

REAL ESTATE INVESTMENTS

State of the Market – Is it A Good Time to Sell?

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Compared with last year, the stock market is down and interest rates are up. Can it still be a good time to sell our highly appreciated properties? This month, we'll look at where the market is and try to answer that question.

WHAT TODAY'S MARKET LOOKS LIKE

Today's investment property market has a low inventory of for-sale properties. This lower supply is causing an upward pressure on prices. Listing, or asking, prices have come down very modestly (about 10% or so) as interest rates have continued to rise. An investment property buyer could expect to pay 3.5% interest in September of 2021, 4.5% in March of 2022 and 7.2% in March of 2023. The monthly principal and interest payment on these loans (with \$1 million borrowed) are \$4,500, \$5,100 and \$6,800 respectively. (Rounded to the nearest \$100.) We certainly saw prices climb between 2019 and 2021 as interest rates dipped, but the prices didn't decline as dramatically when rates moved the other way. How is it possible that a buyer's monthly mortgage payment has risen by 50% (!) but that has only cause prices to drop by 10%? We'll talk about that in the next paragraph.

INTEREST RATES EXPECTED TO DROP OVER THE NEXT SEVERAL YEARS – BUYERS TODAY PLAN TO REFINANCE LATER AND SAVE

Why have prices remained steady while interest rates have spiked? This indicates that investors expect rates

to decline in the next few years, and they can then take advantage of these lower rates to increase their cash flow. A buyer realizes his cash flow today may not be great – but it sure could be in a few years if he can refinance in the 5% range.

BAD NEWS FOR BUYERS IS GOOD NEWS FOR SELLERS!

While still-high prices and much higher interest rates could be bad news for buyers, they are potentially great news for sellers. If you were considering cashing in and selling some of your highly-appreciated real estate, you haven't lost your chance: you can still lock in these gains. Plenty of buyers are out there keeping prices high, and they are eager to hand their money over to you.

WHAT ADVANTAGES CAN WE GAIN BY SELLING TODAY?

Advantage From Selling Today – Take Our Gains and Buy Less Management Intensive Buildings

There is no sense in selling a property unless we can see an advantage from doing so, right? Through using a 1031 Exchange, we can defer paying taxes on our accrued capital gains and depreciation recapture – perhaps forever – by rolling those sales proceeds into another investment property. Has hands-on property management – particularly after dealing with a few years of COVID-related regulations - worn you out?

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By selling your sometimes management intensive property now and exchanging into a Triple Net Leased property, you can leave all the bills and repairs to the tenant and just collect your potential income every month. Investing in part of a larger property through a Delaware Statutory Trust (DST) could be an option as well: maybe you'd like to stay in multifamily properties, but would rather leave the "tenants, toilets and trash" to a professional company while you collect income.

Advantage From Selling Today – Perhaps Begin Your Exit from California

In addition to the previously-mentioned COVID-era regulations, Los Angeles has recently unleashed a torrent of new, restrictive laws; both targeting landlords and threatening to raise prices for everyone in the state. We have seen expanded rent control and a "mansion tax" that also applies to investment property, for example. A lot of things that start in Los Angeles City then will make their way to Los Angeles County, then the entire state of California. For example, rent control only used to be an "LA Problem." Rental property owners in Los Angeles County now need to pay up to \$90 / unit annually for membership in a rent registry. The state has recently banned the sale of diesel trucks after 2036 and banned the use of locomotive engines built after 2007 by 2030. This will increase the cost of everything that moves by these methods. What moves by train and truck? Everything we buy!

California has become a much more expensive place to live over the years, and things could get even worse in the future. I talk to real estate investors all day, and many of us are putting together "exit plans." If things get bad enough, I may need to move to another state

for at least long enough every year that I'm no longer a California resident. The first step for my investors – who are mostly retired and earning all their income from real estate and investments – is to sell their California properties and exchange into investments out of state. Then if they do make the move to another state – even if it's for 7 months out of the year – they'll break free from California income tax if they're no longer earning income in California.

Advantage From Selling Today – Greater Tax Savings From Depreciation

Maybe you have owned your property for 30 years. You remember what a great tax break you got from depreciation when you first bought the property, but that is all run out now – all your real estate income is fully taxable. Through a 1031 Exchange, and using moderate leverage with a 50% down payment, we could do what the IRS calls "buy new basis for you" and start depreciating that "new" 50% right away. For some of my clients, this has sheltered their new income by as much as 80%! Going from fully taxable to only 20% taxable is certainly a benefit!

NOW COULD BE A GREAT TIME TO SELL

If you are considering selling at today's high prices, my office could show you some great options for deferring your taxes (perhaps forever) while preserving your potential for monthly income and principal growth. Wondering what your property could sell for and what benefits a 1031 replacement can offer? Call our office at (877) 313-1868 for a free consultation.

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WANT A REPLACEMENT PROPERTY WITHOUT ACTIVE MANAGEMENT?

Recent offerings, located nationwide, have included:

- Office • Apartments • Triple Net • Retail • Energy Royalties

I have completed over five hundred 1031 Exchanges for investors
\$200,000+ equity required.

Learn more about our investment programs at www.ChrisMiller1031.com



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Investing in real estate, with or without use of a 1031 exchange, carries the risk of losing your principal, income or tax benefits. Additionally, the IRS has issued inflexible guidelines for completing tax-deferred 1031 exchanges. Failure to follow these guidelines could lead to a loss of tax benefits. 1031 Exchanges can involve significant fees. This does not constitute an offer to buy or sell any security. Investments may be illiquid in nature and those seeking to dispose of their investments early may be unable to do so. Securities offered through Emerson Equity LLC. Member FINRA/SIPC, MSRB registered. Advisory services offered through Emerson Equity LLC, an SEC registered investment advisor. Emerson Equity LLC and Specialized Wealth Management are unaffiliated.

