Unit # 1

FAIR HOUSING Not in 20th Edition

Learning Objective: Identify the major goal of fair housing laws.

The decision to purchase or lease housing, and where to do it, should be based on an individual's preferences and finances. Too often, individuals have been denied the housing they prefer based on discriminating factors that should not be considered. At present, there are housing protections provided by federal and state governments, as well as some municipalities and other local governing bodies. Here, we provide a brief summary of current federal fair housing law.

The latest revision to federal fair housing legislation is known as the Fair Housing Act. The Fair Housing Act prohibits discrimination in the provision of housing and housing-related services (including lending) based on an individual's race, color, national origin, religion, sex, familial status, or disability.

The Fair Housing Act covers most housing. There are limited exemptions, such as owner-occupied buildings with no more than four units. The Fair Housing Act protects anyone who falls within one of the protected categories from discrimination in

- renting or buying a home,
- getting a mortgage,
- seeking housing assistance, or
- taking part in other housing-related activities.

There are even more protections for someone applying for federally assisted housing.

It is considered illegal discrimination to take into account an individual's race, color, national origin, religion, sex, familial status, or disability when making a decision to

- refuse to rent, sell, or negotiate for housing;
- set different terms or conditions in the sale or rental of housing;
- provide different housing services or facilities;
- falsely deny that housing is available;
- impose different sales prices or rental charges;
- use different qualifying criteria;
- evict a tenant or a tenant's guest;
- harass a person;
- fail or delay performance of maintenance or repairs;
- limit privileges, services, or facilities;
- assign a person to a particular building or neighborhood or section of a building or neighborhood;
- deny access to or membership in any multiple listing service or real estate brokers organization.

www.hud.gov

More information about fair housing protections can be found at the website of the U.S. Department of Housing and Urban Development (HUD): www.hud.gov/.

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Advantages of real estate investment

Rate of return

Over time—say, 10 to 20 years or more—a real estate investment typically shows an above-average (or even high) *rate of return*. In some parts of the country, an impressive return can be received even after a relatively short period of ownership. In theory, this means that an investor can use borrowed money to finance a real estate purchase and feel relatively sure that the asset, if held long enough, will return a profit, even after accounting for the cost to finance the purchase.

Control

Real estate investments also offer more immediate advantages. Real estate offers investors more control over their investments than other options, such as stocks, bonds, or other securities. The real estate marketplace consists of buyers and sellers who deal directly with each other.

Appreciation

Real estate is an avenue of investment open to those interested in holding property primarily for increasing value, known as **appreciation**. During a period of inflation, of course, the value of all property will rise, but so will the costs of maintaining the property. The *intrinsic value* of real estate is the result of individual choices and preferences for a given geographic area. Residential property in a pleasant neighborhood near employment, shopping, and amenities, will tend to retain and increase in value. Commercial property located close to transportation, suppliers, and a source of employees will also tend to increase in value.

Equity buildup

The amount invested in a property is the owner's *equity*. If the property is financed, the only equity at first is the amount paid as a down payment. As the owner pays down the amount owed by regular payments, however, and if the payments include payment of part of the principal owed on the loan, that principal increases the owner's equity in the property. Appreciation, too, will result in **equity buildup** as the value of the property increases. Accumulated equity is not realized as cash unless a property is sold or refinanced. Equity may be lost if a property's value decreases due to economic conditions or a natural disaster, even if the property is not sold.

Leverage

Leverage is the use of borrowed money to finance an investment. It can be a way to benefit from the potential for increased income from a relatively small initial outlay. As a rule, an investor can receive a maximum return from an initial investment by making a small down payment, paying a low interest rate, and spreading mortgage payments over as long a period as possible.

The risk of an investment is directly proportional to leverage. A high degree of leverage translates into greater risk for the investor, as well as for the lender, because of the high ratio of borrowed money to the value of the property. Lower leverage results in less risk. When property values drop, for whatever reason, the highly leveraged investor may be unable to pay even the financing costs of the property.

Tax benefits

Income tax laws change frequently, and some tax advantages of owning investment real estate are altered periodically by Congress. An investor can make a more educated and profitable real estate purchase with professional tax advice. The Internal Revenue Service (IRS), www.irs.gov, is the best place to start for federal tax information. State and local taxing authorities offer different tax incentives (and disincentives) to investors and information should be sought from those sources, as well. The following are some of the current federal tax benefits available to investors.

