January 16, 2024
Spokane Estate Planning Council Meeting
5:30-7:00 p.m. Gonzaga University, Globe Room, Cataldo Hall

Speaker: Jeffrey T. Walters, CFP®, CMFC®

Title: Exchange Strategies for Concentrated Real Estate Positions

<u>About Jeffrey T. Walters:</u>
Jeff Walters oversees raising capital for Hines Securities in six states on the West Coast. He has held this role with Hines since 2012, and similar roles for firms such as The Hartford since 2000. Having an extensive history of working with RIA's and financial planners to place several billion dollars into investment portfolios, he has unique insights on best practices in the diligence, implementation, and management of alternative investments. Jeff graduated from the University of Washington with a B.A. in Business with a concentration in Finance and has the designation of Certified Financial Planner®.

He will cover the options and the positives/negatives for owners of appreciated real estate from a financial planning standpoint (and how they each work)!

Outline:
Planning Options For Owners Of Appreciated Real Estate
1. Sell
2. Hold
3. 1031 to Local Property
4. 1031 using a DST
5. 721 Exchange
6. The 2 Step Exchange (1031 and a 721 Exchange)

1. We will discuss the positives and negatives of each of these options.
2. We will discuss the tax implications, estate planning ramifications, liquidity options, and concentration risk choices of each.
3. We will discuss the 721 in additional detail

Sell:
If I were to sell my appreciated real estate:
Benefits: Control of my money and how it is invested in the future, can diversify to other asset classes, ease of passing this value from an estate planning standpoint.
Negatives: Tax Implications (Capital Gains tax, Recapture Tax, Investment Income Tax, State Taxes.)
Then I will give a numerical example of the difference between someone that exchanges and someone that pays the taxes.

Hold:
Benefits: Control of my existing building. Can hold until death and receive a step-up in basis.
Negatives: Concentration risk, lack of liquidity, estate planning challenges of passing on an illiquid asset to multiple beneficiaries, headaches of managing the property myself (3Ts: Tenants, toilets, trash)

1031 to local property:
Discuss what a 1031 exchange is the basic rules to follow (use a QI, 45 day rule, 180 day rule)
Benefits: Avoid tax on exchange. Can be a great wealth creation tool if I am actively involved in improving properties and then continue to exchange for higher value properties over time.
Negatives: all the same negatives of 'holding' – you just trade the problems of 1 property for that of another property.

1031 to DST:
Discuss what a DST is and how it works
Benefits: Tax free exchange, exchange to a potentially higher quality institutional property with investment grade tenants, passive management/passive income
Negatives: lack of liquidity both during life and death, concentration risk, cost of repeated exchanges over time (swap till you drop)

721 Exchange:
Discuss what a 721 is and how it works
Benefits: Tax free exchange, diversified real estate portfolio owned, passive income/passive mgmt, higher quality buildings/tenants, potential for ongoing liquidity (depending on REIT), ability to remove cost basis FIFO post exchange, one and done exchange strategy which reduces costs of exchange fees over time, estate planning ease in passing shares to multiple beneficiaries.
Negatives: Cannot 1031 out of the REIT if I change my mind (but could leave if I pay the taxes). A rare solution bc REITs typically don't want to buy my client's property directly.

1031 to 721:
Discuss how we conduct this exchange using the 2 step process.
Discuss the master lease structure of the DST.
Benefits: all the same as 721 above
Negatives: Cannot 1031 out of the REIT if I change my mind (but could leave if I pay the taxes). Takes me 2 years minimum before I get to the REIT, and one year of owning the REIT before I can get principal liquidity.

We will finish with discussion of planning strategies post 1031/721 exchange including:

7. Cost basis stripping
8. Matching
9. Spreading
10. Use of charitable trusts

RE Update
Finally, I will discuss the latest macro views on commercial real estate / some trends in the CRE marketplace.

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