



Portfolio optimization through 1031 exchanges - by Russell Gullo

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A common issue faced by real estate investors is owning properties that are geographically scattered. A possible strategy allows for them to efficiently consolidate and optimize their holdings, pay no tax through a 1031 exchange, and acquire one or more replacement properties in a new preferred location.

For example, an owner of a handful of duplexes scattered throughout New York is tired of the cold weather and managing properties all over the place. The owner would like to continue to invest in real estate but would prefer to consolidate the number of properties in the portfolio and relocate to a warmer climate. By selling the assets and paying no tax through a 1031 exchange, the owner would be able to acquire one or more like-kind replacement properties somewhere down south, such as Florida.

Another example, an owner of a single property in New York would like to expand their portfolio and acquire multiple properties in lower cost of living cities. By selling the asset and paying no tax through a 1031 exchange, the owner would be able to acquire multiple like-kind replacement properties and add diversification so they are no longer concentrated in one specific area.

While there are numerous variations to the above examples regarding the number of properties and locations involved, it is imperative in all cases to engage a professional Qualified Intermediary to structure the 1031 exchange transaction. While most real estate investors are familiar with the tax on capital gains, few remember the additional recapture of depreciation and state taxes. In some cases, as much as one third of the selling price may be lost in the form of taxation depending on how long the real estate was owned.

Summary

Real estate investors can efficiently consolidate and optimize their holdings, pay no tax through a 1031 exchange, and acquire one or more replacement properties in a new preferred location.

Contact the R. J. Gullo Cos.: Real Estate Investment Services for more information on 1031 exchanges, real estate investment brokerage, real estate investments, or real estate transaction advisory.

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