Depreciation, or *cost recovery*, allows an investor to recover the cost of an income-producing asset through tax deductions over the asset's useful life. Though investors rarely purchase property without expecting it to appreciate over time, the tax laws recognize that all physical structures deteriorate and lose value over time. Land is not considered a depreciating asset.

Capital gain is the difference between the purchase price of property and its net selling price. A property's cost, or *basis*, determines the amount of gain to be taxed. The investor's initial cost of the property may be increased by physical improvements made to the property, which will add to the property's tax basis. On the other hand, the amount of any depreciation claimed as a tax deduction is subtracted from the basis, resulting in the property's *adjusted basis* for tax purposes. When the investor sells the property, the amount by which the sales price exceeds the property's adjusted basis is the capital gain.

One way to avoid federal taxation on a capital gain is to exchange the investment property for one of the same value. The tax that would have been owed if a sale had occurred is deferred until the property acquired in the exchange is sold. At present, there is no limit to the number of times that a property can be exchanged and taxation deferred. There are strict rules governing property **exchanges**, and failure to fully comply with the rules can mean the loss of the deferral. The law permitting tax-deferred exchanges is also subject to change as Congress considers ways to increase income to the federal treasury.

Disadvantages of real estate investment

Real estate investments are expensive. Large amounts of capital are usually required, even when financing is available. Investing in real estate is difficult without expert advice. Investment decisions must be based on careful study of all facts, reinforced by a thorough knowledge of real estate and how it is affected by the marketplace.l

Liquidity

Liquidity refers to how quickly an asset may be converted into cash. Unlike stocks and bonds, real estate is not highly liquid over the short term. An investor who holds stocks can easily direct a stockbroker to sell stocks when funds are needed. In contrast, a real estate investor may have to sell property at a substantially lower price than desired to bring about a quick sale. If market values are down, the investor who wants to refinance property to free up cash will have to settle for whatever the lender feels the market dictates.

Active management

Real estate requires active management. The investor may choose to personally manage the property or may hire a professional property manager, but management decisions still must be made. If the property has residential or commercial tenants, how much rent should be charged? Is the property and its management in compliance with all federal, state, and local laws? How should repairs and tenant grievances be handled? What is the long-term goal of the property owner? Is the property manager working to achieve that goal?

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Accretion, reliction, erosion, and avulsion

20th Edition does not have "reliction".

The amount of land an individual owns may be affected by the natural action of water. An owner is entitled to all land created through **accretion**—increases in the land resulting from the deposit of soil by the water's action.

A navigable body of water may permanently recede, uncovering land that was once under the water, which then becomes the property of the adjoining landowner by the process called **reliction.** Reliction also may be the result of a shift in the course of a river or stream.

On the other hand, an owner may lose land through the action of the elements. **Erosion** is the gradual and sometimes imperceptible wearing away of the land by natural forces, such as wind, rain, and flowing water. Fortunately, erosion usually takes hundreds or even thousands of years to have any noticeable effect on a person's property. Flash floods or heavy winds, however, can increase the speed of erosion.

If erosion is a slow natural process, avulsion is its opposite. **Avulsion** is the sudden removal of soil by an act of nature. It is an event that causes the loss of land in a much less subtle manner than erosion. An earthquake or a mudslide, for instance, can cause an individual's landholding to become much smaller very quickly.

Types of policies

The different types of title insurance policies depend on who is named as the insured. An *owner's policy* is issued for the benefit of the owner (new buyer) and the owner's heirs or devisees and is issued for the property's purchase price. A lender's policy (mortgagee policy) is issued for the benefit of the mortgage lender and the amount of the mortgage loan will determine the amount of the coverage.

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Uniform Commercial Code (UCC)

20th Edition does not have "uniform Commercial code (UCC)

The Uniform Commercial Code (UCC) is a commercial law statute concerned with personal property transactions; it does not apply to real estate. The UCC governs the documents when personal property is used as security for a loan. For a lender to create a security interest in personal property, including personal property that will become fixtures, the UCC requires the borrower to sign a security agreement.

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Pg 227

Forbearance 20th Edition does not have "Forbearance"

Mortgage *forbearance* is a postponement of obligations under a mortgage loan but not forgiveness of the debt. The COVID-19 virus pandemic that began in 2020 affected all parts of the U.S. and world economies. With a large part of our economy shut down for months, many homeowners and renters found themselves unable to meet financial obligations. In response, the federal government announced a moratorium on foreclosures of government-backed mortgages that was extended through September 30, 2021, with up to three months of additional forbearance allowed for certain borrowers. It was estimated that, as of July 2021, almost 7.2 million households had taken advantage of the forbearance option. Payments postponed are not forgiven; rather, the life of the loan is extended so that all regular payments are made over a longer loan term.

