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Presents:

Property Conversion Trends

A course that provides Brokers an overview of the ways in which property owners are converting real property into revenue streams in order to inform and assist their buyers in future acquisitions.

By: Stormie Benfield

Section 1

Converting Residential Property into a Revenue Stream

Many property owners have unused space that can be converted into a money generating enterprise. Exploring the different ways property owners are generating revenue with the unused space in their real property can provide insights to Brokers to help clients who have extra space or want to start using their real estate in new ways. There are three main ways to convert residential property into something new: Renting to people, renting space and land, and starting a business. The purpose of this section is to demonstrate to Brokers the most popular ways residential property is currently being utilized and provide Brokers with references that will assist their clients in the use of real property. By the end of this course, students will be able to assist their clients in converting their real property into revenue streams, help them determine what types of conversions would be right given a particular situation, and understand the trendy new ways in which real property can be converted.

“Real property includes (1) the soil, (2) things growing naturally on the soil, (3) minerals and water beneath the surface of the soil, (4) airspace above the soil (so far as it may be reasonably necessary for use or enjoyment of the surface), and (5) things that have been affixed to the soil (such as houses, buildings, barns, or fences) with the legal intent of becoming a permanent addition or improvement on the land.”

NORTH CAROLINA REAL ESTATE MANUAL, Chapter 1, Property Ownership

Throughout this course, questions will arise as to what exactly qualifies as real property. We will always refer back to this definition put forth by the Real Estate Commission of North Carolina.

Renting to people

One of the most popular ways to use a spare room or unused addition in real property is to offer it to a renter. There are many ways to go about renting space to people in your client’s home or property. The space available to rent and tolerance for renters will determine which avenues will work best for your client’s needs.

Long-Term Rental

One way to help your client’s mortgage bills is to rent a spare room to a long-term renter. Providing a steady stream of income with a relatively low overhead cost, renting spare rooms for six or twelve-month periods can be a very lucrative enterprise. www.spareroom.com and www.easyroommate.com are resources that help residential property owners find long-term renters.

“LAWS PROTECTING RESIDENTIAL TENANTS”

- Residential Rental Agreements Act
- Act Prohibiting Retaliatory Eviction
- Tenant Security Deposit Act
- Act Prohibiting Self-Help Eviction
- Act Prohibiting Discrimination Against Tenants
- Laws Allowing Early Termination of Lease.
- Laws Protecting Victims of Domestic Violence, Sexual Assault or Stalking

- Unfair and Deceptive Practices Act

NORTH CAROLINA REAL ESTATE MANUAL Chapter 16, Landlord and Tenant

Fair Housing Act

When renting residential property, it is important to keep in mind that any discrimination concerning to whom a landlord may rent is illegal. Passed in 1968, the Fair Housing act protects renters from discrimination from property owners and careful attention should be paid to ensure no unlawful action is taken. A summary of the housing act according to Wikipedia is:

“The *Fair Housing Act* (Title VIII of the *Civil Rights Act of 1968*) introduced meaningful federal enforcement mechanisms. It outlaws:

- Refusal to sell or rent a dwelling to any person because of race, color, disability, religion, sex, familial status, or national origin.
- Discrimination based on race, color, religion, sex, disability, familial status, or national origin in the terms, conditions or privileges of sale or rental of a dwelling.
- Advertising the sale or rental of a dwelling indicating preference, limitation, or discrimination based on race, color, religion, sex, handicap, familial status, disability or national origin.
- Coercing, threatening, intimidating, or interfering with a person's enjoyment or exercise of housing rights based on discriminatory reasons or retaliating against a person or organization that aids or encourages the exercise or enjoyment of fair housing rights.”

Exemptions to Fair Housing

“Federal law exempts an owner from compliance with fair housing laws in both the sale and lease of real property so long as the owner personally sells or leases the property without the assistance of any other person to whom the owner gives consideration and the owner does not publish his/her intent to discriminate in writing or orally. The federal exemption is further restricted to the sale of only one dwelling annually where the owner was not the most recent resident during any two-year period. North Carolina’s exemption is more restrictive and thus supersedes federal law regarding the sale of property. [The general rule is that the more restrictive law controls; thus state law may require more than the federal standard, but not less.] In North Carolina, an owner may never discriminate in the sale of his/her property, but may quietly discriminate when leasing a single family dwelling s/he owns so long as the owner or a member of his/her family occupies the dwelling. The same exemption applies to North Carolina owners who are leasing a one to four family dwelling in which either the owner or a member of the owner’s family occupies one of the units. Under federal law, the exemption does not extend to members of the owner’s family, but –4– only applies if the owner occupies one of the units. Because state law is more permissive than federal law, it would appear that owners would not be exempt from complying with federal law merely because a family member, rather than the owner, inhabits the property. Other limited exemptions apply under both federal and state law to non-commercial property owned by a

religious organization that gives preferential treatment to its members, so long as membership in the religion is not restricted based on a protected class, and to property owned by a private club that treats its members preferentially so long as the club is not open to the public and lodging is provided as an incident to the club's primary purpose. Lastly, North Carolina law also exempts the leasing of rooms in a single-sex dormitory only from compliance with the gender aspect of fair housing laws. While this is not an exemption under federal law, it is doubtful that this practice would be considered a violation of the federal act. Note that none of the exemptions discussed [here] apply if the owner employs a broker or pays another person to assist the owner in selling or leasing his/her property.”

For the complete act with all stipulations see <https://www.justice.gov/crt/fair-housing-act-2>

Renting an addition

Renting a converted suite, addition, bungalow, or guest house can be an excellent way to generate income from real property. Many individuals and single families have need of affordable housing without the cost and upkeep of a house and lawn. This option can be great for owners who want more privacy from their renters but still want to yield income from their home.

Renting to Students

Real property located near a university can be rented each year to college students. Although not all college age individuals would be suitable to rent a spare room in someone's home, many mature students as well as graduate school students are frequently in need of affordable housing close to campus. Because many students attend university on a budget and without a car, affordable accommodations and close walking or biking distance can be very desirable to students. If multiple rooms are available, each room can be rented separately. This can greatly increase the revenue stream.

Another way to rent to a student is to host a foreign exchange student. Traveling within a program that presupposes a level of maturity beyond that of many college age individuals, foreign exchange students can be an exceptional way to bring in revenue, learn about a new culture, and help further an individual's education. With a lower risk than other students, this enriching program can be a great alternative to renting to immature college students.

Renting to Urban Professionals

Renting property or a spare room is especially advantageous if your client lives close to city or business. Urban professionals do not want to take on the debt and responsibility of buying a house and are always looking for affordable housing solutions near their place of work. A demographic more mature than college-age individuals, urban professionals can be excellent clients for homeowners. If your client has multiple rooms to rent out, each room can be rented separately.

Short Term Rentals

Short term rentals are becoming increasingly popular. With the ease of travel and popularity of vacation, there is high demand for overnight and multiday rentals. Although the stream of income may not be as steady as long-term rentals, the value of per night hospitality comes at a premium. A Broker must be familiar with the potential rental market of an area and be able to advise their client on the advantages and disadvantages of renting short term verses long term.

Rules and Regulations for renting short term

The **North Carolina Vacation Rental Act** defines a vacation rental as:

The rental of residential property for vacation, leisure, or recreation purposes for fewer than 90 days by a person who has a place of permanent residence to which he or she intends to return.

“Residential property” includes condominiums, townhomes, single-family homes, cottages, apartments, or “... other property devoted to residential use or occupancy ... for a definite or indefinite period.”

The VRA applies to any *person, partnership, corporation, limited liability company, association, or other business entity acting as a landlord or real estate broker engaged in the rental or management of “vacation rental property.”* It provides detailed and clear guidelines for any owner or agent leasing vacation property. Understand that owners must comply with the VRA regardless of whether they hire a broker.

Vacation Rental Addendum (Standard Form 2A13-T)

NORTH CAROLINA REAL ESTATE MANUAL Chapter 16, Landlord and Tenant

A Broker will also need to be familiar with the **Vacation Rental Addendum** (Standard Form 2A13-T)

Vacation Rentals

Having residential property in a popular vacation spot can provide a Broker’s clients many opportunities. Renting out space in a client’s home to vacationers can be a great way to make money during the tourist season. Beach homes in the summer and ski resort property in the winter are just two examples of the seasonal influx of people that a popular location can provide. Vacationers and families who are already paying for travel and expenses often look at residential housing options while in town.

www.eventhomes.com

www.vrbo.com

Renting for Events

Owning residential property near a popular venue can be valuable if well utilized. Whether near a sports colosseum, arena, music pavilion, or a local area that hosts fairs, shows, or other gatherings, short term rentals can be rented at a premium during a live event. High demand during events brings in revenue for property owners who don't want renters year-round. This is a great alternative capitalizing on high demand for property owners who don't want the operating cost and effort of renting space many times a year. One website taking advantage of the high demand is www.eventhomes.com that lists homes for property owners who live in proximity to major events nationwide.

Airbnb

With a meteoric rise in popularity, Airbnb is an excellent way to rent rooms in residential property and accumulate revenue. Proximity to a city or popular area brings tourists and business individuals to new areas every day. Renting spare rooms through Airbnb can be an excellent resource for homeowners who don't want the intimacy of living with a renter long-term and who want the ease of acquiring new customers through a listing service. www.airbnb.com

Bed and Breakfast

Some hospitality minded homeowners convert their residential property into miniature resorts. Offering the comforts of a household and the amenities of a hotel, owning and operating a B&B can be a lucrative way turn a residence into a thriving business. Usually perched on a beautiful piece of land or near an attraction, many vacationers opt in for a more private setting than a hotel. www.bedandbreakfast.com

Discussion: Do you think it could be beneficial for a residential property owner who wants to start renting space to long-term renters to try short-term renters first?

Renting Space and Land

For Brokers who have clients with available space to rent but who don't want other people living in their residence, renting space and land can be an alternative way to generate revenue.

Renting Garage Space

Many enthusiasts have cars, boats, motorcycles, RVs, ATVs, and other vehicles that they don't have room for in their own garage or driveway. Leasing space to individuals can be a low risk, low overhead way to make money from unused space in your residential property. Homes with multiple cars are not uncommon today. Garage and driveway space is limited, and it can be very convenient to park extra vehicles close to home in a neighbor's garage rather than in a commercial garage. Housing valuables, office documents, furniture, and other belongings at an affordable rate is attracting many people. To meet demand, a few companies have emerged to connect property owners with those in need of space.

www.spacer.com

Note that it is always prudent for a Broker to mention that a client uses a contract that disallows anything that clients don't want stored on your property, including firearms, combustibles, etc.

