

Three Force Multipliers to Build Wealth Faster



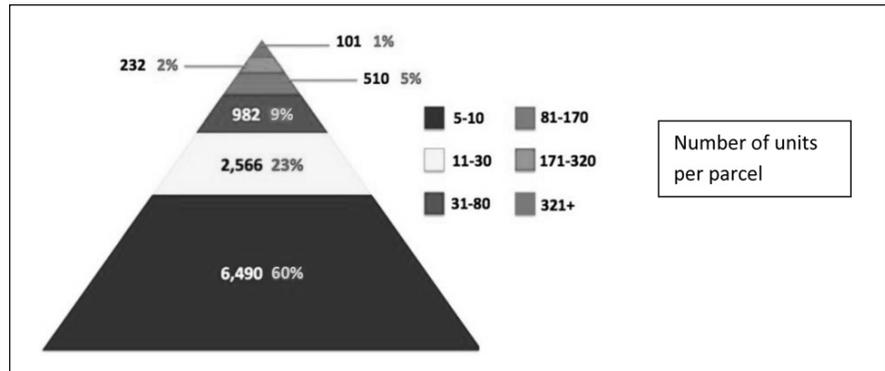
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This series explains why rental ownership safely and steadily builds wealth. Tax shelter,

deferred taxes on profits, and San Diego's unique apartment ownership topography, all make rental owners rich faster and safer. Read to learn how to get on San Diego's conveyer belt to riches.

First, most investors recognize that investment real estate provides tax shelter through depreciation. \$1,000,000 of rental property provides about \$25k of tax shelter through annual depreciation. The value of the improvements and the building, say 70% or \$700k, is depreciated over 27.5 years. \$700k improvement value divided by 27.5 years depreciation is about \$25k annual depreciation. So an apartment investor could have no tax liability even if the building produced \$20k of cash flow and reduced the principal \$5k annually. If your stocks made \$25k, you would owe tax. Real estate shelters income.

Second, real estate, unlike financial vehicles, allows the investor to defer taxes upon sale. When it comes time to move the equity, one can sell real estate for a profit, purchase a property for equal or greater value, and defer the income taxes. In effect that is an interest free loan from the state and federal government. Suppose the million-dollar investment grew at a long-term inflation of 3%, to \$1.3 million. Investor sells the building and uses the larger equity to buy a \$2 million asset. IRS Section 1031, the tax deferred exchange law, defers income



San Diego's Unique Income Property Pyramid: Apartment Parcels Five Units & Up

tax due on an exchange property. In contrast stocks or bonds profits have immediate tax liability.

Third, and especially important, is the San Diego County income property pyramid. San Diego has a unique investment topography. We have an immense number of smaller investment parcels. In our county there are 200,000 rental houses and condos. Each year thousands sell. The investor can pay the capital gains income tax or invest in a bigger property. There are 29,000 duplexes and triplexes in San Diego County. Maybe a thousand sell annually. Investors can either pay the taxes or trade up. There are 5000+ four-plexes. Pay tax now, or trade up? There are 3704 buildings from 5-7 units and 1063 are 21-36 units. At the top of the ever-slimming pyramid are 843 parcels of 80 units and more.

The large number of small investments and sparse immense properties is different from most investment markets. San Diego's big wealth funnel provides security to rental owners.

So what does this physical reality mean? Every time an investor is considering paying income tax on all his/ her accumulated profit, the available choices narrow. When

someone is considering paying tax on \$50K from a rental condo or house, they have hundreds of buying choices. In 20 years when they have traded a couple of times and inflation has done its work, they can easily have more than a million dollars of deferred gain. When they are thinking of paying \$300k+ in tax, or paying \$25k more than they wish for the next up-leg, most will buy the bigger building.

In other words, **San Diego is a conveyer belt of appreciation.** San Diego has a unique wealth building force always at work. Each decade investors have a built in incentive to buy bigger assets, and there are fewer available larger properties. Even ordinary rental owners benefit from the pent up demand for buildings to buy. A great broker generates extra purchase options and then helps the savvy investor to select the best one.

This conveyer belt moves rental owners forward continually. There is no equivalent force in most alternative investments.

The next article will show why San Diego has lower risk than most other major markets. When you're ready to ride the conveyer belt toward steady capital growth, contact a recognized expert.

If you want to know more about building wealth with apartments, contact Terry Moore, CCIM, at tmoore1031@gmail.com, (619) 889-1031, or visit [www.SanDiegoApartment Broker.com](http://www.SanDiegoApartmentBroker.com).