

August 2021

District Work Period Talking Points

NAR 1031 PROJECT

Overview

Thriving businesses are the economic lifeblood of our communities. They serve so many more than just their customers. They create jobs and opportunities for local residents. They create foot traffic for nearby stores and higher tax revenue for local government. They bolster property values, increase school funding and discourage crime.

In this sense, most local businesses aren't really competing with each other. Rather, they are cooperating to bring about a flourishing community.

One little known but critical factor in this effort is the "like-kind real estate exchange."

When using like-kind exchanges, real estate owners swap properties rather than formally buying one and selling the other. Under Section 1031 of the federal tax code, like-kind traders may defer paying taxes on capital gains from the transaction for as long they keep those gains invested in their businesses.

It's a win-win all around: for workers, governments, entrepreneurs, and the economy. Most of all, the communities they serve reap the benefits.

Unfortunately, some in Congress don't see it that way. They see the words "business owners" and "deferred taxes" in the same sentence, and they see dollar signs. They want to repeal or limit Section 1031, hiking taxes on commercial real estate, and use the expected tax windfall to pay for new federal spending.

There are two problems with this approach.

First, there won't be very much new tax revenue because most of those real estate sales will never materialize. Without the like-kind exchange, many owners will not sell their buildings, freezing the real estate market and creating stagnation. Communities will watch the virtuous cycle of small business growth descend into the vicious cycle of empty stores and mothballed office buildings.

Second, and even more pernicious, Americans will miss out on the affirmative good that like-kind exchanges bring to local economies. Growing, hiring, moving, and aging are not tax dodges – they are part of the inevitable unpredictability of running a business. Section 1031 puts the tax code on the side of businesses surviving, adapting, and flourishing – and on the side of all the residents in the communities they call home.

Like-kind exchanges create businesses, jobs, and opportunity all over the country. These are their stories.



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A Family Legacy

Veteran's Rental Homes Columbia, South Carolina

Section 1031 helps turn small properties into big legacies. A perfect example is DiMaria duplexes near Dorn Veterans Administration Hospital in Columbia, South Carolina.

When long-time owners Sal and Janice DiMaria – local institutions because of their beloved dance studio – were ready to retire, they were facing the prospect of having to sell their two duplexes behind the local regional VA hospital, as they could no longer properly maintain them.

The DiMarias had taken great pride in their stewardship of the property. Their conscientious upkeep not only created beautiful homes for their tenants – mostly veterans – who lived there over the years, but they had also sustained jobs and opportunities for the surrounding community – the local businesses who maintained the homes' lawns, appliances, roofs, and HVAC systems.

Section 1031 allowed Sal and Janice to transfer the duplexes to their son, Vince, who has sustained their legacy of service to local veterans ever since. In exchange, Sal and Janice received a newer condominium much nearer their retirement location that requires a great deal less maintenance.

Like-kind exchanges aren't about businesses and profits. They are about the people behind the transactions – like the DiMarias' – and the communities they help.



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Weighing Anchor

Mariano's Grocery Store Naperville, Illinois

Fox Run Square had a problem.

It was 2013, and Safeway announced it was pulling its Dominick's Finer Foods stores from the Chicago area. A thriving Naperville, Ill., shopping center was suddenly without its anchor store.

This kind of situation can create a vicious cycle. If a lessee can afford to pay rent, but not to run the business, it can sit empty for years. Meanwhile, if owners lack the operating capital for upgrades or the taxes on any sale, that once-booming anchor store could start pulling down its neighbors with it.

Section 1031 turned this problem into an opportunity.

In 2014, Bradford Real Estate Corp. was able to take over the shopping center via a like-kind exchange and immediately invested \$30 million to upgrade the entire complex. The refurbished site attracted a Mariano's grocery store soon thereafter, creating and rescuing dozens of jobs in the process.

As always, this 1031 Exchange was win-win:

- for Fox Run Square's owners, who got out from under the weight of their empty anchor;
- for Bradford Real Estate Corp., whose capital gains tax deferral allowed immediate investment into their thriving new property;
- for the Naperville community, which now enjoys jobs, tax revenue, and economic vibrancy that wouldn't exist today without Section 1031.



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Farm to Table

Wendy's Restaurant Chicago, Illinois

Just because REALTOR Craig Fernsler's 95-year-old client was ready to sell her Williamsport, Pennsylvania farm, that didn't mean she was ready to retire. She wanted to invest the sale proceeds into another commercial property to create jobs and opportunities while providing long-term security for her family.

Fernsler worked with the family to set up a 1031 Exchange.

They found an inoperative Chicago warehouse that was a perfect location for a new Wendy's franchise – and the family's new investment.

During subsequent construction, land inspectors discovered contaminated groundwater and soil at the site. Because of the Exchange's deferred capital gains taxes, the family had cash on hand to remove a storage tank and more than 4,200 tons of unsafe soil.

Thanks to 1031, a Williamsport farmer was able to turn an abandoned, environmentally dangerous Chicago warehouse into a new, green, and clean restaurant.

She created new jobs for construction workers, titling clerks, engineers, and surveyors, to say nothing of the Wendy's employees now serving the neighborhood. And all along, everyone involved contributed tax revenue to local governments.

"This kind of transaction creates a chain reaction," Fernsler said. "But if you take away 1031s, the chain breaks."