Renting Attic and Basement Space

For clients who have attic, closet, or basement space that isn't being used in their real property, renting that space out will bring income each month with minimal risk and overhead. This is a great option for those with rental homes where renters aren't utilizing the space. Students, for example, typically do not bring a lot with them and the attic and basement sit empty. Renting space is growing in popularity and www.spacer.com is one of the companies that are linking residential property owners to people looking for alternatives to commercial storage.

Parking Space

Allowing individuals to park at a residence can be a great way to bring in money to your clients without much cost, effort, risk, or overhead. Proximity to a business or city center can be a great way for a professional to park without paying a premium for a parking garage or street space. Houses near a university provide students with an alternative to the cost and chaos of parking on campus. During sports events, concerts, live entertainment, and local performances, charging for parking brings in good revenue. Popularity of the event drives demand and finding parking can be a real challenge. www.justpark.com is a great resource for individuals interested in exploring this opportunity.

RV Parking

Many people live on the road or vacation in their RV. Finding parking is not always a simple task for them and parking on residential property is very popular because it is often more convenient and offers more privacy than parking at a public campsite. A Broker can advise renting space on a client's land to RV parking which can bring in income without overhead cost or much maintenance. One website that helps homeowners list their land for RV parking is www.boondockerswelcome.com

Campsite Rental

Another great way for clients to rent land is for campers, hikers, local clubs, scouts, and outdoor enthusiasts to rent campsites. Clients that have tracts of land near public hiking trails, national parks, or music venues can offer campsites or hostels that can bring in steady revenue during a busy season. www.hipcamp.com offers property owners a place to list their residential land for overnight campers.

Hunting Leases

An alternative way for your clients to use large tracts of land is to allow hunters, fishermen, and outfitters to purchase the exclusive rights to hunt and fish on that property. Many hunters and fishermen are looking for private land with quality game and fish. One website for listing hunting leases is www.basecampleasing.com

Timber Forest

Another way for your clients to use large tracts of land is to plant timber. Although the investment is more long term, there is minimal maintenance and can yield a significant return on investment. Planting trees for use in lumber or pulp is not only beneficial to the property owner but also cuts down on deforestation by the logging industry and contributes to the health of the planet. The **Realtors Land Institute** website provides valuable information for how a home owner can invest in timber forests on their property.

www.rliland.com

A Broker with a client interested in converting a portion of their land into a timber forest should be familiar with a *Timber Deed*.

Timber Deed

“A timber deed conveys an interest in all standing timber on a specified tract of land and is subject to the usual rules applicable to all deeds, i.e., the six essential elements.”

NORTH CAROLINA REAL ESTATE MANUAL Chapter 5, Transfer of Title to Real Property

Natural Resources

By definition, Real Property includes “minerals and water beneath the surface of the soil”
NORTH CAROLINA REAL ESTATE MANUAL, Chapter 1, Property Ownership

Because of this, it can be very lucrative for your clients to lease out land that sits upon natural resources. Note that there will be environmental considerations to any endeavor that extracts minerals from the soil. A Broker with a client interested in converting a portion of their land for the extraction of minerals should be familiar with a *Mineral Deed*.

“Title to real property traditionally includes title to the surface, certain rights to useable space above the surface, and rights to the subsurface, including mineral rights. When these subsurface mineral rights are severed from surface ownership, a mineral deed is often used. General mineral rights or the right to exploit and remove specified minerals or substances may be conveyed by deed without conveying the surface land itself.”

NORTH CAROLINA REAL ESTATE MANUAL Chapter 5, Transfer of Title to Real Property

Renting Land to Community Gardens

Many people enjoy gardening flowers and vegetables, but don't have access to a yard or have run out of room in their own garden. Either way, websites like www.yardyum.com allow your clients to list plots of land in their backyard to local gardeners. This is a great way to generate revenue with a side benefit of fresh food, the property being landscaped, and a service to the community.

Growing for Farmers Markets

Setting up a garden or greenhouse in residential property can be beneficial for your clients in many ways. Growing food will be healthy and reduce grocery cost, planting vegetation helps the environment, and a surplus of food can be brought to local farmers markets and sold. National recalls of produce and increasing awareness of the importance of local food drives the popularity of farmers markets. The increased demand for local for produce is allowing many residents to convert their land into growing plots and providing them with food and revenue.

Brokers advising their clients in this endeavor should understand the concept of *Fruits of the Soil*.

Fruits of the Soil

“Plants may be classified as either real or personal property. Often called “fruits of the soil,” property law classifies plants as either “fructus naturales” or “fructus industriales.”

Fructus naturales are uncultivated plants, crops, and perennial plantings, such as trees, grasses, and bushes. So long as fructus naturales remain planted, they transfer with the land as part of the real property. Only when fructus naturales are severed from the land do they become personal property.

Fructus industriales, or “fruits of industry,” are products or benefits produced by the labor or industry of a person, rather than nature. Also known as **emblems**, *cultivated* crops and vegetable products are examples of fructus industriales and are generally considered personal property.^[5] A broker representing a seller or purchaser of a farm with growing crops should clarify the legal status of crops that will not be harvested prior to closing.”

NORTH CAROLINA REAL ESTATE MANUAL Chapter 7, Land Use Regulation

Discussion: How can you determine what types of space and land rental best fit your clients’ needs?

Converting Real Property into a Business

One of the most lucrative ways to generate income for your clients is to start a business. This can include renting space in a house or land to other businesses, launching a startup service in the residence, or adding a home office. This can be an excellent resource for your clients who do not want to rent living space but who still want to creatively take advantage of their residence. Depending on the skill set of the owner and the setting of the property, a home business can be a worthwhile enterprise.

Hosting Events

Many industries look to residential property owners for event hosting. Everything from weddings, and lawn parties to corporate retreats can be hosted by your clients. Renting out public facilities for an event is often costly; more affordable options in a more intimate setting are often appealing to many groups. This can be a great way for a hospitable client to use their residential property to make money without having overnight guests

Home Sharing Clubs

Hosting local events like book clubs, church groups, gaming clubs, or other special interest groups is often a great way for your clients to make money while providing a service to the community. Many clubs and groups prefer to meet in a residential setting to avoid the cost and atmosphere of public facilities. Clients who have a great space and a hosting mindset are benefitting from accommodating local groups in their residence. Airbnb has launched www.airbnbcitizen.com which lists residential property for homeowners who want to host local clubs and groups.

Pet Boarding and Sitting

Becoming wildly popular in the past decade, overnight pet care and pet daycare provides pet friendly property owners with substantial revenue. Hosting pets overnight can be an excellent way for your clients to generate revenue, especially during vacation season. Residential pet daycare is a great option for people who work long hours and don't want their pet neglected. One reason many pet owners are looking for residential care instead of a public kennel or facility is the care and attention their pet receives in a smaller residential setting. Often becoming a pet's home away from home, pet sitting can be a great option for clients who don't have the ability to care long term for pets.

www.rover.com

Renting Pool Time

One of the newest trends is to rent time at a residential pool. With less chaos and more privacy than a public pool, clients that own a pool can make revenue by renting their pool to private parties. If your clients have a pool, one of the best ways to make money in the summer is to list it on a website like www.swimply.com

Converting a Nursery or Preschool

Turning a residential property into a nursery or preschool can be a great business for your clients. Many residential properties with a great location and the right layout are converted into nurseries and preschools. With the increase in population, space in a quality preschool and daycare has become competitive. Because of the demand, owning and operating a nursery or preschool from a converted residence can be very lucrative. www.startapreschool.com gives a template for such a conversion. Any broker with a client who is planning on undertaking this conversion should fully understand the policies of convicted sex offenders living in proximity.

Convicted Sex Offender Occupying, Having Occupied, or Residing Near a Property.

“The same North Carolina statutes that address whether the death or serious illness of a previous occupant is a material fact contains a similar provision relating to convicted sex offenders. The statutes state that when offering property for sale, rent, or lease “... it shall not be deemed a material fact ... that a person convicted of any crime for which registration is required by Article 27A of Chapter 14 of the General Statutes [statutes establishing North Carolina’s registration programs for sex offenders and sexually violent predators] occupies, occupied, or resides near the property; provided, however, that no seller [or landlord or lessor] may knowingly make a false statement regarding such fact.” Since the statute states that this information is not a material fact, brokers are *not required* to volunteer to a prospective buyer or tenant information that a registered sex offender occupies, has occupied, or resides near a property being offered for sale or rent. If asked about sex offenders in a neighborhood, brokers may either decline to answer or answer truthfully to the best of their knowledge. Brokers may also provide a prospective buyer or tenant with information on how to access the county sheriff’s registry or the statewide registry at <http://sbi.jus.state.nc.us/sor>.”

NORTH CAROLINA REAL ESTATE MANUAL Chapter 8, Relationships In Brokerage Practices

Renting to a Business

Many businesses rely on residential property to house their operation. Commercial space is expensive, has limited locations, and does not always provide the atmosphere that a small business desires. Professionals from many industries choose to set up shop in a residential home and often make excellent renters. This can be a lucrative option for your clients who want to rent space long-term but who don’t want roommates. A thriving business renting out of your client’s property can be a steady stream of income.

Renting out a Studio

Many artists, photographers, and film producers are looking for residential settings for their projects. Renting a room or garage space as a studio to a local artist can be a great way for your clients to make money without having a permanent guest. Photographers often operate out of a residence and can be a steady source of revenue. Film producers look for background settings for upcoming commercials, shows, and movies. This creative use of residential property can be a great option for clients with a photogenic residence.

Convert Space into a Home Office

Taking advantage of unused space in their residence does not require renting space to people or hosting anything for your clients. For a great use of space that can increase productivity of a client's business, allocate a portion of your residence for a home office. This can be a great option for business professionals with a family who like to work from home. A home office can frequently qualify for tax benefits. This is a nice way to utilize space in your client's residence and doesn't require the effort of renting space or hosting events.

Selling Power to the Grid

One way for your clients to passively generate revenue from their residential property is to install solar panels. Covering the electrical needs of your clients with power to spare can be easily accomplished in a sunny area. The excess power can then be sold back to the power company. This is liberating for clients with concerns about reliance on the power companies. Many companies provide estimates for residential owners that include output projections and profitability.

