



MAXIMIZING VALUE AND RETURN ON EQUITY (ROE)

1031 Exchanges Allow Investors to Trade Up and Defer Taxes

Marcus & Millichap, the nation's largest real estate investment brokerage firm, is one of the industry's leaders in the area of 1031 exchanges. Our long-term relationships with owners and investors of every major property type in markets nationwide allow us to match properties and exchange buyers with speed and efficiency.

■ LEVERAGING THE MARKET

It's no secret that the combination of low interest rates and strong buyer demand has increased commercial property values; in some areas values have risen substantially. As a result, owners of investment property struggle with the dilemma of how to take advantage of "built up" equity in their income-producing properties, increasing their return on equity, while deferring paying capital gains taxes. The current market environment has encouraged private investors to upgrade or reposition their real estate holdings.

■ BENEFITS OF A 1031 EXCHANGE

With proper guidance from a tax professional or attorney, well informed investors are utilizing the 1031 provision in the Internal Revenue Code, otherwise known as a Starker exchange, to meet the dual objectives of "trading up" to larger or higher quality properties, while at the same time deferring capital gains taxes. Some investors, especially aging baby boomers, are trading into properties that are less management intensive.

■ KNOWING THE BASICS

While there are three basic types of exchanges—simultaneous, reverse and deferred—deferred exchanges account for 95 percent these types of transactions. When selling an investment property, the code allows a seller 45 days from the close of escrow of the relinquished property ("down leg") to identify up to three replacement properties ("up leg"), and an additional 135 days to close escrow on at least one of the identified properties. The seller must contract with a neutral third party, known as a qualified intermediary or accommodator, to hold the funds from the sale of the relinquished property and to purchase the replacement property for the seller's benefit. Completing this process allows sellers of real property, held for investment purposes, to delay or defer the payment of capital gains and recapture of the depreciation tax benefit. Deviating from the process described above may result in tax consequences or costly penalties.

■ MAKE INFORMED DECISIONS

While 1031 exchanges have gained increasing popularity, each investor should evaluate their own situation and objectives. The first step is to have a qualified real estate agent evaluate your property to determine market value and then discuss the tax alternatives with you tax advisor. In some instances, it may be worth taking the cash and paying capital gains taxes considering the reduced rates enacted earlier this year. On the other hand, an exchange may be the key to unlocking built-up equity and providing the opportunity to expand a portfolio and create greater wealth. The biggest mistake would be not to know your alternatives.

MOST POWERFUL MARKETING SYSTEM IN THE INDUSTRY



Marcus & Millichap's nationwide network of investment specialists offers clients local market expertise with a national perspective. Our culture of sharing listing information and employing cutting-edge communication technology provides the foundation for matching every property with the right investor from coast to coast.

HOSPITALITY

Robert B. Hicks
(916) 677-4100

rhicks@marcusmillichap.com

MANUFACTURED HOUSING

Jeffrey M. Mishkin
(415) 391-9220

jmishkin@marcusmillichap.com

MULTI-FAMILY

Linwood C. Thompson
(770) 393-1700

lthompson@marcusmillichap.com

OFFICE & INDUSTRIAL

Alan L. Pontius
(650) 494-8900

apontius@marcusmillichap.com

RETAIL

Bernard J. Haddigan
(770) 393-1700

bhaddigan@marcusmillichap.com

SELF-STORAGE

David A. Wetta
(602) 952-9669

dwetta@marcusmillichap.com

SENIORS HOUSING

Gary R. Lucas
(415) 391-9220

glucas@marcusmillichap.com