



Is it time to sell?

Should you sell? The broker on the phone says yes, but prevailing wisdom dictates that one should generally stay put with their investments unless there is a specific reason for a portfolio shift. This is true with real estate even more than with the stock market. Unless you have the time, energy, and expertise to be a market maker; that is to "play" the market, transaction cost and the difficulty of accurately predicting trends makes selling without a reason fairly difficult to justify.

Another reason to hold on to what you have is California's prop 13, which keeps property taxes from large increases in times of appreciating property values. The assessment used to determine a base for property taxes is reset upon sale, such that in an appreciating market, a property that has been held for 5 years will generally have proportionately lower property taxes than something recently purchased.

Some common reasons to sell include:

Depreciation schedule: Multifamily improvements (the value allocated to the non-land portion of your investment) are depreciated over a maximum of 27.5 years, and commercial over a maximum of 39 years. When that time has passed, the depreciation runs out, and one can no longer deduct the corresponding "writeoff" from taxable gross income.

Diversification: A general financial advisor is best suited to discuss overall portfolio allocation strategies, but on a more simple level, it makes sense in a volatile world to "not have all your eggs in one basket". This is true geographically, as well as for product type (Apartments vs. Retail), Size, Investment vehicle (Stocks vs. Real Estate)

Leverage: Unless your loan is "interest-only" your loan balance declines over the years. Part of every payment goes toward reducing your loan amount (Amortization). As that loan is reduced, your equity increases and your return on equity generally declines. While this is great for lenders, who face reduced risk while still receiving the same return on their capital, it is not advantageous for your average investor. Particularly with interest rates where they are today, low leverage does not make sense from a risk-reward standpoint for most investors. Everyone's situation is different and leverage and other strategies have to make sense within the broader context of one's financial and real estate situation.

I will get discuss other reasons to sell and common solutions in the following months, including: management headache, partnership differences, little or no cash flow, death, retirement, personal expertise, and others.

What is the conclusion for now? Learn more before you make a move, and gather a few different opinions. I am always available for a free consultation over the phone or in person. So are most other real estate professionals. Other property owners are likely to share their experiences and advice with you as well.

Please keep in mind that my area of expertise is Real Estate Brokerage. The tax consequences, exchange validity, accounting rules and legality of various strategies are best discussed with the appropriate professional. I have several that I will be happy to recommend. If you missed last month's installment, you may contact me for a copy of the last issue.

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