Section 1 Discussion

1. What other ways can unused space in residential property be utilized?
2. What factors can help you determine if your client's property can be converted into something else?
3. Which conversions do you think are the most profitable? Least profitable?
4. What type of conversion would be best for a retiree? A young, first-time home buyer?

5. Why are conversions becoming so popular?

Case Study: A client wants to renovate a pool house and convert it into something else. She lives close to a major city and has a great location for commuting. What conversions should she consider?

Case Study: A client is looking for a home to purchase and is hoping to utilize the residence to compensate for a lower income. He wants to purchase a larger house that fits his domestic needs so that he can convert a large portion of the space to offset a large mortgage cost. What types of conversions should he consider? What types of conversions should he avoid?

Case Study: Clients with four children and a dog want to utilize spare rooms as their children leave for college. They do not want to rent to people, but as their children leave, attic, basement and garage space will be available. What conversions could their household benefit from.

Section 2

Converting Something Else into Real Property

Modern architectural design has evolved to include a variety of converted and self-built homes that qualify as real property. Many homebuyers are looking for an alternative to the cookie-cutter suburban lifestyle; conversions of buildings or structures into real property provide that unique, one of a kind home. The purpose of this section is to provide Brokers with examples of new techniques in the construction of real property and instruct Brokers on how to satisfy the needs of a client looking for alternative housing. Converting something else into real property falls into three broad categories: Converting a business, converting a structure, and starting from scratch. Proximity to city-centers can motivate the conversion of buildings and structures into homes. Converting something into a residence is the perfect option for buyers looking in a specific area but cannot find or afford housing in that area. By the end of this section, students will be able to understand the conversion trends that are occurring all over state, help guide their clients through the different possibilities in converting something into residential property, and have a vast knowledge of the variety of real property that is being converted today.

Rules and Regulations for Converting Something else into Real Property

Building Codes

“The General Assembly created a State Building Code Council empowered to adopt a North Carolina State Building Code in accordance with statutory guidelines. State laws detail statewide building codes that specify various requirements regarding the construction of buildings to promote safety, such as requirements relating to fireproof construction, boiler construction and maintenance, electrical installations, mechanical devices, heating, plumbing, sanitation, drainage, sewers, ventilation, means of exit, illumination of exits, size and location of rooms, and many other matters.

These building codes not only dictate minimum standards for new construction but also apply to owners or purchasers of older structures who intend to renovate or remodel; the remodeling or renovations must meet the current building code standards.”

NORTH CAROLINA REAL ESTATE MANUAL Chapter 7, Land Use Regulation

Common Covenant Declarations:

- Modern planned community covenants deal with myriad topics, including covenants that:
- establish the property owners association and define its authority.
- address the voting rights of each property owner.
- define common expenses and annual and special assessments.
- specify the architecture and minimum requirements of structures. (Often, covenants will require approval of construction plans by an architectural review committee.)
- restrict the uses that can be made of property. (The most common restriction is the single-family residential restriction, although planned communities can and often do have mixed uses in different areas.)
- specify the consequences of property owners violating covenants.
- make the entire set of covenants binding on successors and assigns of the original lot owner (covenantee).
- state the period of time during which the covenants will be in effect (for example, 25 years) with a provision for renewal by a vote of a specified percentage of the property owners.
- establish standards for maintenance of homes, units, and lots by each owner.

NORTH CAROLINA REAL ESTATE MANUAL Chapter 7, Land Use Regulation

The Broker's Duty to Disclose

“A real estate broker does have certain duties under License Law to disclose zoning ordinances or covenants restricting the use of property to consumers.

When a real estate broker working with a consumer is aware, or reasonably should be aware, that a property is subject to zoning and/or covenants, the broker should advise the consumer that:

- a) the property may be subject to ordinances or covenants that could affect the consumer's use and enjoyment of the property;
- b) property owners in the subdivision may be subject to owners' association dues and assessments; and
- c) the consumer should obtain a copy of any covenants and any owners' association governing documents and should carefully review those documents prior to signing any offer to purchase or lease.

Any time a broker working with a consumer becomes aware that the consumer's intended or desired use of a property may be a potential problem under either the zoning ordinances or covenants governing the property, the broker must disclose the possible conflict or limitation to the consumer and recommend that the consumer investigate. This duty under License Law arises when a consumer expresses a concern over a land use issue, if not earlier.

A broker who either willfully or negligently makes an incorrect statement about permitted land uses under zoning ordinances or covenants violates the License Law by misrepresenting a material fact.”

NORTH CAROLINA REAL ESTATE MANUAL Chapter 7, Land Use Regulation

Urban and Regional Planning

“To assure the orderly and systematic development of land use, urban and regional land use plans exist. Zoning is one major tool to assist the planner. A broker interested in long-range planning and extensive information regarding land use in his/her area will want to become familiar with the local land use plan.”

NORTH CAROLINA REAL ESTATE MANUAL Chapter 7, Land Use Regulation

Development Standards

“Comprehensive lot and building standards regulate land development in each zoning district. Categories of standards include maximum density per acre; minimum lot width and frontage; minimum front, side, rear, and corner setbacks; maximum building height; and maximum impervious coverage of lots. All developments must comply with minimum lot and building

standards, although special standards may apply to some, including cluster and open space residential developments.”

NORTH CAROLINA REAL ESTATE MANUAL Chapter 7, Land Use Regulation

Subdivision Approval

“A **subdivision** is defined by General Statute 153A-335 as “*all divisions of a tract or parcel of land into two or more lots, building sites, or other divisions ... for the purpose of sale or building development (whether immediate or future) and includes all division of land involving the dedication of a new street or a change in existing streets.*”

Every subdivision of land affects the environment and thus the health, safety, and welfare of both future subdivision residents and members of the general public. *State law authorizes counties and municipalities to regulate the subdivision of lands within their borders.* Almost every area of the state is therefore subject to either county or municipal subdivision regulations.

Subject to some exceptions, property owners who convey part of their land to another may be subject to subdivision regulations and must have at least preliminary approval of the subdivision by the county or municipality *before* selling lots. Brokers must understand that merely having a survey of the new lots prepared by a surveyor or engineer does *not* mean the subdivision has been officially *approved* by the proper government authorities.”

NORTH CAROLINA REAL ESTATE MANUAL Chapter 7, Land Use Regulation

Brokers Should Verify Subdivision Approval

“Before a real estate broker accepts a listing for a subdivided lot or lots, the broker should request to see, and preferably have, a copy of the final approved and recorded subdivision plat. If there is no final recorded plat, the broker should meet with the seller and the seller’s attorney to assure that offering the property for sale or lease can be accomplished in accordance with applicable law. The lack of proper subdivision approval can lead to serious consequences for buyers, the seller-developer, and any real estate broker involved in the sale of lots in an unapproved subdivision. Problems often come to a head when the lot buyer tries to obtain a building permit or a permit to place a septic system on the property.”

NORTH CAROLINA REAL ESTATE MANUAL Chapter 7, Land Use Regulation

Converting Commercial Buildings into Residential Property

One of the most popular alternatives to a traditional house is to convert a business or commercial building into residential property. With the advent of outsourcing and the centralization of industry, many old industrial buildings sit vacant and are being converted into homes. Converting a building into a home is often a great starting place for many buyers and clients because the

structural integrity, wiring, and plumbing are all in-tact or only need modern touches. Many antique and industrial features that are popular with builders today come original in converted warehouses and buildings.

Mills

In many cities, old mills are being converted into apartments, condos and single-family homes. With a unique industrial atmosphere, mills are frequently located near a city center. Depending on the region the buyer lives in, textile mills, cotton mills, gristmills, flour mills, and sawmills are all options with great bones ready for residential conversion. Many architectural elements are taken from mills and used in modern homes. Converting a mill allows the owner to use those accents in their original setting, creating a truly industrial aesthetic. A client looking to create an apartment complex could get a head start with converting a mill.

Churches

Throughout the country, many churches that do not have the funds or congregational populous to maintain their property are abandoned. This has provided many people an opportunity to convert the church into residential property. The building is already wired and plumbed, and the main conversion is in the interior, setting up walls, designating spaces in a functional and aesthetic floorplan, and replacing architectural accents that are characteristic of a church with more homey touches. Boasting vaulted ceilings and a large plot of land, many churches are drawing the attention of buyers interested in conversions.

Restaurant

With the success rate of restaurants significantly lower than that of other businesses, many buildings sit abandoned in desirable locations that are prime candidates for conversion into residential property. Converting the interior of a restaurant promises a great kitchen and a unique character.

Schools

Bussing, rezoning, and relocation put financial strain on many schools that are forced to close and are a great find for a buyer looking to convert a larger space into residential property. Large schools make great conversions into apartments or condos while small schools provide a great space for single family homes. Many schools are built sturdily with the wear and tear of students in mind. Hardwood floors, solid walls, large windows, and open hallways are great features that a client can keep when converting an old school into a home or apartments.

Lighthouse

Besides the obvious advantages of living by the ocean, coastal living also provides a unique opportunity for some home buyers that want a picturesque setting in a home with character. Perhaps the most elusive opportunity for residential conversion, turning a lighthouse into a residence, can be a great investment as a vacation rental or for the intrepid homebuyer who wants to live privately on the beach. Lighthouse homes can also be used for vacation rentals that come at a premium, generating a quick return on investment.

Government Buildings

There are many government properties that are no longer in use but that are listed for sale. Old fire stations and police stations are great candidates for a residential conversion. With unique features like a loft and fireman's pole, old fire houses and police stations have an industrial charm and are strategically located around cities, ensuring a great location for a residence.

Another avenue available is acquiring government facilities like war-time bunkers, warehouses, and compounds. These properties are usually sold at auction and are in remote locations, but a new mindset of sustainability and preparation for disaster has given rise to the popularity of turning these facilities into residential property

Converting a Structure into a Home

Starting a building project from scratch can be a daunting task, so many clients are looking for a head start by converting an existing structure into a residential property. Converting a structure often requires more construction than starting with a building but allows for a more creative design and desirable locations. Saving time, effort, and cost, converting a structure can be a great option for a craftsman or home buyer looking for a custom home on a budget.

Storage Container

One of the most popular base structures to begin with is a storage container. Providing great structural integrity and an industrial vibe from corrugated steel, containers can be stacked and arranged in a wide range of possibilities. Built to withstand the elements, Storage containers

provide a great base for walls, floors, and ceilings. Because of the versatility of design, container homes are being built in a variety of locations. Many units stacked together create a small community.

