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Exit strategies for multifamily investment property owners - by Russell Gullo

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Investing in multifamily investment property can provide four basic returns:

- Cash flow;
- Appreciation;
- Loan amortization; and
- Tax shelter.

With the use of leverage, or other people's money, you can control more real estate than if you needed to buy solely using your own cash.

As time goes on, your equity may significantly increase with appreciation and loan amortization both working in your favor. In addition to these benefits there are also some issues. For example, you probably experienced the "three T's of ownership" (tenants, toilets, and trash) and are at a point in your life where you are no longer interested in being an active investor, handling the day-to-day property management responsibilities of real estate, or there may be a large tax liability as a result from the sale of your profitable investment.

An exit strategy for multifamily investment property owners that solves many of these common problems entails executing a 1031 exchange and converting to a passive real estate investment position.

A 1031 exchange gives the opportunity to pay no tax when disposing of income-producing or investment held property. This concept has been around for a very long time and is one of two key components to this exit strategy. It allows you to maintain 100% of your equity working for you, rather than paying taxes to Uncle Sam, which in many cases can be as much as a third of your selling price in a traditional transaction not structured as a 1031 exchange.

One of the requirements of a 1031 exchange requires you to purchase other income-producing or investment held property. The final key component to this exit strategy is to convert your traditional active position in a real estate investment to a passive position. For example, you can purchase a NNN leased investment property where the building is leased long term to a strong tenant (Walgreens, Dollar General, AutoZone, etc.) that is responsible for the utilities, property taxes, insurance, and maintenance. This eliminates the headaches and responsibilities of property management found in active real estate investments. Another example is to purchase into a Delaware Statutory Trust (DST) Co-Ownership Investment where you would be one of many co-owners in a large investment property managed by a sponsor, allowing you to receive the many benefits of real estate investing but in a passive position.

In conclusion, if you enjoy real estate investing but no longer want to be an active investor and still want to maintain 100% of your current equity, there are options to continue building your wealth and convert to a passive position, eliminating typical property management responsibilities.

Russell Gullo, CCIM, CEA, is founder and CEO of the R. J. Gullo Companies: Qualified Intermediaries For 1031 Exchanges and Real Estate Investment Specialists, Buffalo, N.Y.; and founder and director of operations of the American Institute of Real Estate Exchangors (AIREE). He can be contacted via www.rjgullo.com for a free consultation on the following services: Qualified Intermediaries for 1031 exchanges, real estate investment brokerage, real estate co-ownership investments, and real estate transaction advisory.