



Real Estate Tax Saving Options

Tax filing season is upon us, but real estate investors, commercial property owners and developers still have tax-saving options they may not have considered.

Realty Times recently talked with one of the country's top real estate tax advisors, John Michel, national real estate tax partner for the accounting firm of Grant Thornton, to get his advice.

Unlike some CPAs and tax lawyers, Michel puts his expertise to work in his own investing -- he recently bought an office building in downtown Cincinnati -- so he knows the practical aspects, not just the rulebook.

Here are some of the key areas Michel suggests fellow investors focus on right now:

1. Gear up to challenge property tax assessments more aggressively. Commercial property values and

rent rolls aren't rising in most parts of the country at the moment yet tax assessors are under pressure to produce maximum revenues for municipalities and counties.

2. So play it smart: "You've got to be ready with the hard facts" on negative market changes, says Michel -- tenants moving out, tenants unwilling to pay higher rents, retail sales down-all of which relate to property valuations.

3. Among the key areas of assessments to challenge, according to Michel: Non-real estate elements of your property -- everything from electric signs to equipment and fixtures to lighting systems and other depreciating improvements you've made.

4. Michel also urges clients to make maximum use of so-called "green" tax incentives, at the federal and state levels. Congress recently extended special tax write-offs for energy improvements -- insulation, lighting and heating and air conditioning systems -- that can save you a lot.

5. Congress also approved extensions to expiring tax credits for certain solar energy panel installations, which are especially valuable in parts of the country with lots of sunlight most days of the year that can be sold to tenants or back to the local utility grid.

6. Michel also recommends that in the current recession, property owners be prepared to claim "abandonment losses" on spaces vacated by tenants where improvements were made specifically for those tenants and can't be reused. If the improvements have not been fully depreciated, building owners may be able to claim sizable deductions in the wake of the tenants' departures.

6. Finally, Michel advises property owners to keep a close eye on Congress. The new stimulus package may well offer tax benefits that you can put to immediate use, including a restoration of last year's "bonus depreciation" write-offs for certain equipment you install, plus "weatherization" energy conservation credits for commercial property owners.

Realty Times



We send this newsletter with the hope that you find it informative and helpful in your decisions regarding multi family real estate. The market is always changing and we like to help keep you up to date with articles, tips and our property listing information. Please feel free to contact either of us if you have questions regarding any multi family properties, or regarding the changing trends in multifamily real estate.

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Check Your Exchange Account

If your exchange account isn't in a separate account, do you know what it's invested in? Recently one of the largest title companies in the United States filed for bankruptcy; a \$1.5 billion publicly held company brought down by its 1031 exchange operation.

I'm adamantly against pooling, yet most intermediaries pool their client's money. By pooling, I mean the placing of all the client's exchange funds into one account. The reason they pool is that by investing a larger amount of money, they're able to obtain a greater return. Of course the intermediary is going to keep most of the interest, which is the whole point of pooling to begin with. In fact, the more the account earns, the more they earn.

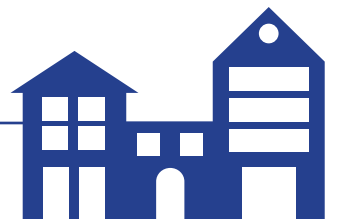
The very real and obvious incentive then is for the intermediary to maximize the return. And as we all know: the greater the yield, the greater the risk. Now, don't get me wrong; I am not saying these intermediaries too aggressive on purpose, or that they even know there is any risk in what they are doing. Yet there may very well be greater problems in their investments than even they know about. And if they DO know, they certainly aren't going to tell you.

Let's assume that the entire account is invested in a so-called money market account. I say so-called because there are different types of money market accounts (how many of you even knew that?). What you think is a true money market account may, in fact, be something entirely different. The SEC limits the investments of a true money market account to short-term instruments that mature in less than 13 months, with the average maturity of the fund less than 90 days.

But then there are enhanced money market funds which are allowed to invest in other types of securities in order to 'enhance' their return. This might be sub-prime loans (now worth pennies on the dollar) or it might be structured investment vehicles: entities that issue commercial paper. What if the issuer can't repay their outstanding paper?

So what intermediary would be so foolish as to use enhanced money market funds? Unfortunately, many have indeed invested their clients' exchange proceeds with such "safe" big-name companies as Legg Mason, Sun Trust, Wachovia, Bank of America, Northern Trust and the Janus Funds -- all of which have recently had to put money into their money market funds (even though they are not legally required to do so) to keep them solvent.

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1031 Accounts Continued

Not all of the big names up to take care of the problems in their own funds. In the past, both Community Bankers Mutual Fund money market account and General Electric's Asset Management account closed and paid investors only 96 cents on the dollar. The State of Florida, which operates an enhanced money market account for its communities which have excess property tax funds to invest, previously suspended withdrawals completely. It didn't have enough liquid cash because of problems with the enhancements in their fund.

Interestingly, one of the most common responses many of the intermediaries (including the one that just filed for bankruptcy) offer when asked about possible problems with their pooled account is "we're too big to have problems with our account." Oh really? Bigger than General Electric?

Bigger than the State of Florida? Or Enron, WorldCom, Bear Stearns, Countrywide or AIG?

Pooled accounts can bring down even billion dollar companies – remember that the next time you let your intermediary pool your money. Instead, make sure that your exchange funds are in their own account, in an FDIC member bank, and that the name of the account includes the words "for the benefit of" and your name in order to make it clear they're your funds. You may earn less interest, but at least your funds will be secure.

*By Kenneth Harney
Realty Times*

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