Barn and Stable

Offering rustic charm built with a sturdy frame, converting a barn or stable into a home has become very popular. Usually seated on a large tract of land, converting a barn or stable into a residence can be a great option for buyers that want to live away from the city. Many farms have barns that can be converted into a guest home or a rustic vacation rental. Getting a head start on construction by converting a barn or stable into a residence is a creative way to get a farmhouse atmosphere affordably.

Silo

Another way to achieve a unique farmhouse style is to convert a silo into a home. Spacious with a unique floor plan, many silos have been converted into residential property. Metal walls able to withstand foul weather make a great skeleton around which a lovely home can be built.

Sheds and Garages

Industrial sheds and garages are frequently converted into residential property. Often being turned into a guest house or a rental suite, sheds and garages already come with a foundation, four walls, and a roof. Converting garages and sheds offer a more traditional look and are found in urban and suburban areas.

Converting From a Title to a Deed

Many conversions started as an entity on wheels, like a tiny home, a trailer, a school bus, etc. By definition, to be considered real property, the structure must be “things that have been affixed to the soil (such as houses, buildings, barns, or fences) with the legal intent of becoming a permanent addition or improvement on the land.”

NORTH CAROLINA REAL ESTATE MANUAL, Chapter 1, Property Ownership

Because of this, it is imperative to permanently affix any converted structure to the land. Further, many of these structures originally came with a title of sale, not a deed. Once the structure is permanently affixed to the ground, one can turn in the title and apply for a deed, thus making the structure real property. A broker should be aware of the status of the conversion, whether it has a deed, and is indeed real property.

Seller's Deed

“It is important that the listing agent obtain a copy of the seller’s deed and verify the seller’s legal interest. The deed also will indicate all the owners (as “Grantees” in the deed), thus the deed identifies who must sign the listing contract (and subsequently the sales contract). In addition, the deed usually will provide either a metes and bounds legal description or a description by reference to a recorded plat. If, however, the deed merely describes the property by reference to a description in another recorded deed, the listing agent should ask the seller to provide a copy of the referenced deed containing the more complete description. A complete legal description will be needed not only to assist the agent in verifying the lot acreage (metes and bounds descriptions almost always indicate the acreage) claimed by the seller but also to have the description available when it comes time for the listing agent or another selling agent to prepare an offer to purchase.”

NORTH CAROLINA REAL ESTATE MANUAL Chapter 9, Agency Contracts And Brokerage Practices

School Bus

Busses all over the country are being replaced by newer models and better engines leaving a great shell that can be converted into residential property. Although it was built to be mobile, if the bus is permanently attached to the ground, it can be considered residential property. Because busses are readily available, it has become trendy to convert them into a guest room or a full residence.

Tiny Homes

A trend that is catching on nationwide is downsizing. Tiny houses provide a perfect option for buyers who can't afford a large mortgage or who want to declutter their lives. With less maintenance and upkeep than a large home, tiny house communities are becoming increasingly popular. One major advantage is the footprint of a tiny home. They can reside on parcels of land that more traditional houses cannot. This gives options to tiny home owners to plant roots in great locations that are otherwise inaccessible.

RVs and Campers

Instead of constantly repairing the moving parts on a mobile home and dealing with the stress of life on the road, many RV owners are converting their structure into a tiny home. By permanently parking it in a location and building a deck or porch around it, many people across the nation are finding comfortable living in a smaller space. These smaller accommodations also make great short-term rentals.

Starting from Scratch

Starting from scratch allows home buyers to realize their dream home or create affordable residential property that fits their needs. Often located in areas that are inaccessible to heavy construction equipment or in the heart of a city-center, starting from scratch can be a great option for a handy client who wants to convert his land into a residence.

OSHA

It is important to keep in mind that any construction must fully comply with OSHA regulations. They provide courses on general safety, construction safety, electrical, cranes, fire, hazardous materials, lead, radiation, scaffolding, welding, and many other safety classes. For a complete list of their standards, refer to www.osha.com

Kit Homes

Many companies sell homes that are prefabricated and come in a kit that can be put together without a major construction crew. This option saves time and effort for clients and can be a major shortcut for buyers who want to start from scratch on their land but who want to leave the construction and fabrication to a professional company. Kit homes can be erected in a shorter amount of time than homes that are not prefabricated and there is much comfort in knowing that all the materials and measurements will be precise and accurate.

Log Cabin

The most common residential property built from scratch is the log cabin. Withstanding the test of time, the log cabin has been utilized for centuries, providing a residence for a variety of families and homesteaders. Easily constructed from natural materials, log cabins are a great option for buyers looking to create their home in a dream location. A range of options are available, from buying kits that are prefabricated to felling the trees oneself. Log cabins come in many styles and a range of building techniques.

Yurt

Gaining traction among younger clients, a yurt is the traditional home of indigenous nomads of the Eurasian steppes and is a great option for new home buyers who don't want to worry about construction. Although traditionally portable, many buyers are opting to erect a yurt on a

foundation. A yurt is a round lattice-wood structure wrapped in tough canvas. The yurt's ability to be erected without a construction team can be attractive to many clients.

Cave Homes

One of the more unique homes are those built into the sides of mountains or cliffs, incorporating a cave system into the residence. Popular in rocky regions, a cave home offers incomparable insulation from the elements and reduces heating and cooling cost dramatically. Underground dwellings hold a constant temperature year-round and are virtually immune to erosion and flooding.

Communities in the American Southwest are excavating sandstone caves from the soft rock. With a combination of blasting and digging, sandstone can quickly be tunneled to create cavities ready for conversion into residential property. A group of Mormons is pioneering this idea making their home underneath massive sandstone rock.

Earthen Homes

A new type of construction that is virtually indestructible and can be built without a construction crew is an earthen home. Made by stacking thousands of individual bags of rock or dirt interlocked or tied together, earth bag homes can take on any shape or floorplan that a client can imagine. This can be a great option for clients who already own land but want an alternative to an expensive construction crew.

How to assess the total living area of a property conversion:

“The broker should *not* rely on sources of square footage information that are by their very nature unreliable. For example, a broker should *not* rely on square footage information provided by the property owner, blueprints used to build the property, or property tax records. An agent also should *not* rely on square footage information included in a listing, appraisal report or survey prepared in connection with an *earlier* transaction.

“**Living area**” refers to the portion of a dwelling that is intended for human occupancy and which is:

- (1) **heated** by a permanently installed heating system(s) sufficient to make the space suitable for year-round occupancy;
- (2) **finished**, with walls, floors and ceilings of materials generally accepted for interior construction and with a ceiling height of at least seven feet (except under beams, ducts, etc. where the height must be at least six feet four inches); and

(3) *directly accessible from other “living area”* (through a door or by a heated hallway or stairway).

Under the *Guidelines*, “living area” generally includes all the heated and finished rooms and parts of the dwelling used for general living, such as living room, den, kitchen, dining room, study, bedrooms, bathrooms, pantry, foyer, utility (“mud”) room, and hallways. Features that are not part of the heated living area (e.g. sun rooms directly accessible from living areas but having no heat source, bonus rooms over garages which are heated and finished but not directly accessible from other living areas, etc.) should *not* be included in the total square footage reported for the dwelling, but instead should be reported separately. *As a general rule, the amount of living area and other area in dwellings should be based on exterior measurements.”*

NORTH CAROLINA REAL ESTATE MANUAL Chapter 9, Agency Contracts And Brokerage Practices

Section 2 Discussion

1. What factors affect a client’s ability to undertake the conversion of an existing structure or building?
2. How can you help a client who wants to find a unique residence close to the city?
3. What are the most important things to consider when a client wants to start a residential property from scratch?
4. What other buildings and facilities have you seen converted into residential property?

Case Study: A client has been commuting to his work from outside the city for years now and wants to find a place located much closer to his work downtown. He does not want to live in an apartment because he is looking to start a family soon. Your client is handy and would like to start a project during his off-time. What kind of places could your client look for downtown to convert into residential property?

Case Study: A client wants to purchase a piece of land just outside the city to build her dream home from scratch. What factors are going to affect the type of project your client should undertake?

Section 3

Conversion Complications

There are many things to keep in mind when considering a property conversion. Knowing from the outset what resources your client's property contains and what their financial limitations are will help ensure that the conversion is successful. A property owner has many options when converting their residence into a revenue stream or converting a building into a residential property and each conversion comes with a unique set of challenges. This section will explore some of the complications that arise when attempting a real property conversion and will provide brokers with insight to help their clients on how to negotiate the difficulties they might run into. By the end of this section, students will be fully acquainted with the risks and difficulties that come with property conversions. Students will be well equipped to advise their clients with any concerns during the conversion process.

General Concerns

Although there are numerous benefits to converting real property into something else or vice versa, there are many complications to consider. Your client's needs, financial resources, goals, and ability to maintain their undertaking are just the beginning of the concerns associated with property conversions. Consideration must also be given to zoning laws, HOA regulations, insurance, liability, damages, impact on surrounding area, and return on investment.

Homeowners Association Bylaws, Rules and Regulations, Dues and Assessment Information.

“Many residential subdivisions, including virtually all newer subdivisions also have homeowners associations that are established by the developer's declaration of restrictive covenants, and these associations typically have bylaws and rules as well as regular monthly homeowners' dues and sometimes pending assessments. It is a good practice to have all this information available for reference by the listing agent and to provide to prospective buyers, at least those who are considering making an offer. MLS data sheets typically ask about homeowners' dues and assessments, but homeowners' dues and unpaid assessments are clearly material facts that should be disclosed to prospective buyers in any event.”

NORTH CAROLINA REAL ESTATE MANUAL Chapter 9, Agency Contracts And Brokerage Practices

Describing Real Property in Contracts

Urban/Subdivision Real Estate

“If the property which is the subject of the listing contract is located in an urban area or a residential subdivision, the street address will **usually** be legally sufficient, but is not recommended. A listing broker should routinely include the legal description of the property in the listing contract.

Rural Real Estate

If rural property is the subject of the listing, the description must be adequate to locate the property either from the description alone or from the description plus other documents clearly identified in the description. At times, it may be sufficient to use an informal description. Again, a listing broker should routinely include the legal description of the property in the listing contract.”

