

Important.—Present construction costs automatically reduce the chance of a new building's having the same reasonable rent as most of the present units. Kent feels that the existing "Tobys" are the last of their kind and therefore all the more valuable.

Property tests.—The property must pass Kent's three crucial tests.

(1) **Location:** Kent has found this to be the most important factor in choosing property. An old and frankly ugly building in a good neighborhood has proved to be more profitable than a new, attractive one unfortunately located. Tenants just won't remain in a bad or inconvenient neighborhood, no matter what. Kent has the scars to prove it.

In judging location, don't ask yourself what kind of neighborhood you would be willing to live in; ask yourself what kind of neighborhood the average working man in your area would like.

(2) **Modest rent:** Once 25% of a family's income went for this item, but now, in the income range of the "Aunt Toby" tenant, the proper ratio is closer to 15%. The amount will vary throughout the country but \$75 a month is just about average.

(3) **Limited services:** Tenants should be responsible for practically all their needs, especially heat. The land lord responsible for heating his building soon finds that 95% of the complaints he will get will be about heating. Making the tenants responsible for this and most of the repairs is a saving of time and money.

Price.—Mr. Kent has devised this "Value Formula" based on a rule-of-thumb used by many real estate investors:

A piece of real estate should earn, as annual gross rent, fifteen percent of its cost or value. (To find the value, multiply the rent by 6%.)

But, and it's a big but, this rule of thumb isn't enough. Your profit isn't determined by gross, but by net. Gross is only the starting point. Any unusual cost of maintaining and paying for the property must be deducted from the gross before you apply the rule-of-thumb.

Most important cost is mortgage cost. Mr. Kent's formula allows a mortgage interest rate of 6%. Anything extra (say on a second mortgage) must be deducted from the gross rent.

By the same token, you can buy for more than 6% of the gross if expenses are less than usual. Knowledge of this fact has led Mr. Kent to buy properties turned down by other investors—on which he made a lot of money.

Using these standards, Kent has pyramided his investments with a minimum of cash into a million-dollar business. His formula for success has also worked for many investors who have taken his advice. There's no reason why it can't work for you as well.

(Condensed from "How to Get Rich in Real Estate," by Robert W. Kent. Published by Prentice-Hall, Inc., Englewood Cliffs, N.J. Price \$7.95.)

COST-CUTTING SECRET IN PLANNING A SUBDIVISION

Once you've purchased raw land, you'll have to file plans on subdivided lots before you can go ahead with development. Here's a practical suggestion to save money. File a plan for only that part you expect to sell first.

Reason: When your subdivision is filed, each lot is individually assessed and taxes levied on it. Almost invariably, this increases taxes on the property. So it will pay you to keep part or all of the tract on the tax rolls as a single parcel.

Of course, you need a complete set of plans for your own use before you start selling. But this shouldn't stop you from actually filing plans for only the part of the tract you expect to sell first.

INCOME PRODUCING PROPERTY DOESN'T HAVE TO PRODUCE INCOME

Many taxpayers are guilty of a common misconception—they think that it's necessary to have income from property for its expenses to be deductible. But that's just not so. Take a—

Typical situation.—Jones lived in one apartment in the two-family house he owned. After his upstairs tenant moved out, Jones tried unsuccessfully to rent the apartment. **Question:** May Jones deduct the maintenance and depreciation attributable to the unrented upstairs apartment?