



Clarion Newsletter

November 2013

1031 Exchanges Into Securitized Real Estate Investment Property Owners Ready to Sell Rental Properties

It is amazing what the recession of the century can do to your plans. In 2008 and 2009 the first wave of baby boomers began reaching retirement age. A good percentage of these people were self-employed, entrepreneurs who built their wealth and retirement around owning and managing investment and rental properties. Many of them were poised to retire on the heels of the red hot real estate and stock market of the preceding several years. Then, right when they were getting ready to 1031 exchange their properties into securitized real estate and retire, the Great Recession arrived, property values plummeted and banks stopped lending money. Bad timing indeed. The effect has been to postpone the retirement of many people by as much as 5-10 years.

In the last several months we have seen a resurgence in the 1031 exchange industry as banks are lending again, buyers have returned to the market place and landlords are selling their properties and exchanging into securitized real estate allowing them to retire from active property management. Good timing this time around as property values are rebounding, mortgage rates remain at historic lows, taxes have increased January 1, 2013 on the sale of investment property (capital gains increased to 20% for certain taxpayers and all will now pay a 3.8% Medicare Surtax upon the sale and non-exchange of their property) and the pent up demand in the market place stalled by recessionary pressures of the last few years is bigger than ever.

Waiting in the wings are tens of thousands of landlords ready to sell their rental properties and 1031 exchange into securitized real estate. These structures still offer the best solution for landlords tired of property management who want to defer taxes due at sale on capital gains, Medicare Surtax and depreciation recapture, and for many, potentially increase their monthly income, while transitioning to a more comfortable lifestyle.

The recession touched all of us. We all lost value in our real estate holdings; about 30-45% at the low point according to some reports. But values

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Upcoming Seminars

Tuesday, December 10
Thursday, January 23
Tuesday, February 11

Portfolio Review

Call us today to make an
in person or phone
appointment to review
your portfolio.

Contact Us
866-557-1031



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rebounded and have continued to increase. Many people believe inflation will soon return to the market place causing landlords to take advantage of the opportunity to raise rental rates, increase profitability and sell/1031 into an up market. That makes perfect sense. That is how profit is made in the investment property business.

The result is great on the one hand; sold the property for a fair price in an up market. On the other hand, the opportunity may not be as great. Given only 45 days to select your replacement property, it is highly likely you will be buying into a new property purchased in the current market. In other words, when we sell low we buy low and when we sell high we also buy high. Our best advice, try to buy low and sell high whenever possible, which generally requires holding and managing investment properties through a couple of real estate cycles.

The recession was tough on real estate and securitized real estate took their share of lumps along with the rest of the market. But in general, most properties are Class A real estate which held its value better than any other asset class during the recession. Better locations, better tenants, higher quality materials and professional property management all contributed to help Class A real estate do a pretty good job of holding on to value in down markets.

Now is a great time to buy Class A investment-grade real estate as the recession recovery continues. Investment properties are being purchased at current market values and come with financing at today's rates. If we are still somewhere near the bottom of the real estate market then this could be the best time for years to come to buy investment grade real estate. It is this fact alone that makes it a good time to invest; because we can buy low now.

These Class A properties, mostly large multi-family and/or single credit tenant, stand-alone NNN net lease, are available as 1031 exchange options for our clients through our Broker/Dealer Centaurus Financial. PPMs are available for accredited investors only¹. Please read the PPMs carefully for an explanation of the potential risks and benefits associated with each property.

At ClearView, we have helped our clients successfully complete about 400 of these 1031 exchanges over the last decade. We have a lot of experience in this investment class and can help our clients evaluate and determine if the 1031 exchange into securitized real estate is suitable for them. Give us a call to learn more.

¹ *Accredited investor: those with a net worth of \$1,000,000, excluding the value of the primary residence, or income exceeding \$200,000 in each of the two most recent years or joint income with a spouse exceeding \$300,000 for those years and a reasonable expectation of the same income level in the current year.*

PERSONAL FINANCE

Social Security—America's Pension Plan

In September we were fortunate to have Andy Landis, a prominent expert on Social Security, speak to our clients at a noon seminar in Bellevue, WA on the ins and outs of America's pension plan. This was one of the



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most well-received client programs we have conducted in the last 25 years. The client feedback to date has been overwhelmingly positive, with many attendees stating they learned new things about Social Security they had never heard before. Andy did a wonderful job presenting a complex subject in a straightforward and easy to understand manner, and answered everyone's questions about their own personal situations. A brief outline of some of the highlights from Andy's presentation appears below.