NORTH CAROLINA REAL ESTATE MANUAL Chapter 9, Agency Contracts And Brokerage Practices

Your Client's Goals

A great first step is to assess what exactly your client has available to convert and what the goal of the conversion will be. Having a clear goal before the beginning of a conversion with realistic benchmarks during the process will ensure that your client knows what he is getting into before he breaks ground and will give an estimated time of completion. Once a goal has been established, your client can weigh his options and decide if he is ready for the responsibilities of the conversion. A clear goal also allows your client to estimate the cost of the conversion and the revenue that can be generated by the conversion.

Prepare a Comparative Market Analysis (CMA) for the Seller

“A listing agent has an affirmative duty to provide his or her seller-client with competent advice as to an appropriate listing price for the seller's property, based on the broker's knowledge of the seller's property, the local real estate market for such properties and other relevant factors. To fulfill this duty, **a listing agent must formulate a reliable estimate of the approximate or probable selling price of the seller's property.** A real estate broker will need to perform a **comparative market analysis (CMA)** to formulate a reliable estimate of a property's probable selling price.”

NORTH CAROLINA REAL ESTATE MANUAL Chapter 9, Agency Contracts And Brokerage Practices

Return on Investment

Once a goal has been established, your client is able to make a cost benefit analysis of the conversion and decide if the return on investment is going to be worth the time and effort. Depending on the availability of time and the nature of the conversion, alternative revenue streams can be either very lucrative or financially destructive. Calculating the return on investment is a crucial step in assessing the property conversion.

Calculating Net Profit to the Seller

“Prior to setting a listing price or accepting an offer, sellers may want to know what their “profit” or “gain” will be upon the sale of the property. *The broker should be able to calculate the “profit” the seller may realize on a given sale.* To calculate **gross profit**, simply deduct the seller's “cost” (price seller paid for the property) from the proposed sale price.

Net profit is calculated similarly, except that the seller's closing expenses on both the previous purchase and the proposed sale are taken into consideration. Net profit is calculated as follows:

1. 1. Deduct the seller's estimated closing expenses (including the brokerage fee) from the proposed sale price to determine the *adjusted sale price*.
2. 2. Add to the seller's cost (purchase price) of the property the closing expenses paid by the seller when he purchased the property to determine the *adjusted cost*.
3. 3. Deduct the adjusted cost (2) from the adjusted sale price (1) to determine the *net profit*.

NORTH CAROLINA REAL ESTATE MANUAL Chapter 9, Agency Contracts And Brokerage Practices

Zoning and HOA

Once a client has set a goal and calculated the return on investment and is prepared to proceed with the property conversion, it is necessary to check the local zoning codes to make sure he will not be in violation of any laws. There are many questions in converting property depending on the project. If renting land or converting residential property, one must determine if the HOA allows for the intended uses. If converting a business into a livable space, considerations of bringing everything up to code, and the zoning laws of that area are going to determine if the project is feasible. Many times, property conversions in a new area are the first of their kind and the zoning laws are not prepared for new trends and have not seen such an idea before. Do not be afraid to ask the local government about the zoning laws and to apply for permits. Just because a property has not been converted in that area in the past does not mean that it is impossible for the intrepid Broker and entrepreneur.

“Zoning consists of dividing land into districts or zones and specifying permitted and prohibited land uses in each zone. The original zoning ordinances were relatively simple, dividing a municipality into only three zones—residential, commercial, and industrial. Modern zoning ordinances are much more sophisticated and complex, regulating not only uses but the placement and height of buildings on land through so-called “bulk” and “density” controls. Land development and use is now extensively regulated by government in myriad ways, and zoning and planning is in a continual state of revision and expansion, reflecting the complexity of an ever-changing society.”

NORTH CAROLINA REAL ESTATE MANUAL Chapter 7, Land Use Regulation

Tax Implications

Once zoning regulations have been considered, Brokers and clients must contemplate the tax implications of their conversion. If a business is converted into a home, it may fall into a new tax category. Similarly, if a client converts part of their home into a business, they may be able to

subsidize that portion of their home into a new tax category, often with great financial benefits. It is important to understand the tax implications and account for the future cost or future tax implications associated with the conversion. Always seek advice from a top professional when converting property regarding tax regulations.

Insurance

No matter the conversion, some form of insurance will be available to protect your client's investment. This is especially important when renting to other people but is equally necessary when converting a home into a business or vice versa. Insuring property from the beginning gives peace of mind to the client. Often insurance will be mandatory when converting real property but is also a good idea if renting land or space in your home.

“Advertising and Marketing a Property Conversion

- **Owner's consent required to display “for sale” or “for rent” signs.** This requirement is self-explanatory. Consent provisions are typically included in standard listing contract forms. Signs should be removed promptly after closing or upon the expiration of a listing agreement. [See Commission Rule 58A.0105(a)(2).]
- **Comply with laws/rules on sign placement.** State law prohibits placing any private signs on rights-of-way, medians or other state-owned property. Subdivision restrictive covenants may address the placement of for sale signs (including directional signs). Additionally, city and county ordinances commonly address the display of signs on streets and city or county owned property.
- **“Blind” advertisements are prohibited.** Commission Rule 58A.0105(b) requires that all advertisements for the sale, purchase, exchange, rent or lease of real estate by a licensee conspicuously indicate that it is the advertisement of a broker or brokerage firm and include the name of the broker or firm with which the individual broker is associated.
- **Truth-in-Lending Advertising Requirements.** The federal Truth-in-Lending laws and Regulation Z require certain disclosures in any advertisement for consumer credit placed by anyone, including real estate agents, if the ad contains certain “trigger terms.”
- **Fair Housing Advertising Restrictions.** Federal and state fair housing laws prohibit any advertisement that contains language or information that has a discriminatory effect on any of the fair housing protected classes. Licensees should be especially careful to avoid using words or phrases which have been determined to be discriminatory
- **Internet Advertising.** *All legal requirements and restrictions on advertising apply equally to Internet advertising.* Internet advertising of a broker's or firm's listings should be regularly updated to remove expired listings (just as should be done with other advertising, such as MLS listings). Additional points to remember: Internet advertising by a broker or

firm that shows or provides access to listings that are NOT the broker's or firm's listings should assure that the advertising does not convey the impression that such listings are the broker's or firm's listings. If the advertising does improperly convey the impression that the listings of others are the listings of the broker or firm responsible for the advertisement, this constitutes misrepresentation.”

NORTH CAROLINA REAL ESTATE MANUAL Chapter 9, Agency Contracts And Brokerage Practices

Damages

Accounting for a certain amount of damages when renting to people is prudent and should be considered during any property conversion. Your client must understand that with any investment there is going to be some destruction associated with renting to people. Understanding this cost and being prepared to fix damages from normal wear and tear is necessary to any client considering a property conversion. For example, if a client cannot live with their lawn being damaged by large tires, then renting land to RV's and Campers is not going to be a reasonable property conversion.

“The landlord may use the tenant security deposit to pay for repairing damage to the rented unit that occurred during the tenancy. *A landlord may **not**, however, keep any part of the security deposit for damages caused by “ordinary wear and tear” of the premises, nor can the landlord keep any amount from the deposit that exceeds the landlord’s actual damages.*”

NORTH CAROLINA REAL ESTATE MANUAL Chapter 16, Landlord And Tenant

Value of the Surrounding Area

Many property conversions will have an impact on the surrounding area. The impact that a property owner is going to cause must be carefully considered. Devaluing the surrounding area with a property conversion is going to have a negative impact and will incur backlash from community, HOA, and the city. One must assess what type of negative impact their property conversion is going to have on their neighborhood. On the other hand, many property conversions can have a beneficial impact on the surrounding land. Converting a rundown business into a lovely home could spark the surrounding area into redevelopment and greatly increase the value of the neighborhood. Frequently the investable areas are those where economic hardship has left the area devalued. Investing in an area where a property conversion will increase the value of the surrounding property could start a trend that will further increase your client's investment.

Lead Paint and Asbestos

When converting an older structure into residential property, one major concern is the presence of lead pain and asbestos. Both are highly toxic materials that need to be completely removed in a

safe manner. A broker must be aware of the rules and regulations regarding the presence of these two carcinogens.

Laws Regarding Lead Poisoning and Asbestos

“North Carolina law requires the State Commission for Health Services to adopt rules for the prevention and control of lead poisoning in children, including rules for the abatement of lead poisoning hazards in dwellings, schools, and day care facilities. Congress has also legislated in this area. The **Lead-Based Paint Poisoning Prevention Act**, passed in 1971, is aimed at eliminating the presence of lead-based paint in housing connected with HUD-assisted projects. (The mandatory lead-based paint disclosure requirements under federal law for pre-1978 housing are discussed in Chapter 8.)

In addition, North Carolina has enacted laws concerning the abatement of environmental hazards caused by **asbestos**, which is still present in many older buildings.”

NORTH CAROLINA REAL ESTATE MANUAL Chapter 7, Land Use Regulation

Brokers should be familiar with the **Lead-Based Paint Or Lead-Based Paint Hazard Addendum (Standard Form 2A9-T)**.

Concerns Converting Residential Property into Something Else

Renting Long Term

When considering the goals of your client who wants to convert her residential property into something else, many factors come into play. If the client wants to rent to people, she needs to be able to accommodate the new renters in her home. Will the renters have renter’s insurance? How will utilities be split? What about garage space and parking? What if they want to have guests or pets? The answers to these questions hinge on the tolerance of your client. The important thing for the Broker to advise is for the client to know upfront what the expectations of the renters are and to make those expectations clear at the outset of the rental agreement. Remember, property converters do not usually come from a background of property management and might not be familiar with the terms of rental agreements.

Renting Short Term

When renting short term, a homeowner must consider that their home is going to have a lot of activity in a short amount of time and that it is crucial to capitalize when interest of their rental unit is high. If renting for an event, property owners must understand that the customers they are attracting will not want the responsibilities associated with staying in a home. Their mindset will

be more like renting a hotel room. Considerations of clean sheets, fresh bathroom items, and ease of entry at odd hours of the day must be addressed. Short term rentals come with a certain air of hospitality that a property owner must be prepared for. Vacationers are not going to want to arrive with evidence of the previous occupants and are not going to go to extra trouble to clean before they leave.

