor installed in the circuit-breaker box. The processor is clipped to the main lines bringing power into the house. (The company says a "tech-savvy" homeowner or electrician can install it in 10 to 15 minutes.)

Initially, the DeJoannises aimed to lower their electricity use by finding more things to unplug around the house (such as the unused boom box with a digital readout in their daughter's former bedroom). Quickly, though, the TED helped them garner other savings. They realized, for example, that they didn't need the kitchen lights turned on while they watched TV in an adjacent room. Gene likens the TED to the miles-per-gallon display in his Toyota Prius, which "tells you how you're doing all the time and changes your driving habits."

A forthcoming model (the TED 5000) will also optionally monitor power generation from solar or other sources, and produce a net reading. Gene keeps his own spreadsheet of energy usage, but TED users can buy optional software called Footprints (\$50) to toggle and graph their data.

Reprinted from Readers Digest



Section 8 Questions???
Call Jane Scarlett

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NEW Member Application

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Do you need a license to actively participate in real estate investment?

One of the common questions asked of the REI staff is, "Do I need a real estate license to operate a real estate investment business in Michigan?" Well, like most other real estate type questions, the answer isn't a simple yes or no.

Michigan law regarding real estate professionals addresses this question in the *Michigan Administrative Rules for Real Estate Brokers and Salespersons*. Generally speaking, the Rules state that "licensure as a real estate broker is required of an owner of real estate who engages in the sale of real estate as a principal vocation, unless the owner engages the services of a real estate broker."



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Within the Rules there are three (3) "questions" that an investor can ask to test whether or not they are participating in real estate as a "principal vocation." If you answer "yes" to any of the following questions, you should be licensed, unless you are exempt under some other area of the law.

- *Have you or will you engage in more than five (5) real estate sales in any 12-month period?* For example, if today is December 15, 2009 and you have sold more than five properties since December 16, 2008, you would need a license. If you're a busy "rehab and flip" investor, you will most likely need a real estate license.
- *Have you or will you hold yourself out to the public as being principally engaged in the sale of real estate?* If you've placed one of those signs on your car or truck that states, "we buy and sell houses," you may very well have to answer this question, yes. Whether you are principally engaged in the sale of real estate is somewhat of a fuzzy area. For instance, if you have a published cell phone number that is on 12 hours each day where potential buyers can call you would most likely be considered principally engaged in the business.
- *Have you or will you devote over 50% of your working time, or more than 15 hours per week in any 6-month period, to the sale of real estate?* If you have an office where you actively sell (or at least attempt to sell) real estate four days a week, you definitely would have a hard time arguing that you're not principally engaged in the business.

You don't necessarily have to be a real estate broker to engage in the sale of real estate, but, if you're not, you'll have to be licensed as a real estate salesperson and work under a real estate broker or be licensed in some other occupation that does not require an additional license to sell real estate, e.g. a licensed attorney or builder. Of course, working under someone else usually means that they will have their nose in your business and want a cut of the proceeds. For those reasons, most investors that plan on working the business as their principal vocation will go the extra effort to obtain a broker's license.

If you're still not sure you need to be licensed, you should contact a qualified real estate attorney. Members may contact RPOA and REI's attorney, George Pawlowski, at 616-458-7800.

Reprinted from Rental Property

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Practicing Real Estate Law**

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DISCLAIMER

Any opinions expressed in these articles are not necessarily the opinions of the Real Estate Investors Association of Wayne County. (R.E.I.A. of Wayne County) This information is designed to provide accurate and authoritative information in regard to the subject matter covered. It is offered with the understanding that the authors are not engaged in rendering legal, accounting or other professional service. If legal advice or other expert advice is required, the services of a competent professional should be sought. Members and Guests should consult an attorney, accountant or other professional before making an investment decision. All Members and Guests assume the risk of making their own investment decisions.

Ten Reasons Landlords Pay Too Much Tax

Stephen Fishman

No landlord would pay more than necessary for utilities or other operating expenses for a rental property. But every year, millions of landlords pay more taxes on their rental income than they have to. Why? Because they fail to take advantage of all the tax deductions available for owners of rental property.

