

## **Insure that you make your 1031 exchange deadlines. Defer your capital gains tax increase your cash flow as you upgrade your property holdings**

Many people have told me recently that they would love to upgrade their property holdings by selling some of their current real estate assets and using a 1031 trade acquire new and better property. They see this as a great way to increase their cash flow and leverage. However, these same people are concerned that they won't be able to find a suitable up leg property for the 1031 trade. So we'd like to share a number of strategies that can aid you in finding a solid investment under the 1031 guidelines and deliver the returns, leverage, and cash flow most investors are looking for.

### **What is a 1031 exchange?**

For many property investors, a 1031 tax-deferred property exchange can provide just such an advantage. A 1031 or "like kind" exchange is a transaction that allows you to sell one property (including investment, rental, business or vacation real estate) and purchase another of like kind without paying any immediate capital gains on your sale. Instead, you transfer the cost basis of your old property to your new one. The term "1031" refers to the IRS code that makes this possible.

1031 exchanges allow you to keep the money that money you would normally be sending to Uncle Sam upon your real estate sale and put it to work immediately to make that next purchase, upgrading your property holdings and increasing your income stream.

### **1031 Advantages:**

- Being able to defer your capital gains tax payment allows you to **use that money to upgrade your holdings more effectively** (i.e., buy something bigger and better than you would if you had to send a chunk of money to the IRS right away)
- Your upgraded property holding can dramatically **enhance your revenue flow** (more rental/lease space and higher rent or lease rates are just two obvious ways this can work for you). During the years you hold this second property, this increased revenue can more than make up for the extra dollars you'll be paying in capital gains when you finally sell this second property.

While the IRS says the new property must be of "like kind," their definition of "like kind" is pretty broad. So you're able not only to upgrade your holding, but also to move from market to market (from commercial real estate to residential, for instance) to **take advantage of real estate trends**, and further increase your profits over the long haul.

Even with all these advantages, many of our clients are finding it impossible to identify suitable exchange properties within the strict timeframes legislated by the IRS

### **If you don't make the deadlines**

What happens if you miss either the 45-day deadline for identifying three prospective properties, or the 180-day deadline for closing a purchase? The IRS code says that the 1031 trust will be liquidated, your money will be returned to you, and you'll pay capital gains at the standard rate on that first transaction.

However, there are good ways around this potential challenge. A 1031 exchange expert can help you invest your 1031-eligible proceeds in qualified temporary holdings. These investments—generally you will be buying "pieces" of properties with other investors in the same boat—are IRS-approved vehicles that allow you to "park" your 1031 cash until you find the property you really want to buy. In effect, this

takes the pressure off and prevents investors from buying a property that's not really right for them in their eagerness to take advantage of the overall benefits of the 1031 exchange.

### **The TIC Solution**

Tenant-in-Common Ownership, also known as TIC ownership, is rapidly becoming the most popular choice among real estate exchangers seeking ideal replacement properties. A TIC interest represents co-ownership between two or more investors. It's especially suited to investors involved in the 1031 exchange process because, thanks to pre-arranged financing, the properties can be identified and closed in a timely manner. While it is often difficult to locate a property that has the right purchase price, debt ratio and closing schedule within the 45-day time limit, TIC properties are flexible enough to meet almost any 1031 exchanger's needs.

### **The advantages of the TIC**

Since TIC investors receive separate deeds to undivided interests, they are able to own fractional interests in potentially larger, higher valued and better located properties than they could own independently. The resulting advantages may include increased net cash flow, tax write-offs and appreciation without the headaches and time commitments of real estate management. With a TIC 1031 exchange, you can trade your management-intensive property for a triple net lease or institutional-quality property that will appreciate and generate steady income on its own. Through your management contract, a manager can be retained to deal with the hassles of tenants, maintenance and upkeep while you enjoy your free time!

### **What's the first step?**

Here at Skyline leasing, we have developed relationships with the nation's leading real estate providers and experts in the tenants in common structure. Let us put these contact to work for you, to greatly increase the certainty of closing in a timely manner when buying your replacement investment property.

### **How Skyline Commercial Real Estate can help!**

We have the expertise to ease the process and maximize the benefits of your 1031 exchange, helping you to:

- Increase the certainty of closing on your 1031 exchange.
- Gain access to professionally managed property.
- Move up to triple net lease, institutional-grade investment property across all classes of real estate.
- Increase your net cash flow.
- Shelter cash flow from current income taxes through depreciation and operating expenses.
- Maximize your opportunities for higher returns.

As you can easily imagine from these descriptions, the 1031 exchange can be a great deal for you, but it can also be a complicated business. It's imperative that you find experts who can help you make the right decisions to derive the most possible benefits from your 1031 exchange. For more information, call the real estate professionals at Starboard Commercial Real Estate--Peter Rosenthal (at 415-765-6890) and Steve Newhauser (at 415-477-8499). Or visit us online at [www.skylineleasing.com](http://www.skylineleasing.com).