Renting Space and Land

Renting space in one's home can be an excellent way for your clients to make auxiliary income with no overhead and little effort, however, there are many things to consider. When renting space for people to store items, it is important to agree on strict terms about what items you are willing to store. If clients are uncomfortable storing a certain type of item, make it very clear to any potential renters that it will not be tolerated. Also, advise your clients to be clear about what hours during the day an individual will be able to retrieve their stored items. If clients do not want people coming by after a certain time of night, be very clear about that up front. Even though it is your home it is still a business and should be operated professionally.

Renting Parking Space

If renting parking space, be clear exactly where an individual can park so that his car does not violate street laws or inconvenience neighbors. If renting to RV's and Campers, be clear about what utilities they can expect to be provided, like electricity or water, and where waste can be disposed.

Hosting Events

Hosting events is a great way to use your home to generate income, but certain things must be considered. Booking in advance and having a clear timeline for the events will keep the expectations of guests and your clients on the same page. Have your clients provide a clear list of the available resources of their home for the event, the capacity that their home can withstand, and the types of events they are willing to host. Working with local event planners can be a great way to get started hosting.

Pet Boarding

If a client is considering a pet sitting or boarding business, there are many concerns that need to be addressed. Because pets are members of people's families, there is going to be a higher level of expectation than if they are renting attic or garage space. Make sure your clients understand their own capacity for caring for animals. Understand exactly how many animals they're willing and able to fully care for and how much time they must dedicate to people's pets. Have a plan for

what happens if two animals don't get along. Advise to have the pet owner write a concise list of all the needs of the pet and be prepared to meet those needs. Boarding pets comes with the knowledge that some damage to your client's property can occur. Animals will have an impact on a house that a property owner needs to be prepared for.

Pet Fee

“The [Tenant Security Deposit] Act does permit the landlord to require a separate *reasonable and nonrefundable fee* for pets kept by the tenant on the premises. The Act neither defines the term “reasonable” nor sets limits on the amount of the pet fee. This fee is for the privilege of having a pet and does not cover damages caused by the pet. Such damages may be deducted from the security deposit.”

NORTH CAROLINA REAL ESTATE MANUAL Chapter 16, Landlord And Tenant

Renting to a Business

Renting space to a business comes with some unique challenges. Business owners are focused on running their operation in a way that benefits their company. This does not always include concern for their workspace. Brokers should advise their clients to be clear at the outset of the rental what is allowed in the property and what is not. Renting to a business is going to have a different set of challenges than renting to a person. The property owner should know upfront what clientele the business attracts and whether they are willing to accommodate customers coming into their home. Be clear about what hours of operation are allowed and who has access to the property.

Converting Something Else into Residential Property

Commercial Buildings

Although there are many commercial buildings that are ripe for residential conversion, there are many considerations when undertaking a massive project. In many cases the building was not meant to house people and will not have the right layout, plumbing, electrical, or ventilation systems in place. All of these can be addressed and built out. Working with a contractor to make sure each step is up to code is necessary. Make sure your clients understand from the beginning why that commercial building is a good investment. Does it have a certain character, like an industrial mill or a gothic church? Is it in a particularly good location near a business center or university? When converting commercial buildings, an investor must also consider the zoning laws. Rezoning can take time through a local government and having legal personnel to expedite that process can be beneficial. Calculate the cost of the conversion with a contractor, have a

timeframe and an expected deadline, and know that there will be delays and financial unknowns that will have to be accounted for.

Existing Structures

When converting a structure like a barn, shed, or garage into a livable space, there are many things to consider. These structures are usually dry and will need to be properly plumbed. Although many are wired, they may not be up to code for a livable space, and electrical work will be necessary. Air conditioning units and ventilation will need to be addressed. Working with a contractor will help guarantee that your client's conversion will be up to city regulations and fully livable as a residence. Undertaking renovations oneself can save money but be aware that converting a space into residential property must be up to code.

Zoning

Zoning laws play an important role in converting structures into residential property. Although a new trend has started in converting unconventional structures into homes, the zoning laws have not caught up. Be sure that the area in which your clients want to convert a structure is properly zoned for residential living and that once the investment is made, the conversion will be zoned as residential property.

Starting from Scratch

Building a home from scratch can be much cheaper than purchasing an existing home and comes with the added benefit of being in any location your clients choose. Many DIY homes, kits, and blueprints are available for the handy landowner but know before breaking ground that everything must be zoned properly and built to city regulations to be considered residential property. Working with a contractor ensures the building will be up to code and ready for residential living.

Check Land Use Restrictions

- *“An agent must make certain that any representations he or she makes regarding the property's use are accurate. A conscientious buyer's agent will routinely make certain his or her buyer-client knows to check into land use restrictions and will assist the buyer in doing so when circumstances exist that should lead a reasonably prudent agent to think there may be an issue about which the buyer should be aware.”*
- **“Protective Covenants.** Determine if the property is subject to protective covenants, homeowners association bylaws and/or homeowners association dues. Any house located in a subdivision is highly likely to be subject to protective covenants and may also have

homeowners association and homeowner dues. If any of these are applicable, *advise the buyer that he/she should obtain copies of and review the relevant information as this may very well affect the buyer's decision about a property.* If requested by the buyer, obtain such information for the buyer.”

- **“Zoning.** *The agent should verify the zoning of the property under consideration anytime the buyer is planning to use the property for a purpose different than its current use, anytime the prospective buyer raises a question about a permitted use that might be affected by zoning, or anytime there is any reason (“red flag”) to suspect there might be a zoning problem.* Such property might be within the city’s “extraterritorial jurisdiction” for land use regulation purposes. Zoning may be verified through the office of the city or county planning department (or building inspector).”
- **“Flood Hazard Area.** Anytime a property under consideration is located in an area the agent knows to be flood-prone, the agent should advise the buyer of this fact and assist the buyer in verifying whether the property is located in a designated flood hazard area (check with local planning office) and in determining the cost of flood insurance. The same is true when the property is located near any body of water or river or creek. Agents who work in areas likely to have special environmental regulations (such as coastal areas) should be aware of where such regulations apply and advise buyers accordingly. When a particular type of property is generally known to possibly have an environmental issue (such as a property used for a service station which likely has underground fuel storage tanks), then the agent should advise the buyer to inquire about such matter.”

Section 3 Discussion:

1. What are the primary concerns when converting a building into residential property?
2. What are the benefits and drawbacks to working with a contractor when undertaking a conversion?
3. What are the concerns of renting space or land and how can you help your client determine the return on investment when renting residential space?
4. How can you help your clients determine what type of conversion is right for them?

Case Study: A client has a wing of her house that is currently unused. She lives in an area that is close to a business center but also near a lot of local events. She has a low tolerance for long term visitors but is hospitable and wants to utilize her space to generate income. What type of property conversion would you advise for her?

Case Study: A client has a large garage that he wants to convert. He has a budget that will cover the project but wants to maximize his return on investment. He is thinking about converting the garage into a small apartment but is not sure if he should rent to short term renters or to a long-term tenant. What factors should he consider determining the type of renters he should have?

Case Study: A client wants to convert her home into a business to provide extra income for her family. She is unsure what type of business is right for her home. She has children and does not want the conversion to interfere with their lives. What type of businesses would be good for her? What factors about her house would help her determine what is best for her?

Section 4

North Carolina Conversions

Bookended between the beautiful Appalachian Mountains and the scenic Outer Banks, North Carolina boasts the rare chance to enjoy the best of two vacation destinations as well as a large banking center, top universities, and a temperate climate that attracts people from all over the nation. Because North Carolina has so much to offer it has earned its designation as an inbound state. With the major influx of individuals, the use and conversion of real property is becoming increasingly lucrative for North Carolina residents. The purpose of this section is to demonstrate the specific ways in which a North Carolina resident can capitalize on property conversions and provide Brokers with information to help their clients successfully convert their real property into a revenue stream. By the end of this section, students will understand what features of North Carolina make property conversions particularly good investments, and how to advise their clients on converting property in North Carolina.

Converting Residential Property in North Carolina to a Revenue Stream

With so many events, business opportunities, inbound university students, and vacationers flocking to North Carolina, many residents are finding that converting their real property into something else is quite lucrative and can generate steady income. There are many avenues for your clients to explore depending on the type of property they own and what their goals and needs are. This section will give examples of how North Carolina residents are converting their residential property into a revenue generating enterprise and how Brokers can help advise their clients in their endeavors.

Vacation Rentals

One of the major attractions in North Carolina is the beautiful Appalachian Mountain range. With the Great Smoky Mountains in the southern part of the state and the Blue Ridge mountains to the north, vacationers come all times of the year to visit the mountains. Property owners with a residential mountain house can find short term renters in just about any season. Spring and summer hikers who want to explore the extensive trails that meander through the Appalachian Range, or hike sections of the famous Appalachian Trail are great customers for short term vacation rentals. In the fall, the changing of the leaves brings a scenic view that many vacationers come to see. In the winter, the ski resorts attract thousands of visitors each year. Brokers whose clients are considering investing in a mountain house in the North Carolina mountains can look to vacationers for a steady revenue stream from their property conversion.

North Carolina Mountain Ridge Protection Act

“North Carolina was the first state in the nation to enact comprehensive legislation regulating construction on protected mountain ridges. This legislation was enacted in reaction to the construction of a 10-story condominium project at the summit of Little Sugar Mountain in Avery County. General Statute §113A-208 allows any county or city to adopt and enforce “... an ordinance that regulates the construction of tall buildings or structures on protected mountain ridges”

NORTH CAROLINA REAL ESTATE MANUAL Chapter 7, Land Use Regulation

On the other end of the state the North Carolina coastline and Outer Banks provide a truly unique setting bringing many vacationers to the area each year. During the massive influx of people in the summer months, short-term vacation rentals by residential property owners is a boon that can account for significant revenue. Converting a residence into a vacation rental spot on the North Carolina coast can be an investment that will allow for seasonal revenue but provide privacy

throughout the rest of the year. This can be a great option for many who live by the coast or the in the Outer Banks.