Rental real estate provides more tax benefits than almost any other investment. Often, these benefits make the difference between losing money and earning a profit on a rental property. But tax deductions are worthless if you don't take advantage of them.

Here are the top ten tax deductions for owners of small residential rental property:

1. Interest. Interest is often a landlord's single biggest deductible expense.

Common examples of interest that landlords can deduct include mortgage interest payments on loans used to acquire or improve rental property and interest on credit cards for goods or services used in a rental activity.

2. Depreciation. The actual cost of a house, apartment building, or other rental property is not fully deductible in the year in which you pay for it. Instead, landlords get back the cost of real estate through depreciation.

This involves deducting a portion of the cost of the property over several years. Residential rental property must be depreciated over 27.5 years.

3. Repairs. The cost of repairs to rental property (provided the repair costs are ordinary, necessary and reasonable) are fully deductible in the year in which they are incurred. Good examples of deductible repairs include repainting, fixing gutters or floors, fixing leaks, plastering and replacing broken windows.

4. Local travel. Landlords are entitled to a tax deduction whenever they drive anywhere for their rental activity. For example, when you drive to your rental building to deal with a tenant complaint or go to the hardware store to purchase a part for a repair, you can deduct your travel expenses. If you drive a car, SUV, van, pickup or panel truck for your rental activity (as most landlords do), you have two options for deducting your vehicle expenses: You can deduct your actual expenses (gasoline, upkeep, repairs) or you can use the standard mileage rate (44.5 cents per mile in 2006).

5. Long-distance travel. If you travel overnight for your rental activity, you can deduct your airfare, hotel bills, meals and other expenses. If you plan your trip carefully, you can even mix landlord business with pleasure and still take a deduction. However, IRS auditors closely scrutinize deductions for overnight travel--and many taxpayers get caught claiming these deductions without proper records to back them up. To stay within the law (and avoid unwanted attention from the IRS), you need to properly document your long-distance travel expenses.

6. Home office. Provided they meet certain minimal requirements, landlords may deduct their home office expenses from their taxable income. This deduction applies not only to space devoted to office work, but also to a workshop or any other home workspace you use for your rental business. This is true whether you own your home or apartment or are a renter.

7. Employees and independent contractors. Whenever you hire anyone to perform services for your rental activity, you can deduct their wages as a rental business expense. This is so whether the worker is an employee (for example, a resident manager) or an independent contractor (for example, a repair person).

8. Casualty and theft losses. If your rental property is damaged or destroyed from a sudden event like a fire or flood, you may be able to obtain a tax deduction for all or part of your loss. These types of losses are called "casualty" losses. You usually won't be able to deduct the entire cost of property damaged or destroyed by a casualty. How much you may deduct depends on how much of your property was destroyed and whether the loss was covered by insurance.

9. Insurance. You can deduct the premiums you pay for almost any insurance for your rental activity. This includes fire, theft and flood insurance for rental property, as well as landlord liability insurance. And if you have employees, you can deduct the cost of their health and worker's compensation insurance.

10. Legal and professional services. Finally, you can deduct fees that you pay to attorneys, accountants, property management companies, real estate investment advisers and other professionals. You can deduct these fees as operating expenses as long as the fees are paid for work related to your rental activity.

For more information, check out

Every Landlord's Tax Deduction Guide, by attorney Stephen Fishman, published by Nolo. - Submitted By Frank Jaros

— WEB SITE CORNER —

This new column of useful website addresses is a new addition to our newsletter format. If you wish to have a website featured in this column please email reianews@aol.com

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www.unclefed.com Online Tax Resource
www.courts.michigan.gov/ Michigan Courts
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<http://www.ask-the-rehabber.com>

State Criminal Records:

www.state.mi.us/mdoc/asp/otis2.html Offender Tracking System (OTIS)
<http://apps.michigan.gov/ichat/home.aspx> Criminal History Check (ICHAT)
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www.555-1212.com
www.anysho.com

Lead Base Paint Pamphlets?

www.hud.gov/lea

— **MEETING AGENDA** —

**6:00 - Investor Educational Forum - (FREE)
or Dinner in the Dining Room with other
members & investors**

6:45 - Registration

**7:15 - Member Presentation of Deals and/or
Services**

7:30 - Meeting — (\$20.⁰⁰ FOR GUESTS)

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ACCEPTING MONEY ORDERS SOMETIMES RISKY

Did you know that money order can bounce? Until very recently, I thought that a money order was as good as a cashier's check. Not so! The money order is only as safe as the establishment from which it was purchased. A well-meaning tenant purchased a money order from a corner grocer. The grocer went out of business and had not paid the company which issued the money order. That company then stopped payment on the money order. The final loser was the landlord. So ... beware. If you are going to be offered money orders for rent ask the renter to purchase them from the post office.

