



## **Investments: Get a net-lease property ready to go for your 1031 Exchange**

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With today's historically low interest rates along with a strong rebound in real estate, many owners are looking to adjust their real estate portfolios. For many, that means selling their current properties to realize their increased book value, as well as entering into a 1031 Exchange to maximize tax benefits.

Some owners will want to continue owning similar types of property, whether that be multi-tenant strip malls, residential buildings, or self-storage. For active owners, there is always potential for substantial upside in real estate investments, and seeking out properties that provide this opportunity is usually foremost on investors' minds. However, for owners looking to complete a 1031 Exchange and remain active in their investments, this can often times be more of a challenge than an opportunity.

In a 1031 Exchange, the exchanger must identify a replacement property within 45 days of their initial sale. This identification period can be troubling for an investor looking for a unique opportunity or a specific type of property that they have always relied upon and with which they are comfortable. This short time frame can often lead investors to purchase properties which require active management, but don't necessarily offer the upside they desire.

As an alternative to identifying a less than appealing investment, 1031 Exchangers can always count on utilizing a net-lease property for a hassle-free exchange as well as a passive, consistent income stream. A net-lease property is a particular type of property encumbered by a lease wherein the tenant, in addition to rent, pays all maintenance, taxes, and insurance. This self-managed property creates a consistent income stream without the need for active management by the landlord. This type of property is usually tenanted by a well-known public company such as Walgreens, AutoZone, 7-Eleven, or a national/regional bank which further would corporately guarantee the rent.

While net-lease doesn't usually provide the upside found in other types of commercial real estate, it does provide the most stable income stream to an owner, with minimal responsibilities.

For investors who are entering into a 1031 Exchange, a guaranteed property and closing is of the utmost importance. A net-lease property can serve to provide that surety, along with a relatively easy closing and simple financing, if needed. While net-lease may not be the most exciting type of real estate for the active and savvy investor, the near guarantee of an uncomplicated close and consistent revenue should provide every bit of confidence an investor needs to complete the 1031 Exchange - even if the perfect opportunity isn't found within the identification period.

We are often approached by sellers who have issues with finding an exchange property because they want to remain within a limited sector. Some buyers just want to stick with what they have done in the past and stay with what they are comfortable with. Recently we heard of a situation where the

seller left a lot of capital gains money on the table because they wanted to only buy what they knew - and that was chicken farms! When they didn't find or identify enough chicken farms to fulfill their exchange, they did not know to consider entering into a NNN- lease property which they could have simply identified and bought. If they had identified a property such as a Dollar General or Walgreens, they could have held and enjoyed the income, and could have sold it, having given themselves a year or more to find that perfect chicken farm! Perhaps too they would have enjoyed a nice, secure, and easy addition to their portfolio with a reliable cash flow - with a little diversification. An investor who is looking to complete their 1031 Exchange can also feel confident that they will be able to sell their net-lease property with the same ease with which it was purchased. Net-lease values tend to remain fairly stable since these properties are purchased for their cash flow, not value-add opportunity. This pricing model means owners can expect to sell their property within a tight range of their acquisition. This pricing allows an owner the time necessary to look for a good opportunity in an area of active real estate with which they are familiar or has consistently been a good strategy for their investments in real estate. Having a piece of net-lease for income which totally satisfies their 1031 requirements is a beautiful stop gap.

Marilyn Kane is the president and Sean Shanahan is the senior financial analyst at Iridium Capital Group, New York, N.Y.

New York Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540