Institute for Portfolio Alternatives

# 1031 LIKE-KIND EXCHANGES – MAIN STREET INVESTOR CASE STUDIES

## CASE STUDY #1:

A CPA and Registered Investment Advisor in Troy, Michigan assisted a client who owned and managed an apartment complex in Northfield, Michigan for 30 years. As retirement finally became reality, the client wanted to eliminate the burden of active management, reduce their market exposure and improve their cash flow to supplement retirement. By reinvesting the sale proceeds from the apartment building through a 1031 like-kind exchange, the advisor was able to diversify his client's investment into four institutionally managed real estate funds reducing the investors risk through asset class, geographic and asset management diversification and more than doubled their monthly retirement income. Meanwhile, the apartment building's new owner, invested heavily in upgrading the apartment complex, spurring economic impact through construction activity, transfer and retail tax revenues, in addition to impacting the local community by improving the affordable housing stock.

## CASE STUDY #2:

Main Street investors utilizing Like-Kind Exchanges are generally between the ages of 55 and 75. Many own real estate incidental to a self-employed business venture. In retirement, the sale of these properties forms the majority of these investors' retirement assets and income. Without the benefits of company-sponsored 401(k) or other qualified plans, reinvested proceeds utilizing a like-kind exchange is often their only form of retirement savings.

A Registered Investment Advisor and Principle of an Independent Broker Dealer in Southern California assisted a retail client, a widow whose husband owned an auto service business in Southern California. Forced to sell when her husband passed away, the real estate portion of the business formed a large percentage of the sale and her net worth. By reinvesting the capital gains from the sale of the business's real estate, the widow now receives durable monthly income from the replacement properties' rental income, significantly improving her retirement. The subsequent property effectively has become her IRA account.

## CASE STUDY #3:

A Financial Advisor's client owned a small inn which was forced to shut down due to competition from a number of larger, name-brand hotel chain. The family was able to sell the building and land to a developer and subsequently reinvested the resulting proceeds in rental real estate which qualified for 1031 exchange. Although the family no longer owns a cash flowing business, they were able to invest the proceeds from the sale into institutionally managed commercial real estate, replacing and increasing their income. As a result, the retail client is able to make ends meet in retirement primarily due to the rental property's cash flow.

## CASE STUDY #4:

A financial advisor's client, a veterinarian (Jane, aged 66 of Waukesha, WI) was interested in selling her practice along with the building she had operated out of and had owned for 30 years ($500,000 value and low tax basis). Owning the building while she was practicing made economic sense, but now she was interested in finding ways to create an income stream in retirement. She evaluated a 1031 exchange into professionally managed real estate as a way to diversify her real estate exposure, remove the day-to-day management responsibilities of owning a building and to help create the monthly income stream that she can count on for retirement.

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## CASE STUDY #5:

A married couple, Bob and Linda, in their 60s owned and operated their own restaurant in Boston for 25 years. They had worked day and night nearly 363 days a year to build their nest egg and had finally reached the point where they could comfortably retire. Bob and Linda mulled over the decision to sell the business to another couple that reminded them of themselves 20 years prior. They received an acceptable offer for the business and the real estate. Bob and Linda were not real estate experts and did not have a lot of cash, most of their net worth was in the business and real estate. In fact, the sale of the business was meant to be their retirement nest egg, but there was a shortfall after projected payment of taxes. When they were presented with the option of completing a like-kind exchange on commercial real estate portion and investing the proceeds into a professionally managed, income-generating commercial real estate, it changed the whole picture. The like-kind exchange allowed for sufficient monthly income to bridge the gap and keep their living standards equal to current conditions. They knew that the deferral of the taxes would help them immensely during their younger retirement years when they wanted to visit grandkids and take some vacations, and later when they would likely have a less lively lifestyle requiring less income, they could sell the their interest in the real estate and pay the taxes.

## CASE STUDY #6:

A California couple in their 50s owned a dry-cleaning business in which the entire family played a role operating, and also owned the premises. Mother (Su) and father (Lee) didn't speak flawless English and had their two teenage children (Andrew and Joanna) work as the face of the company interacting with customers on a day to day basis. As the kids were approaching their college years, the parents knew they needed help paying for their education and would no longer have the help they needed for the client facing aspect for their business. The parents decided to sell the business in order to raise cash to pay for college, establish a savings account for retirement and also do some planning so that they could cover their monthly expenses while they figured out their next step. They were fortunate enough to find a buyer for the business and the real estate. Being able to convert the building into an income-generating, diversified real estate investment utilizing a like-kind exchange was a game-changing option for Su and Lee in their planning for college expenses (education was extremely important to them) and their retirement.

## CASE STUDY #7:

An immigrant family arrives in California in the early 1910's and begins chasing the American Dream by farming in the state's Central Valley. Over the years as this young man ages and starts his own family, he is able to purchase a small 40-acre plot of land to call his own and farm his own land. Each year brought its own challenges and over time this small plot of land was the primary family asset. This asset provided the family income. The Patriarch dies in the 1970's after 50 years of toil and the next generation keeps it going to support the Matriarch. By the 2000's the matriarch is in her 90's, the next generation is thinking of their own retirement and the family decides to sell the farm (the asset that has been providing income to support the 90-year-old Matriarch and the family.) With a farm sale, the Matriarch must find new living accommodations and replace the income. Without the option of the exchange, a substantial portion of the sales proceeds would be taxed as gain, substantially reducing the net proceeds needed to generate income and needed living expenses, including elder care, etc.

By completing a like-kind exchange, the Matriarch is allowed the opportunity to preserve as substantial amount of the value of the property she and her family worked so hard to care for over 70 years, by deferring the taxable gain she was able to generate enough income to support herself and her needs in the twilight of her life. The gain that had been created by her and several generations of this families' hard work over the many years. The exchange allowed her to live in her new home, hire the nursing care needed and cover her living expenses, reducing the financial burden on the family. The Matriarch lived to be 96 years old.