

# Income Property Investment Strategies: Tax Shelters and the Restoration of Classic Properties (Part 3 of 4)



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This column is the third of four part series on building and maintaining Legacy

Wealth. Rehabbing apartments was my first article; repositioning apartments was the second. Now we will consider investing in classic building in highly desirable areas. Think the beach or Mission Hills.

Legacy Wealth enables you and those who will inherit from you to do more than would have been possible without your wise stewardship and intentional effort. The hundreds of clients and investors I've worked with have helped hone the ideas summarized in these "Trusted Advisor" columns.

A separate chart shows typical financial consequences after two years of each strategy. Watch the *San Diego Daily Transcript* for Part Four.

## **Maintain the Classic Property — "We want to be proud to own it"**

Dr. Thompson will be retiring in about a decade. He and his wife Janet prefer income property in the beach areas because it is easy to rent and gives them a chance to meet some interesting residents. They are in the top tax bracket. While they are patriotic, they are not keen on paying more than half their income in taxes. They have \$700,000 for their next purchase, a \$1,200,000 complex in Pacific Beach. The building is in ordinary condition. Janet will steadily upgrade it as vacancies occur.

Cash flow is immaterial now. Sheltering \$30k income from taxes matters more. All cash flow goes into upgrading the building. The couple will probably report expenditures as immediately deductible repairs rather than capital improvements, which would undesirably stretch the tax savings over a generation. They expect that over the next twenty years the property will increase in value. Their expectation is that demand for prime property will increase. Prime locations have historically climbed more than ordinary spots. If the property only climbs steadily like a diesel going up the steep mountain, they will be satisfied. As Will Rogers pointed out, no one is making any more land.

This approach is not merely a wealth-building technique; it is an integral portion of their identity. These investors like good quality and can afford to own it.

## **What does a smart renovator look for in a property?**

Roughly ten of San Diego County's zip codes have properties that fit this model. Classic properties are in San Diego's earliest and most affluent zip codes.

A prototypical asset might be 80 years-old with hardwood floors, cove ceilings, or is within a few blocks of saltwater. It is unique. The property itself should have some charm or potential for added value, which may mean enhancing or restoring original architectural features in 1930s bungalows or updating a 1960s to refresh its mid-century modern aspects. Adding an attractive sloped roof, fresh façade, upgraded landscaping and paints from this decade can make a huge difference in an older facility.

These high income investors are

burying taxable income while also enhancing the value of their property. The building may eventually resemble bread and breakfast quality. Kitchens and bathrooms may be upgraded to vintage looks, maybe with today's materials. Grace notes and elegant touches make the residents and the owners proud. Elegance and charm are more important than architectural purity. These investors create the environment discerning residents want and will pay for.

Parking will probably be limited. Bike racks could be included. Electrical service can be upgraded and Wi-Fi standard. Perhaps the units are remodeled for the intensely ecologically-minded resident. Discrete gardens and small composting bins may appeal to the desired clientele.

Many folks fantasize about this type of investment. Unless you are already quite affluent or this building will become your hobby, this strategy is not for you.

Buildings that are worthy of this strategy are not on the market every month. When a "diamond in the rough" becomes available be aware that you'll be bidding against other deep-pocketed investors.

## **Is this strategy best for you?**

Now that you are grown up, what do you want to be? Less than 10% of the investors will pursue this approach. If you love value and hate paying taxes early, then this path may be wonderful.

You are wise to consider your objectives. What lights your fire? What is your calling? Does your wealth enable you to live a fuller life according to what you value? In 50 years you're probably going to be gone. Choose well.

**Terry Moore, CCIM**, routinely serves discerning investors and helps them live out their vision. For a generation he has been part owner of **ACI Apartments**, and he is a *San Diego Daily Transcript* Trusted Advisor. He is fortunate to be married to Sandy who has more class and design sense than he does. Terry helps real estate investors make the most important financial choice of their next decade. You can reach him at [tmoore1031@gmail.com](mailto:tmoore1031@gmail.com), 619-889-1031 or [SanDiegoApartmentBroker.com](http://SanDiegoApartmentBroker.com)