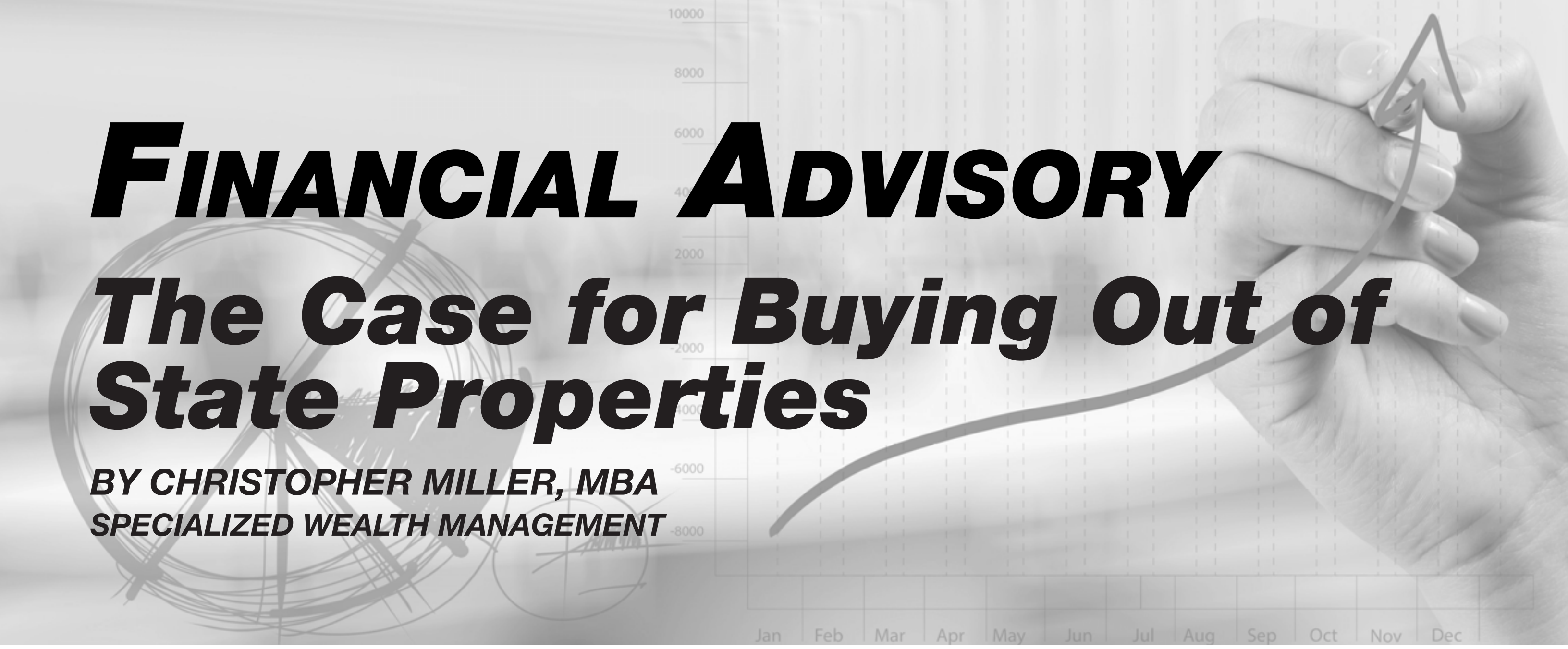

FINANCIAL ADVISORY

The Case for Buying Out of State Properties

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I have written a lot about political uncertainty in California over the years. It seems that, in the last few years, this uncertainty has accelerated exponentially. I often find myself thinking, "There is some ridiculous new rule every month!" This leads us directly into my topic for this month's article: a discussion of how giving your real estate portfolio geographic diversity through buying out of state properties can be attractive.

BUY IN GROWING AREAS

Ten years ago, I sat through a video presentation on why Texas is the "next California." Over the previous few years, California had lost over 800,000 jobs, while Texas gained over 900,000. This was attributed to Texas' lower cost of living, low (zero) state income taxes, and a more business-friendly regulatory environment. In the last decade, I know there hasn't been less news about people leaving California.

As a real estate investment advisor, I advocate buying in growing areas. While I am not saying that California will not continue to grow, I do think that our years of "explosive growth" may be behind us. I am not saying to sell all your California properties now in favor of out-of-state buildings – but perhaps trading a percentage of your assets for quality properties in Texas, Georgia or North Carolina may be prudent. Many areas in these states look like Orange County did 35 years ago – poised for explosive growth.

GIVE YOUR RETIREMENT INCOME A "STATE TAX FREE" OPTION

Many of my investors plan to move out of California in the future. Today, they are applying tax planning principles to selecting their investments by buying out of state properties.

Many of us already know that California's state income tax is among the highest in the country, with income between $115,648 and $590,746 annually taxed at 9.3% for 2010 (for married filing jointly). If you were to retire to Colorado (a 4.55% rate - they decreased it for 2021), Tennessee (Zero

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state taxes) or Florida (Zero state taxes), you would still be paying the California state income tax rate on your California Properties. This is because assets in California pay California state taxes – no matter where the owner lives.

If you own out of state property today and live in California, you aren't off the hook just yet. If I own income property in Colorado, I will pay that state 4.55% of my income in April, then pay the difference (9.30 – 4.55 = 4.75%) to California. While buying property out of state won't lower your tax bill right away, it could eventually when you move out of state.

GEOGRAPHIC DIVERSIFICATION – BECAUSE SOMETIMES THINGS CHANGE

We've already talked about local economies, but there are more local threats to our real estate. In California, for instance, we have earthquakes. A larger threat than even such a disaster is long-term economic change. For example; in 1946 a portfolio of single family homes in Detroit would have seemed like a great investment, right? By 1970, this portfolio didn't look as attractive - Detroit's decline was evident even then. Today, such a portfolio would be for speculators only. Again, I'm not saying that California is going to decline – but how many people thought that about Detroit just after World War 2? Throughout history, an area's decline usually happens for a reason that is completely unexpected. Geographic diversity can lessen our risk by putting all of our eggs into different baskets.

HOW I INVEST OUT OF STATE

Many options exist for investing out of state. You could manage a property yourself from thousands of miles away and really build up your frequent flier mileage. Alternatively, you could hire a property manager; but how can you know that a particular manager in an unfamiliar town is the right choice? I prefer to invest in partial interest arrangements when I buy out of state properties. This way, I can buy a fraction of a commercial property and enjoy the same proportional tax benefits (depreciation) and income that a 100% owner would. I buy these properties from well-known real estate sponsors who have established track records of success. My ownership interest comes with the potential for an income check every month, appreciation when the property sells and the benefit of owning property on the other side of the country – without ever needing to visit the property.

IS OWNING OUT OF STATE PROPERTY FOR YOU?

If you own multiple properties, and are considering selling one soon, than buying an out of state building could certainly be worth consideration. In addition to the tax and diversification benefits I have mentioned, out of state properties tend to be priced lower than in California. Paying less for a property could mean higher returns for investors. I believe that the potential for higher returns is always something worth learning more about. My toll-fee number is (877) 313-1868.

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