North Carolina Coastal Area Management Act

“Property development in the coastal areas of North Carolina is subject to the **North Carolina Coastal Area Management Act (CAMA)** and state regulations. Among other things, CAMA requires that a permit be obtained prior to engaging in any “development” of an “*area of environmental concern*.” Coastal wetlands and marshlands are areas of environmental concern. The term “*development*” is a broad one, encompassing *construction, excavation, dredging, filling, dumping, bulkheading, or the clearing or altering of land as part of construction.*”

NORTH CAROLINA REAL ESTATE MANUAL Chapter 7, Land Use Regulation

Flood Hazard Area Regulations and Insurance

“Real estate located in designated “*flood hazard areas*” is subject to special federal laws and regulations.^[70] Flood hazard areas are designated on maps issued by the Federal Emergency Management Agency. *Flood insurance is required in all flood hazard areas under the National Flood Insurance Program if a federally related mortgage loan is being made on improved property or property on which improvements will be made.* Federally related loans would include FHA loans, VA loans, and most loans sold in the secondary mortgage market. Altogether, this accounts for a vast majority of all mortgage loans. Flood insurance can be obtained from a property insurance broker. Land use within flood hazard areas is subject to special regulations and restrictions in terms of the location, elevation, and type of improvements that can be placed on the property.”

NORTH CAROLINA REAL ESTATE MANUAL Chapter 7, Land Use Regulation

Renting for Events

Renting part of your client’s home or an addition for events in North Carolina can be an excellent way to convert their residential property into a revenue stream. North Carolina has many unique attractions that bring vacationers to the state from far and wide. www.visitnc.com is a great way for out-of-towners to get acquainted with everything that North Carolina has to offer.

Sporting Events

North Carolina hosts major sports teams year-round and attracts fans from all over. Capitalizing on the influx of die-hard sports fans and the lack of available space is an excellent way for your

clients to generate revenue without a long-term tenant during a time when demand for accommodations is high and comes at a premium.

Thousands of **NASCAR** fans flock to Charlotte Motor Speedway for its three major racing events each year: The Coca-Cola 600 on Memorial Day weekend, the NASCAR All-Star Race, and the Bank of America Roval 400. Charlotte is the proud home to the NASCAR Hall of Fame. Charlotte Motor Speedway also hosts many NHRA events with the only all concrete four lane drag racing strip, and also has a clay track that hosts dirt racing. With a capacity of up to 171,000 people and a fanbase that travels far and wide to follow the sport, the surrounding area is flooded with incoming fans who are looking for a short-term rental. This fanbase is also known to travel in RVs or Campers and your clients can capitalize by renting parking space.

The Carolina Panthers bring **NFL** fans to Bank of America Stadium in Charlotte, North Carolina from all over the country. With a capacity of over 75,000, many fans who come to watch their team in Charlotte look to property owners who have short term rentals available. Because North Carolina is an inbound state with people living here from all over the country, many get the chance to see the Carolina Panthers play against teams from their hometown.

Bank of America Stadium also hosts college football games that appeal to another football fanbase. Hosting early season games from local rivalries in the Belk Kickoff Game as well as the Belk Bowl and the ACC Championship game at the end of the season, many college age students are interested in a short-term stay in a residence rather than a costly hotel. College football fans are also brought in to local areas during the season looking for overnight accommodations.

North Carolina has become a magnet for **college basketball**. The University of North Carolina at Chapel Hill has won six NCAA championships, third most all-time wins, and Duke University has won five NCAA championships, fourth most all-time wins. With the close-proximity to one another in the Raleigh-Durham area, this rivalry brings in thousands of fans from surrounding areas every year. They also compete against NC State and Wake Forest in the ACC who have made significant runs in the NCAA tournament in various years in their own rights. College basketball fans are an excellent demographic for your clients who are looking for short-term rentals during the basketball season.

NBA basketball also brings in fans to the Charlotte area at the Spectrum Center, home of the Charlotte Hornets. With a capacity of around 20,000 and located in the heart of downtown Charlotte, many fans look for housing options outside the cramped city-center in surrounding residences. The Spectrum Center also hosts many college basketball games, the NBA All-Star Game, and many concerts including Beyoncé, Aerosmith, Lady Gaga, Taylor Swift, and many

other top musicians. All these events provide your clients with many opportunities to rent their homes short term at a premium.

The **NHL** Stanley Cup winning Carolina Hurricanes at PNC arena in Raleigh, North Carolina bring in many fans looking for short-term residential lodging as well as various other minor league teams throughout the state. Sports fans can be an excellent way to generate revenue for your clients because they have a predictable schedule that a renter can plan for, there is no long-term commitment, and the demand for housing is high and comes at a premium. Because North Carolina offers so many sporting events, this is a great way to generate revenue for a North Carolina residential property owner.

Golf

North Carolina is host to PGA tour events including the PGA Championship and Wells-Fargo Championship. With Tournament Players Club (TPC) courses like Wakefield Plantation Country Club in Raleigh, TPC Piper Glen and Quail Hollow Club in Charlotte, and Pinehurst Country Club, North Carolina has many championship courses that attract competitive golfers every year. The temperate climate of the state also provides excellent conditions for many amateur golf clubs that host numerous events for casual enthusiasts. This has given North Carolina an excellent reputation in the sport of golf and provides a great opportunity for a Broker's clients to rent short term to fans of the sport. Information is provided by the North Carolina Golf Association and can be found at <http://golfnorthcarolina.com/>

Political Conventions

Both the Democratic and Republican National Conventions look to North Carolina to host their events bringing in thousands of people from all over the country who flood into the state and need short-term lodging. This raises demand for residential housing dramatically and is an excellent time for a your clients to rent space at a premium. With many hotels in the area being booked well in advance, many individuals are keen to seek out residential accommodations while visiting for the convention.

Weddings

Because of the many scenic locations throughout the state, North Carolina has become a destination for many weddings. Often taking place in areas not serviced by large hotel chains, many wedding parties look to short term residential property to accommodate their guests. This can be a great option for a client who has a knack for hospitality but who does not want the long-term responsibility and upkeep of vacation rentals. A few weddings a year at a scenic location can

provide revenue for a residential property owner without the stress of constantly providing to guests each weekend and is a great option for many North Carolina homeowners.

Long-Term Rentals

North Carolina is a hub of business and commerce and boasts many top universities and colleges in the nation. Being an inbound state, there is high demand for affordable rental space in North Carolina. Converting space in your client's property into a livable unit for individuals who work in the business centers of the state or who attend universities away from home is an excellent way to generate revenue.

Renting to College Students

With hundreds of thousands of students attending college or university in the state of North Carolina each year, there is ample opportunity to convert space in your client's residential property to accommodate students. Because the school year is predictable, college students make ideal candidates for yearly or semesterly renters. Often these students come with a minimal budget to study in North Carolina looking for housing that is affordable and are disappointed by the high prices of commercially rented apartments. Many students find living in a home setting appealing and seek out converted residential property to rent.

According to www.collegestats.org the most attended universities in North Carolina are:

1. North Carolina State University	Raleigh, NC	39,135 students
2. Central Piedmont Community College	Charlotte, NC	31,896 students
3. University of North Carolina at Chapel Hill	Chapel Hill, NC	31,614 students
4. University of North Carolina at Charlotte	Charlotte, NC	30,835 students
5. East Carolina University	Greenville, NC	30,441 students
6. Wake Technical Community College	Raleigh, NC	30,399 students
7. University of North Carolina at Greensboro	Greensboro, NC	21,170 students
8. Fayetteville Technical Community College	Fayetteville, NC	19,947 students
9. Appalachian State University	Boone, NC	19,449 students
10. Guilford Technical Community College	Jamestown, NC	18,430 students

The other 185 colleges and universities in North Carolina account for 472,130 students

Making the total collegiate population of North Carolina 745,446 students

Renting to Urban Professionals

In the major urban centers of North Carolina, business is expanding rapidly and the demand for an urban work force is providing many opportunities for residents of the state. Being an inbound state

means that individuals are relocating to North Carolina to pursue new jobs in the densely populated cities. Working in the urban core is a dream job for many professionals but the financial responsibilities of buying and owning a house while starting a new job can be a nightmare. Commuting can also be a headache for many who work in the heart of a busy city. For these reasons, many urban professionals look for converted residential property that is near their work or close to public transportation in the urban core. Most the largest employers in North Carolina are located within the largest cities, many of which have offices within the urban core of the city. These employees are the perfect candidates for your client to rent a converted residential property located near their work.

According to www.careerinfo.org the 25 largest employers in North Carolina are:

#	Employer	City	Number of Employees
1	Wake Forest Bapt Health-Crdlgy	Winston Salem	15,000
2	Carolinas Medical Ctr	Charlotte	12,184
3	Duke University Hospital	Durham	10,239
4	Wake Medical Pathology Med Stf	Raleigh	10,001
5	N C Children's Hospital	Chapel Hill	8,957
6	Spectrum	Charlotte	8,000
7	Moses H Cone Memorial Hospital	Greensboro	7,916
8	Wake Forest Baptist Med Ctr	Winston Salem	7,850
9	Queens University of Charlotte	Charlotte	7,000
10	Vidant Medical Ctr	Greenville	6,269
11	Wakemed Raleigh Campus	Raleigh	6,047
12	House of Raeford Farms Inc	Rose Hill	6,000
13	Mission Hospital	Asheville	6,000
14	Smithfield Foods	Tar Heel	6,000
15	Spectrum	Charlotte	6,000
16	Bank of America Corp	Charlotte	5,000
17	East Carolina University	Greenville	5,000
18	Rex Health Care Inc	Raleigh	4,842
19	Cape Fear Valley Health System	Fayetteville	4,800
20	Duke Energy Corp	Charlotte	4,800
21	Novant Health Forsyth Med Ctr	Winston Salem	4,751
22	Cape Fear Valley Medical Ctr	Fayetteville	4,521
23	Cape Fear Valley Home Car	Fayetteville	4,500
24	New Hanover Regional Med Ctr	Wilmington	4,445
25	Wakemed Health & Hospital	Raleigh	4,046

Renting to Military Personnel

North Carolina is home to major bases of three out of the four branches of our nation's military. The state hosts over 100,000 military personnel, many of whom are frequently traveling and are looking to residential property owners for available rental units. Seymour Johnson Air Force Base is in Goldsboro, NC, Fort Bragg is located near Fayetteville, NC, the Coast Guard's Base Support Unit is in Elizabeth City, NC, and Camp Lejeune is a Marine Corp base in Jacksonville, NC. Because of the amount of time traveling and the unpredictable nature of their jobs, many members of the military do not want to commit to a long-term lease or purchase a house. Converting space in your client's residential property to host military personnel is a great way to generate steady revenue while helping support the military.

Federal Servicemembers Civil Relief Act

“There are a significant number of military servicemembers residing in North Carolina. Servicemembers who are tenants in residential leases have traditionally been entitled to rights and benefits of the Soldiers' and Sailors' Civil Relief Act. That Act has been amended and replaced by the federal Servicemembers Civil Relief Act (SCRA).

