

Raw Land Purchase

According to the banks, undeveloped land is considered to be the riskiest kind of real estate investment to purchase. Typically, financial advisors counsel against land purchases for the majority of all private investors. They believe that it is at best, only a place to invest funds that you are confident you will not need to utilize in the near future. The following issues are what make investing in land such a risky business.

- a) In all forms of real estate, raw land is considered to be the most liquid investment. As a whole, it is considered to be an illiquid investment genre. This means it can often take years to sell certain land parcels and may be difficult to become marketable in the future no matter what price it is listed at. As well, land development is often subject to a variety of regulations and environmental testing.
- b) Since the land is considered to be indestructible, as far as federal income tax purposes, there is no depreciation allowed. The municipality where the land is physically located is governed by zoning that dictates how the land can be used and developed.
- c) Most raw land purchases generate no income during their ownership period; hence, this creates a negative cash flow situation due to the accrual of annual property taxes.

Due to the above factors, most lenders will usually only lend up to 50% of the market value of the land. Certain trust companies may consider lending up to 75% in some situations. There may be some farming based lending available if the land is used for agricultural purposes.