Also, don't accept post dated checks. A post dated check is worthless if you want help from the prosecutors. Because you knew when you took the check that it was not good at that time they feel that you were not defrauded. If you have another person, family member, employee or friend accept rent for you instruct them to write receipts for the actual amount received and state if in the form of cash, check, or whatever. We know of a family member who at the instruction of the renter marked the receipt "For December rent. Thanks". That kind of receipt would be hard to fight in courts.

[St Louis Real Estate Investment News] & Reprinted from the Genesee Landlords Association

Frank Lucarelli
Account Executive



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Woodhaven, MI 48183
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04/10

JALA Q AND A.

Q: In my rental properties the utilities are not included in the rent (the tenant is responsible.) I recently went through an eviction of one tenant and it so happened that the tenant had the utilities put in someone else's name. Consumer's Energy caught on and referred it to their Fraud Department. In addition, they turned off the power. Fortunately, it was not cold, but for the three to four weeks it took me to evict the tenant, she abandoned it and did not move her possessions until I received the court order.

A couple of things come into play here. I fully realize that there are certainly some tough economic times for people. But, I shudder to think that had I not been aware of the situation with freezing weather approaching without a doubt there would have been considerable damage done had the water lines froze and burst. We have the tenants all sign off so we will receive notice from Consumer's Energy if this happens in the future. Consumer's is also requiring a copy of the lease, picture ID, and SS numbers for new tenants.

Now, back to my specific question: Other than going through the lengthy steps of eviction, is there any other recourse or alternative process to immediately regain/recover the property given the property was abandoned by the tenant and just sat empty without power?

If I have to go through the eviction process in-full, I have no choice but to have power restored to avoid damages. And, I will have to pay for it and the tenant gets a free ride until the eviction process has run its course. Can you help? G. S.

A: If you actually do have all tenants sign a third-party agreement, then Consumer's Energy should have notified you that this person who signed for this address did not have an active account. Things being what they are, you should call Consumer's when you get the final bill and check that your tenant has actually put the bill in their name. If not, then it's time to visit the tenant and get a new third party agreement signed (lease violation)

You can ask the court for an immediate eviction based on a health hazard since the tenant has abandoned the unit. (Be wellprepared to justify the abandonment with all and everything you have done to determine that it is abandoned.) Argue this on the basis that it has been abandoned AND the utilities are off and it's 32 degrees below zero. However, keeping the unit from any damage should be a priority and it might cost you a Consumer's Energy bill while you get them out. Make sure that you add that to your money judgment. Life is just not fair sometimes.

Q: I have a couple who both signed the lease for an apartment that I have. If the relationship sours and one moves out, what steps do I need to take to amend the lease for the tenant who remains in my apartment? Do I need something in-writing from the tenant who moved out before I write up a new lease and/or change the locks? S. H.

A: First, you really want to evaluate the entire situation and especially the remaining person (we are assuming you have one all this and more, but for those who have never encountered this situation we'll explain.) Can they carry the rent by them selves, or were you counting on the moved out tenant to supply their share? Where in the lease are they? All done? Half of the way through it? All of these issues go into making up your mind about whether or not you are going to allow the person that moved out to escape their liability for the lease. If so, there is a legal document that is called a mutual recession of lease. This document will remove the legal liability that has been contracted between you and the tenant through the lease. But, why? Unless the one who has moved out is a serious problem and the one remaining will be a good tenant for you, why let the other one off the hook? Of course, if the breakup was NOT amicable, then the changing of the locks, etc. may present a problem. That is the reason why you need to understand the entire situation. (By the way, you don't pay for the locks to be changed, you bill back the tenant!)

