

Purchasing Raw Land

Undeveloped land is considered to be the riskiest type of real estate investment, according to the banks. Financial advisors will typically counsel against raw land purchases for most private investors. They believe that it is wise to only invest funds that you are confident that you will not need to utilize in the near future. Below are some of the reasons why investing in land is risky:

• Raw land is considered to be the most illiquid of all real estate investments. Though, as a whole, it is considered to be in the genre of illiquid investment. This means that this type of property may take many years to sell and may not have any future marketable value no matter the price. In addition, land development is often subject to certain regulations and environmental testing.

• Since land is considered indestructible, there is no depreciation allowed as far as income taxes are concerned. The land is governed by the municipality where the land is physically located and zoning can dictate how the land can be developed and used.

• Most raw land purchases will not generate income during the time of ownership. This means that there is a negative cash flow due to the accrual of annual property taxes.

Most lenders will only lend up to 50% of the land's market value due to the factors noted above. Some lending institutions may lend up to 75% in certain situations. If the land is going to be used for agricultural purposes, there may be some farming-based lending available.