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Non-traded REITs for cash investors - DSTs for 1031

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Financing problems have plagued commercial real estate since 2008. But problems for existing real estate owners have brought the best buying opportunities of our lifetimes. Institutional real estate owners have been forced to liquidate some of their real estate portfolios at bargain-basement prices in order to raise money to refinance expiring debt. More debt is coming due over the next two years that has to be paid off - creating more buying opportunities for cash-rich purchasers.

Investors can join forces to purchase institutional-quality real estate today at bargain prices through non-traded REITs. Those with a $250,000 net worth and/or a $70,000 annual income are usually eligible to invest in the non-traded REITs.

Non-traded REITs are not publicly traded, and do not suffer exposure to the whims of the stock market. Also, non-traded real estate is about 18 months behind values of publicly traded REITs, which have made solid advances over the last year. Because the stock market value is a projection of the future of the economy and private real estate sales are based on past sales - public REIT prices always stay about 18 months ahead of non-traded REIT values. As of early July of 2010, publicly traded REITs are up roughly 50% compared to a year ago according to reit.com. Commercial prices are actually just bottoming out and should start moving higher in the next year or so. This projected price increase is already reflected in current publicly traded REIT prices. Non-traded REITs are often better values today than publicly traded REITs.

Another advantage of non-traded REITs over their publicly traded cousins is that usually non-traded REITs are more tax efficient. The dividends are usually higher in non-traded REITs - some 6.5% compared to about 4%. But that higher dividend is more tax efficient, as cost segregation and other accelerated depreciation methods are used for non-traded REITs, as they usually have around a 5-year life. Publicly traded REITs have a much longer life - perhaps into perpetuity - and do not usually seek accelerated depreciation methods.

Because non-traded REITs are not carried by most wire-houses and brokerage firms, they are very much underutilized in most portfolios. I believe Real Estate is an important sector to own today - it offers a combination of solid income and growth. Many advisors feel that REITs have replaced utility stocks in portfolios as REITs offer more income and growth, with no stock market risk. If you would like to invest with the top real estate professionals in the country and let them do the work while you sit back and enjoy income and growth - non-traded REITs could be a good fit.

For those seeking professionally managed 1031 (tax-deferred exchange) replacement property - Delaware Statutory Trusts (DST) are becoming more and more popular. Many are offered from the same companies that offer non-traded REITs. DSTs which are configured properly have been eligible for 1031 exchanges since 2004. DSTs are a much better arrangement for investors than Tenant-In-Common vehicles. DSTs allow investors to "invest with the sponsor" - aligning the interests of the DST sponsor and their investors. Today income on professionally managed DSTs range from 6-8%. Since the real estate is being acquired at today's low rates - not only do they offer solid income, but investors should enjoy excellent growth potential as well.

To see examples of how these investments can work for you, contact our firm for a consultation.

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