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Seven ways 1031 Exchange can help you achieve your investment goals - by Michelle Fitzpatrick

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Michelle Fitzpatrick

Good journalists know that in order to communicate information effectively, they have to answer the who, what, where, when, why and how questions in the first sentence of their article. So many of my recent articles and social media posts have focused on who can utilize a 1031 Exchange, what types of properties qualify, when is the best time to exchange and most often, how the process works. However, it is equally as important to understand WHY investors exchange, so you can better determine if an exchange is right for your business and how you can benefit.

Here are some of the more common reasons why our real estate investor clients utilize 1031 Ex-change:

Estate Planning: Investment properties make up a large percentage of our clients' assets, which will need to be considered when creating their estate plans. Many clients are faced with situations where their heirs may not want to or are not able to manage a particular investment property, and the inheritance becomes a burden. Investors may utilize 1031 Exchange to acquire multiple properties for each heir, smaller more manageable properties in more desirable locations or opt for a vacation rental in a retirement community for future use.

Diversification: Often, in conjunction with estate planning, investors plan to diversify their asset. They may have one large multi-family or commercial property and choose to purchase multiple smaller properties. This is beneficial when dividing assets for estate planning, or as a strategy to slowly ease out of investment real estate.

Consolidation: On the flip side, clients who have many years left to invest may be in the position to consolidate their multiple properties into one larger multi-family or commercial property. This of-ten alleviates management burdens, cons

Increased Depreciation: The IRS allows an investor to depreciate a residential investment property over 27.5 years, and a non-residential property for 39 years. If the value of the investor's property

has significantly increased as it approaches the end of its depreciation life-cycle, it can be a powerful tax strategy to utilize 1031 Exchange and purchase a new appreciated asset. The depreciation clock can start over again on the excess basis (or the profit). This will ultimately increase cash flow in the new property. It is important to talk with a tax advisor to explore this option in greater detail.

Cash Flow: So often investors are looking to increase their cash flow, but location, property condition, property size, city taxes and utility fees are hindering their income. Some examples of how clients have increased their cash flow:

- Vacation rentals in a desirable spot that commands top nightly and weekly rents.
- Avoid Condos with high HOA fees that offer little amenities or return.
- NNN commercial properties where tenant is responsible for all expenses.
- Location, Location, Location. Focus on desirable neighborhoods that drive higher rents.

Management Relief: If anyone has been a landlord before, you understand the feeling you get when the phone rings in the middle of the night; tenant with no heat or a burst water pipe. Many seasoned landlords don't want these management headaches forever. 1031 Exchange can help these landlords find a more suitable property to alleviate this stress. Often times this can be achieved by exchanging the troublesome property for a property that is newer or newly renovated, a condo with a management company, a vacation property with a rental and management company, a Delaware Statutory Trust or a NNN commercial property. These are just a few of the possibilities to explore to alleviate this burden.

Leverage: As I stated above, real property is often the biggest asset people own. In the Boston area, properties have continued to increase in value and these investors have equity tied up in their investments. By exchanging and buying up in value, utilizing the equity and borrowing funds, savvy investors will increase their net worth and have highly valued properties in desirable locations.

Although it is so important to understand how 1031 Exchange works, it is more important to understand why it will work for you. Now that you've read through all the "Why's," it's a good time to consider your property and your situation to see if there's anything about your real estate investment and overall strategy you want to change, and how 1031 Exchange can help.

Michele Fitzpatrick is the 1031 Exchange Relationship Manager, vice president at Northern Bank, Boston, Mass.

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