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What do 1031 and inheritance tax reforms mean for commercial real estate investors? - by Marc Hershberg & Jared Isaac

December 01, 2020 - Front Section

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While the U.S Presidential election is behind us (seemingly), much is still in the air in regards to the balance of power in the senate with two January 5th runoff elections in Georgia weighing in the balance. The commercial real estate industry will be following closely as it is expected that the senate will look to pass a new tax reform shortly thereafter. This highly anticipated tax reform is expected to target the commonly used Section 1031 exchange where real estate investors can roll in their capital gains taxes into “like-kind” properties by deferring taxes on those gains.

As you may already know, Joe Biden has announced numerous times that he will seek to abruptly ban these exchanges for individuals whose annual income exceeds $400,000. In addition, the Biden Administration desires to rid the commercial real estate industry of the “stepped-up basis” that is inherently tied to a 1031 investors goal of minimizing their inheritance taxes for the next generation. Investors need to be wary of the new administration’s tax plan and take a more proactive and strategic approach now more than ever.

If the Senate were to pass these reforms shortly after the inauguration in January, commercial real estate investors who are currently entering into or already undergoing an exchange, will need to move fast in order to take advantage of the pre-existing tax benefits. Nationwide, 1031 platforms have existed for some time now, however, these programs usually involve large Delaware Statutory Trusts that leave investors in the graces of the sponsors offering the deals with limited protections. Investors should seek out syndicators/sponsors that offer more involvement and protections than the mainstream platforms that currently exist. With the inauguration around the corner, investors need a strong pipeline of vetted investment opportunities tailored to their specific needs coupled with the certainty of execution that a qualified sponsor can bring to the table. Coupled with that experience and surety of close, investors should seek out asset classes that have historically offered income stability and downside protection despite economic and political uncertainty. They should look no further than quality multifamily affordable housing in high growth and business-friendly markets.

Therefore, under a Democratic-led administration, investors will need to hedge their risks by investing in the safest and most risk-adjusted asset class afforded today–multifamily. To add further hedging and risk mitigation, an investor should consider an already vetted pipeline of deals and proven sponsorship with a track record alongside in-house Section 1031 experts in the space.

TOPAZ TEN31 Xchange is a platform designed specifically for 1031 investors seeking opportunities in the multifamily and mixed use investment space. It is a one-stop shop offering replacement properties, capital advisory, and innovative multiple-owner struc-tures that have been created and designed specifically for 1031 exchange transactions nationwide. TOPAZ's expertise in both debt and equity transactions gives us the ability to properly identify the perfect property for your 1031 needs. As an investment sponsor spe-cializing in multifamily transactions, TOPAZ has the experience and flexibility to place your equity and debt into one of our many investments. Post-closing, TOPAZ will work with our regional property managers to manage the property while asset management is done in-house. Using our proven platform, you can be sure that your investment is in good hands. TOPAZ is able to structure and customize the exchange to fit your specific investment objective and will be with you all the way to make sure that objective is accomplished.

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