

TIC'S & NNN's For Your 1031 Exchange

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As an owner of apartment properties, you've had long term success. To many, this means consistent positive cash flow, appreciation, equity build up and the tax shelter benefits of depreciation and interest expense deductions to help maximize your after tax cash flow. But while recognizing this success, you have elected to sell for one of two reasons, or a blend of both:

Economic Benefits Have Diminished: The value of your property has surpassed the after-tax-cash flow it currently generates. You have built up considerable equity in the property over time. However, considering your initial equity investment, at best the property's cash flow compares tepidly with other investment product yields. You have fully depreciated the property or are approaching that point, and may have retired the debt thereby eliminating interest payment deductions.

While there are a number of ways to pull cash out of a property and to add value, one of the most efficient ways to realize the property's full appreciation is to sell and complete a 1031 Exchange. In this process, set forth by IRS Code 1031, a property owner trades one or more relinquished properties for one or more replacement properties of "like-kind". This enables the exchanger to defer paying the potentially substantial federal income taxes, depreciation recapture, and some state taxes that would otherwise be triggered by selling the property and cashing out.

Desire to Shed Management Burdens: Over the years you've essentially been "on-call" to tenants and/or your property management staff to address various tenant and property issues; both the routine and the hugely inconvenient. At this point your plan, perhaps influenced by other family members, is to retire or pursue other interests without the interference of hands-on management responsibilities.

If your motivation involves the desire to get out of the hands-on management business, the next step is to sort through the wide variety of 0-management real estate options available for your 1031 replacement property.

NNN's and TIC's: Two 1031 Trade Options!

In recent years two popular replacement property options have attracted many 1031 Exchange investors:

Single Tenant NNN Investments: Sometimes referred to in the real estate brokerage community as 'coupon clippers', single tenant NNN properties are typically freestanding buildings leased to such retail tenants as major drug, grocery and convenience stores, fast food restaurants and casual restaurant chains, banks, and tire and auto parts dealers,