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The Lease/Option vs. The Contract for Deed

- by William Bronchick

Many investors are generally familiar with the concepts lease/option and contract for deed (aka "installment land contract"). Many investors confuse the two, and this article will help you understand the tax, legal and practical issues between the two.

First, let's start with the lease/option, which is really two things, a lease and a purchase option. A lease is a contract for the use and possession of land, creating a landlord/tenant (or "lessor/lessee") relationship. A purchase option is a unilateral agreement wherein the optionor ("seller") agrees to give the optionee ("buyer") the exclusive right to the purchase the leased premises. The option price is generally set at a fixed price at the inception of the lease, although it does not have to be. At any time during the option period (which generally corresponds to the lease period), the tenant can exercise his option to purchase.

All option is not the same as a regular purchase contract, which is a bilateral agreement. A bilateral contract legally binds both parties to the agreement, whereas an option only binds the seller. An optionee is not bound to buy-, it is his option do so (or not to do so).

A lease with option arrangement is not a sale, but rather a landlord-tenant relationship. In rare cases, a court may re-characterize the transaction as a sale if it looks like a sale. Furthermore, the IRS does not classify a lease/option as a sale until the option is exercised (*see Tax Court Memorandum 1999-11;*).

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A contract for deed (aka "installment land contract") is an agreement wherein the buyer makes installment payments on an arrangement similar to an automobile financing. The seller holds legal title to the property as security for payment, while the buyer has "equitable" title. When the buyer pays the full amount due under the contract, the seller delivers legal title to the buyer.

Equitable title gives the buyer the right to live in the property, improve it, rent it and otherwise enjoy all of the benefits of ownership. However, since the buyer does not have legal title, he cannot use it as collateral for a home equity loan (although in some states, banks will lend against an equitable interest in a contract for deed).

The IRS generally treats a contract for deed as a sale, which means the buyer has the tax benefits of ownership. Thus, the payments of interest that are made by the buyer in possession are deductible as "mortgage interest," even though the buyer does not have legal title to the property. A contract for deed seller must report the transaction as an installment sale on form

IRS Form 6252. Once sold, the seller cannot claim depreciation or any other tax benefits of the property. If the buyer defaults on the contract and the seller exercises his legal option to reclaim the property, the tax code treats the transaction as a foreclosure.

The legal process for repossession of the property is not entirely clear in every state. Some state statutes (e.g., IL & PA) clearly spell out the process, which is somewhat more involved than an eviction, but clearly less burdensome than a full-blown foreclosure. In most states, the process is not clearly defined, so courts deal with a buyer's default on a case-by-case basis.

In summary, the lease/option is a landlord-tenant relationship until the purchase is complete; the contract for deed is a sale at the inception of the agreement. In rare cases a court may re-characterize lease/option transaction as a contract for deed, but this is limited to situations where the transaction looks like sale (as in the case of a long-term lease/option with a declining balance purchase price).

Which formula is better? It depends on the situation and your goals. A lease/option transaction is not a sale, so you will benefit from market appreciation if the tenant declines to exercise his option to purchase. A contract for deed sale will allow you to get more a down payment from the buyer, since it "feels" more like a sale. In higher-priced neighborhoods the rents may not command enough rent to cover your underlying mortgage payments. A contract

for deed sale will allow you to collect interest payments, which are generally more than you could collect in rent. On the other hand, a property sold is already sold for tax purposes; thus, you cannot utilize a 1031 tax-deferred exchange on a property sold by contract for deed when the buyer pays off the debt balance. The entire balance paid on the contract will be due as a capital gain, which can be a huge tax liability if you have a low basis in the property. Furthermore, a defaulting buyer on a contract for deed is generally harder to get out of the property, particularly in a court proceeding.

In summary, the benefits of a lease/option are ...

- Legal control of the property
- Ability to claim depreciation
- Ability to defer gains by 1031 x

The downside of a lease/option are ...

- Less money down.
- Less of an incoming payment
- Continued land lording responsibility

The upside of the CFD is ...

- More money down
- Higher monthly income
- No landlording headache

The downside of the CFD is ...

- Potential tax hit
- Transfer tax due at sale

You need to decide on a deal by deal basis which transaction works best for you in terms of work involved, tax issues and, most importantly, cash flow.

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