The HUD website, www.hud.gov, has a link on its home page that leads to information for both homeowners and renters experiencing financial difficulties related to the pandemic.

Fannie Mae's website has information on a variety of assistance available to homeowners that can be found by going to www.fanniemae.com and entering "forbearance" in the search engine.

The Centers for Disease Control (CDC) announced a moratorium on evictions from rental units that was extended to July 31, 2021. Information can be found at www.cdc.gov. In addition, many states have their own directives and programs to assist those in financial difficulty as a result of the pandemic.

20th Edition does not have this grafic

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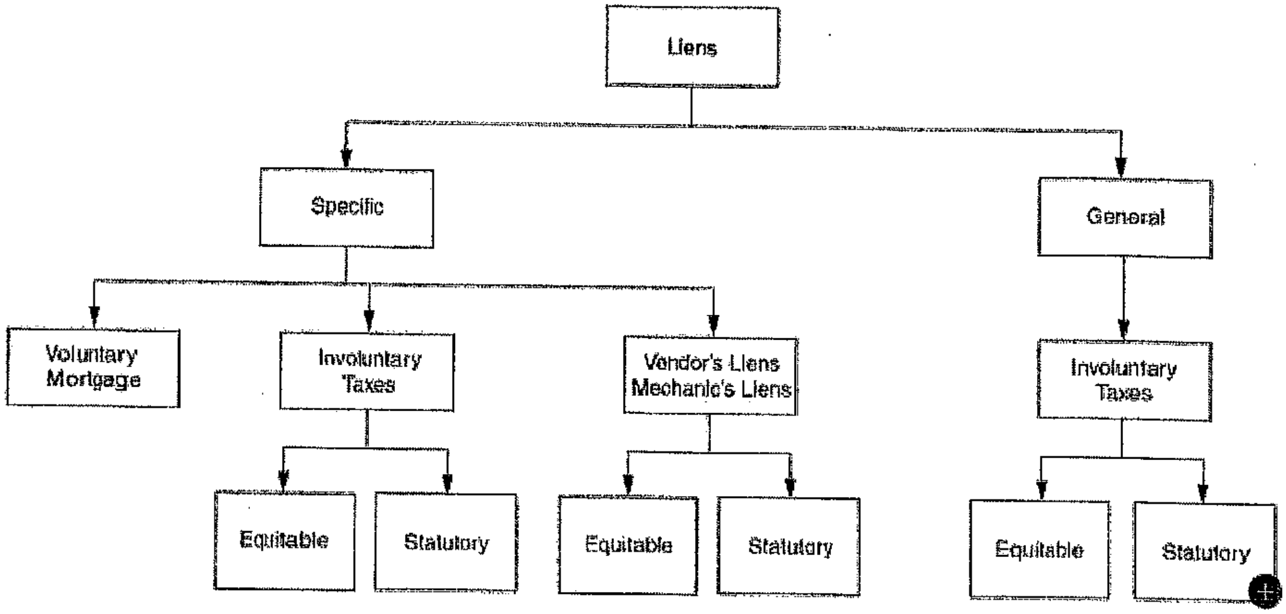

Risk management Unit # 8 pg 131 Not in unit 8, 20th edition, located in unit 19 pg 380 of 20th

Risk management can be defined as a plan of action to minimize a real estate broker's risk of liability and generally involves four components:

1. Avoid: Knowledge of all applicable laws, standards of practice, and emerging issues are of primary importance.
2. Control: Prepare for an emergency before it happens.
3. Transfer: Shift risk to another party by taking out an insurance policy.
4. Retain: Determine that the odds of a risk are too small to justify the cost of a response.

Unit # 18 **Implicit bias** 20th Edition does not have "Implicit bias"
pg 366

Implicit bias (or unconscious bias) refers to stereotypes that are formed and influence a person's decisions but are not part of their conscious thought. A person is not aware of their implicit bias and what has formed these biases.

Real estate professionals should avoid discrimination that is based on implicit bias by becoming aware of their thoughts and actions by considering the following questions:

- Why do I think this customer is not a good fit for me?
- Are my choices based on facts?
- Do I treat everyone with a similar process?

Real estate professionals should evaluate their communication with clients and customers carefully to ensure they treat each potential customer and client with fairness, professionalism, and without bias.