1. All major cities have offices of the Social Security Administration. When you call and or visit your local office (there is one in Bellevue and four in Seattle) be sure to direct your questions to a "claims representative" whom you will find to be well qualified to answer all of your questions.
2. Social Security is a retirement plan managed by the government that insures against loss of work income due to age, disability and/or death. Social Security is one of the few pension plans to provide an annual COLA adjustment to your income; 1.7% in January 2013 and 3.6% in January 2012.
3. Despite what we hear in the "political news" from D.C., Social Security is running at a projected surplus through 2020 (+\$54 Billion the end of 2012) and with reserves of \$2.7 trillion the Trust funds are sound until 2033 and 77% sound thereafter, with assets invested 100% in bonds currently yielding 4.4%; all according to the Social Security Trustee's Report.
4. Virtually all workers pay into Social Security. Only about 4% of jobs are outside of the Social Security system, almost all of them federal, state and municipal government employees. Eligibility is based upon either a minimum of 10 years of work or currently married to an eligible worker. Payments are based upon average earnings for the best 35 years.
5. The taxable income cap for Social Security in 2013 is \$113,700. Assuming a worker earned the maximum income over their best 35 years and retired in 2013 at 65, their income would be about \$2,414 per month.
6. The longer you wait to draw Social Security the more you can expect to receive each month. Generally speaking, at age 62 you will receive about 75% of the total potential benefit, about 85% at 64, 100% at 66, 116% at 68 and 132% if you wait to age 70.
7. "Full Retirement Age" (FRA) is based upon the year of birth. Beginning with those born 1937 and earlier, FRA is 65. The scale then escalates gradually to those people born in 1942. FRA is 66 for those born between 1943 and 1954. It then escalates gradually again up to those born in 1959. For those born in 1960 and thereafter FRA is 67.
8. A non-working spouse of an eligible worker can collect up to 50% of the eligible spouses' Social Security if applying at FRA, but only 35% if applying before FRA. A working spouse who applies for both their and their spouses' benefits at the same time upon retirement will receive the greater of their benefit or 50% of their eligible spouses' benefit.
9. Children can also collect 50% of the eligible parent's Social Security if they are an unmarried minor, under 19 and in high school, or they are a disabled adult.
10. Former spouses of an eligible worker can also receive 50% of the qualified workers' benefit if they were married to the eligible worker for at least 10 years, they are currently not married, their former spouse is at least 62 and collecting their benefit and they meet all other usual requirements.
11. Survivors of a deceased qualified worker can collect on the workers' benefits as well. Up to 100% of the benefit at FRA for the spouse and all former qualifying spouses. Dependent children collect 75% until

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- graduating from high school.
12. Working while collecting Social Security triggers reductions of your Social Security income if you are under the FRA. No penalty if over FRA. The income limit for 2013 is \$15,120. All earnings in excess of the limit create a penalty of $\frac{1}{2}$ excess earnings. (Worker 63 collecting benefits earns \$19,120, minus \$15,120 = \$4,000 x $\frac{1}{2}$ = \$2,000 of Social Security benefit withheld.)
 13. You should apply for benefits 3 months before the date you begin to collect. You can apply by phone, visiting an office or on the web. If calling, the phone lines are staffed from 7 a.m. to 7 p.m., plan to avoid making mid-day calls when most calls are received.
 14. Medicare eligibility age is 65 for all Americans. Again, apply 3 months before turning 65. The Social Security application is also the Medicare application. Be sure to buy Medicare supplemental insurance as Medicare only covers 60% of medical bills.
 15. A few odds and ends:
 - a. You can generate a useful report called "My Social Security" account to verify your current benefit level by visiting the Social Security web site.
 - b. It is possible to increase your benefits by continuing to work after 62 IF you earn substantial income that increases your 35 best year's average.
 - c. For couples in their mid-60's today, it is projected on average men will die by age 85 and women will continue to collect after turning 85. The average age for the second death is projected to be 92.
 - d. The average person collects Social Security for 17 years.
 - e. Supplemental Security Income (SSI) for disabled persons usually pays less than applicable Social Security benefits.
 - f. Social Security does not pay self-employed workers until age 66 if they work over 45 hours per MONTH.
 - g. A unique provision called "File and Suspend" can be valuable in certain cases to benefit eligible workers who want to continue to work but provide current benefits to their family members. One can file at 66 and immediately suspend their benefits, continue to work without negatively affecting their future benefit, enabling qualified family members to collect on the eligible workers benefit. At age 70 the worker can un-suspend and collect BACK PAY benefits along with their eligible benefits due at that time.

As you can see there is a lot to learn about Social Security to ensure you and your loved ones are collecting full benefits. You can learn a lot more by calling Social Security at 800-SSA-1213 and asking to speak with a Claims Representative, by visiting your regional Social Security office or by visiting the Social Security Administration web site.

As always please call us at ClearView any time we can be of assistance.

Happy Holidays!

From all of us at ClearView, wishing you every happiness this holiday season and through out the coming year!