It is important that landlords who rent residential property and their management agents understand the rights of servicemembers under the SCRA. These rights can be summarized as the right to terminate a residential lease under certain circumstances, the right of a dependent of a servicemember who has executed a joint lease to terminate, and protections in an eviction action.

In terms of eviction safeguards for residential tenants who are servicemembers, the SCRA provides that, except by court order, a landlord may not evict a servicemember (or his or her dependents) during a period of military service of the servicemember from a tenancy occupied primarily as a residence. The SCRA also requires a stay of execution when a court-ordered eviction is involved.”

NORTH CAROLINA REAL ESTATE MANUAL Chapter 16, Landlord And Tenant

Leasing Land in North Carolina

With abundant natural resources, North Carolina provides property owners with numerous avenues to rent land. Large tracts of land in all three major regions of North Carolina, the mountains, piedmont, and coastal plain, can be rented out for several different purposes. Because this state has large areas of fertile land, plenty of water, and abundant wildlife, many property owners are capitalizing on the natural resources North Carolina provides. According to NC State College of Agriculture and Life Sciences, agriculture and agrobusiness contributes \$76 billion to the state economy and provides many property owners the opportunity to rent land to commercial and family operated businesses.

Rules and Regulation for Renting Land for Agricultural Purposes in North Carolina

“Both the **Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA)** and state law require owners, operators, and “responsible parties” to notify the Inactive Hazardous Waste Sites Branch of the NC Division of Waste Management within 90 days of discovering any inactive hazardous substance or waste disposal site.

If a broker is aware of a prior use that may have caused environmental issues, the broker must disclose that prior use to all parties, including lenders. Disclosure should include the existence of underground storage tanks in which hazardous substances have been stored, any history of hazardous waste disposal or the storage of hazardous substances on the property, and other environmental danger signals, such as the existence of a former sanitary landfill on the property.”

NORTH CAROLINA REAL ESTATE MANUAL Chapter 7, Land Use Regulation

Leasing Farmland

One of the most common uses of large tracts of land for property owners in North Carolina is farming. With 8.1 million acres of operational farmland, the state leads the nation in the production of sweet potatoes (\$326 million) and tobacco (\$723 million). Other agricultural products include grains (\$769 million), soybeans (\$638 million), apples (\$44 million), cotton (\$265), peaches (\$4 million), berries (\$76 million), and various other vegetables (\$298 million). Many family farms operate on leased land from private homeowners. Because North Carolina has plentiful water resources and a temperate climate suitable for growing many commercial crops, leasing land to farmers is an excellent way for property owners to generate income while boosting the state economy. Statistics about the agrobusiness can be found at www.nass.usda.gov

Another agricultural option in North Carolina is livestock. North Carolina collectively raises 1.2 million cows, 54 thousand goats, 25 thousand sheep, 9 million hogs, 830 million chickens, and 32.5 million turkeys, and has a thriving milk (\$179 million) and egg industry (\$460 million). North Carolina provides many property owners the opportunity to lease their land to local farmers who want to raise livestock for meat and dairy. Information regarding agriculture in North Carolina can be found at www.ncagr.gov

Impact on Surrounding Area

Converting property in North Carolina can be an excellent venture for the intrepid client but much consideration to the surrounding area will be needed. One complication specific to the state is the downstream runoff from farmland. Renting land to livestock farmers or converting your land into a livestock farm is going to produce waste that gets washed downstream into the major water

resources that affect thousands of residents in the state. In particular, hog farming has received backlash from environmental groups and is the subject of much concern from politicians and local officials in the state. Converting land into a farm that produces agricultural products can also be a great revenue stream, but the use of fertilizer and pesticides is also a major environmental concern. Runoff of chemical products from the agricultural industry can negatively affect wildlife and be a detriment to the state.

National Environmental Policy Act

“The **National Environmental Policy Act (NEPA)** mandates that all federal agencies fully weigh the environmental effects of federal programs. NEPA requires federal agencies to prepare **environmental impact statements** describing in detail the effect of proposed projects on the environment. North Carolina requires environmental impact statements of state agencies for certain projects under the North Carolina Environmental Policy Act.”

NORTH CAROLINA REAL ESTATE MANUAL Chapter 7, Land Use Regulation

CERCLA

“Congress enacted the **Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA)** in 1980 to address the liability, compensation, cleanup, and emergency response to hazardous substances released into the environment. *CERCLA authorizes both the federal and state governments to institute actions for the containment, cleanup, and removal of hazardous wastes on property.* At the federal level, CERCLA is enforced by the Environmental Protection Agency (EPA). The North Carolina Department of Environmental Quality (DEQ) enforces CERCLA at the state level. CERCLA authorizes actions for damages, including actions by private parties, to recover the necessary costs of an environmental cleanup.”

NORTH CAROLINA REAL ESTATE MANUAL Chapter 7, Land Use Regulation

Timber and Nurseries

The other major agricultural export of North Carolina besides farming is timber production and tree nurseries. Many clients, even those close to city centers, can allocate tracts on their land to grow timber for industrial roundwood products like pulpwood, veneer logs, poles, and logs used for composite board products. Many North Carolina residents have allotted space on their residential property to grow timber, and with no overhead and minimal maintenance, this can be an excellent way to generate income from a long-term investment without much risk or downside.

More information can be found at https://www.ncforestsERVICE.gov/Managing_your_forest/timber_buyers.htm

North Carolina also has many nurseries throughout the state, especially dedicated to the production of Christmas trees. Many varieties of evergreen can be grown in various regions of North Carolina by entrepreneurial clients and are marketed all over the nation. The Fraser Fir, Eastern White Pine, Virginia Pine, and the Leyland Cypress are the primary species of evergreen grown in the state. Converting property into a nursery for Christmas trees is a unique opportunity for North Carolina clients and can be very lucrative. North Carolina State University has published information for residential property owners who are interested in converting their property into a Christmas tree farm and can be found at <https://christmastrees.ces.ncsu.edu/>

Fracking in North Carolina

Hydraulic fracturing is a method of oil and natural gas extraction that involves injecting fluid into subterranean rock formations at high pressure. Although highly lucrative, there has been much debate on the legality of fracking in North Carolina because of its environmental impact. More information on the legal issues in North Carolina can be found at

[https://ballotpedia.org/Fracking in North Carolina](https://ballotpedia.org/Fracking_in_North_Carolina)

Wine

In all three major regions of North Carolina, the mountains, piedmont, and the coastal plain, wine production has become a burgeoning industry producing over 1.1 million cases of wine each year, placing the state eleventh overall in wine production in the country. North Carolina is home to 186 wineries, more than 525 individually owned vineyards, and utilizes 2,300 acres of land. The wine and grape industry in North Carolina boasts just under \$2 billion supporting more than 10,000 jobs. Common wine grapes like *Vitis Vinifera* are readily grown in the state and are used in the production of Cabernet Sauvignon, Chardonnay, Merlot, and Syrah. However, many native grapes are also utilized in the production of wines with a distinctly North Carolinian profile. *Scuppernon* and *Muscadine* grapes grow natively throughout the state and produce a decidedly North Carolina wine that is sought after all over the country. Converting real property in North Carolina into a vineyard or a winery can be an excellent business venture for your clients and will contribute to the production of a wine that uniquely represents the state's agricultural resources. More information about the wine industry in North Carolina is available at <https://www.ncwine.org>

Pet Boarding

While traditional pet boarding is common in North Carolina, the state also provides a unique boarding opportunity. North Carolina is home to hundreds of horse stables. Just beyond the fast pace of the major cities in North Carolina there are rural communities that have large tracts of land that are perfect for stabling horses. There are many residents of North Carolina that live in the city

and stable their horses in the surrounding rural areas. Converting your client's property into a horse stable is an excellent way to generate revenue and utilize land. This is a great option for those clients who do not want their land to be farmed but who want to generate income.

Converting into Residential Property in North Carolina

Converting a Commercial Building

North Carolina has many growing city centers with residential property conversions that have taken place all over the state. Because the state has been such a large agricultural producer, there are numerous mills that are perfect for conversion into a residence. Textile and grain mills are often located in prime locations near city centers and can be converted into apartments or single-family homes. The project of converting a mill into a residence is going to be extensive and much attention is going to have to be paid to updating the building and bringing it up to city regulations. With an industrial vibe and an unbeatable location, the return on investment can make converting a mill a lucrative venture. Examples of successful conversions of mills into residential property can be found in the hearts of Charlotte, Raleigh, Asheville, and Greensboro.

Converting a Structure

There are many structures that can be converted into residential property in North Carolina. The state has a rich agricultural history providing many barns and silos that can be used as the skeleton of a residential property conversion. Another option that has become popular recently is the use of reclaimed wood accents in modern homes. There are numerous barns throughout the state that are being reclaimed for their lumber and being turned into siding, tables, walls, and other architectural accents. Many of the barns in North Carolina are not suitable for a full conversion but can be stripped of their decades-old wood and used in a modern home. This process provides a unique rustic look from materials with a local history yet still affords modern convenience.

Starting from Scratch

Because of the many scenic retreats that North Carolina offers, many of your clients will want to build their residential property from scratch. Often located in areas that are not easily accessible to heavy construction equipment, building log cabins, kit homes, or other less traditional residences is a great option for many North Carolina residents. In the mountains and coast especially, you will find many homes that have been built by property owners from scratch. Log cabins are ubiquitous in the mountains, and in the coastal region, homes on stilts over the water can be found that have a unique look and are perfect for vacation rentals or conversion into a home.

Section 4 Discussion

1. What are some of the unique features of North Carolina that make property conversion for your clients possible?
2. What areas of North Carolina are going to be best suited to converting your client's real property into short-term rentals? Into long-term rentals?
3. What factors concerning a client in a major city in North Carolina will help determine the right conversion?
4. What types of property conversions can you expect to find in the urban areas of the state? The suburban areas? The rural areas?

Case Study: A client wants to begin using his residence as a revenue generating enterprise. He lives in a suburban area close to a major city in North Carolina and wants to begin a business that still allows him time to maintain his lifestyle. What types of property conversions could be right for this client?

Case Study: A client and her family live in a rural area of North Carolina in the piedmont and want to convert their large tract of land into a revenue stream. They already have their land fenced in and are looking to create a small business. What factors are going to help this client determine which property conversion of her land is best?

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