
Avoid The 7 Most Common Purchasing Mistakes In The Go Zone

By Dr. Chris Anderson, Ph.D.

In the real estate investing community, tremendous excitement has been generated from the benefits offered by the Go Zone's 50% first year, bonus depreciation. I don't know of many opportunities where you can literally save \$10's of thousands of dollars by making a smart purchasing decision. As an example, I just had one client tell me that they had saved \$60,000 thousand dollars in taxes this year alone.

Whenever you have an opportunity for something this exciting, then you also have the opportunity for a lot of misinformation and a lot of bad decisions. As the owner and operator of GoZoneOnline.com, I see a lot of mistakes being made by new and experienced investors coming into the Go Zone marketplace. The purpose of this report is to help you identify the 10 most common mistakes that investors make in the Go Zone.

Mistake #1: Assuming that future renters and purchasers desperately need your property

Our Observation: Without a doubt, there is definitely a demand for rental and housing properties in the coastal regions devastated by hurricane Katrina. If you believe all the published numbers, then you would think that people are literally sleeping on the street..... This is far from the actual case. One of the major problems that has occurred in our opinion is the "affordability" of rental and for sale units in the region. Compared to pre-Katrina, the rents and home prices have escalated to the point they are out of reach of many buyers. Just because you are going to offer your investment property for someone to rent DOES NOT NECESSARILY mean that they will want it.

Our Suggestion: When you are considering purchasing a rental property, then you really need to know:

Are there really renters for this specific property, this specific location, at this specific price point and why does the person who is bringing it to you believe that?

Mistake #2: One Location In The Go Zone Is As Good As Another

Our Observation: For bonus depreciation benefits, then you can reap bonuses from a property that is located near a trash dump or one that is in the middle of a future growth corridor. Both may rent for about the same amount, may produce equivalent tax benefits, but one may SUBSTANTIALLY out perform the other at time of resell.

Our Suggestion: Either understand and visit the area yourself or work with a realtor or investment group that has a track record of really providing a ton of this kind of homework. If location is not a major portion of the initial discussion on an investment property, be very wary.

Mistake #3: Understand The Impact Of Insurance

Our Observation: In some coastal areas impacted by Katrina, insurance is a HUGE consideration and expense, even for a low cost rental home. As an example, in Mississippi coastal communities, the only source of wind insurance is from a state run wind pool that is very, very expensive.

Our Suggestion: Make sure you have an insurance quote (not just someone's opinion) in hand before signing.

Mistake #4: Understand The Future Need For Your Purchase

Our Observation: In our opinion, a lot of people are getting sold investment product that makes little to no sense in some of the regions. For example, there have been a large number of high end condo projects sold around Biloxi on the basis of the great expansion of the casinos. While the casinos are growing, it is a huge unknown if the condo concept will work in the scale that they are being sold. In our opinion, most of the casinos will do everything within their power to have their patrons stay onsite as opposed to at an outside condo where they will likely be tempted to gamble at several locations.

Our Suggestion: Again taking the time to understand what you are buying and why it makes sense is critical. This can occur by either doing it yourself or working with someone that provides you with all the data you need to make the decision yourself.

Mistake #5: Understand The Concept Of Absorption

Our Observation: In real estate terms, absorption is such a simple concept however it is commonly overlooked by inexperienced investors. Simply put, absorption is how many units are likely to be rented (or sold) in a given time. So, for example, it might be common to expect to rent 5-10 units per month in a given facility. If the construction rate is the same, or lower, then tenants should be available shortly after close. However, if the construction was 10X this amount, you would rapidly over saturate the rental market.

Our Suggestion: If you are considering a project with lots of units (> 10), then you need to have someone that understands the expected absorption rate locally. More commonly, you will ask about absorption and get a rosy picture in response. Be careful and make sure you understand how many units are getting built, in what period of time, and realistically, how long it is likely to take to rent up your unit.

Mistake #6: Understand Your Own Tax Situation

Our Observation: There are tremendous advantages to owning Go Zone property's but let's face it, the tax code is NOT SIMPLE. You need to have a tax professional on your team that truly understands the ins and outs of the go zone.

Our Suggestion: Some tax professionals are specializing in the Go Zone. If your tax advisor is not comfortable, then seek someone out that can help.

Mistake #7: Understand How You Will Manage The Property

Our Observation: To receive Bonus Depreciation, you will have to put the property into rental service. If you live right next door then no problem... If you live 3,000 miles away, then you probably need help. But now is when the tax law comes into play because you will realistically need to "materially participate". This is where a

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good, knowledgeable tax pro can help you create something where you can meet the guidelines for tax reasons but have minimal headaches as an owner.

Our Suggestion: Make sure you understand the tax implications of using a management company and then make sure you are comfortable with how the company will manage your property.

About The Author:

As a native of Florida for most his life, and as a current resident of the Gulf Coast, Dr. Anderson is an advocate of the Government sponsored redevelopment of the hurricane impacted areas. As an investor and a business owner for most of his adult life, he understands the unique challenges and opportunities for individual investors.

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In addition to investing, Dr. Anderson was very active in both the engineering and academic communities. He received his Ph.D. in Electrical Engineering from North Carolina State University in 1990. After being an educator on the graduate electrical engineering faculty at the University of Florida for over 10 years, he decided to concentrate solely on his rapidly developing business and investing portfolio. He and a long-time business partner formed GetPreConstructionDeals.com to bring world class investing education, tools, and opportunities to the general public.

Today, Dr. Anderson contributes a 100% of his efforts to the growth and development of the on-line communities of GoZoneOnline.com and GetPreConstructionDeals.com. He is a frequent speaker, educator, and author of articles that are featured on 1,000's of web sites across the internet.

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