

## IS A 1031 EXCHANGE IN YOUR FUTURE? STRETCHING YOUR RETIREMENT DOLLAR

I had a Couple approach me a few weeks ago with the following dilemma: They've owned real estate in this area for a considerable amount of time, and the cash flow of these properties has been completely dwarfed by the appreciation value of the asset. In other words, the property is worth a lot more compared to the amount of income they are receiving. They are healthy, active people ready to retire, and want to know some of the investment options currently available to increase their balance sheet. They realize that they can sell their investment property at quite a premium, but then what?

They are the perfect candidate to do a 1031 Tax-Deferred Exchange, and trade into a new Investment Property that could significantly increase their income. (Remember that a 1031 Tax-Deferred Exchange is only available for a property that is NOT your personal residence.)

In any event; the \$64,000 question is: Where is the best place for them to position the money once they decide to sell, and where can they go to achieve maximum income results?

One option many income seeking investors are opting for are Triple Net Leased Investments. A Triple Net Leased Investment (NNN) is typically a property occupied by a commercial tenant who has signed a long term lease that obligates them to pay all the expenses of occupying this property including real estate taxes, insurance, and common area maintenance. (There are many hybrids of this investment alternative, but that's the overview) When you purchase the real estate; you also purchase the lease, and the income stream that the lease guarantees. A typical tenant for this investment category can be a drug store, restaurant (both sit-down, and fast food), a gas station, a bank, an industrial distribution center, and many others.

If you're in the market to explore this investment alternative; consider the following investment criteria while making your decision. As always, there are exceptions to the rule, but these are just prudent guidelines.

1. Tenant Class--Who is the tenant behind the lease, and who is the lease guarantor? If you want ultimate security from your leased investment; be prepared to sacrifice a little income. A good example of this would be buying real estate leased to Walgreen's. Walgreen's has stellar credit, and can offer the investor supreme safety.

If the investor is interested in a more aggressive bottom line, they may want to consider real estate leased to a Franchisee. A good Franchisee may be financially strong, operate 100's of locations, and have an impeccable management résumé'. The return from a Franchisee may be 200 basis points (2%) more than the return from the Walgreen's investment. They can be extremely reliable, but they're still not Walgreen's. Still the accelerated income may be well worth the trade-off.

2. Lease Term—I'm almost always comfortable with the longest term I can find. A long term lease gives you the comfort that the tenant believes in this location. In addition; it gives the investor the advantage of having a very salable product should they decide to trade up again within the next 5-10 years. I recommend always anticipating an exit strategy from the moment an investment is purchased. As we all know "Life is what happens to us while we're busy making plans", and it's important have plenty of options should you need to trade, or liquidate your investment sooner than you planned.

3. Lease Bumps (or increases in the lease rate over time)-I think this is extremely important. Most long term leases don't have annual increases, but will have a provision for rental increases every 3-- 5 years. This gives the investor another hedge for appreciation besides cap-rate fluctuation.(May be interesting to note here that the majority of Walgreen leases have NO provision for rental increases-another trade-off the investor makes to secure that security)

4. Location.Typically,the better the location-the lower the return. But what's a good location? This can get really interesting as you begin to research top geographic areas in the Country, and examine the geographic changes that are occurring in our country. You may be surprised to find states such as Georgia, North Carolina, Texas, New Mexico, or "border areas" are experiencing phenomenal growth patterns, and positive demographic shifts. The ability to research demographic information so easily has opened up investment opportunities that just weren't accessible before until now, and it has created a new dynamic investment pool of investor resources all over the country. It's exciting, and worth while to become familiar with this investment strategy. One website I enjoy is called e-podunk.com-It is a wealth of information for researching different area all over the country.

5. Know the Lease Document. I mentioned this earlier in the article, but a careful review of the actual lease document is critical for your success. **KNOW WHAT YOU'RE BUYING.** When a NNN leased investment is purchased; you could almost compare it to a "bond" with a real estate component. The lease should be reviewed by a real estate attorney, and the real estate broker representing you-Both professionals will examine it from a different vantage point, and it will help you accumulate the information you need to make the decision to purchase(or not) this investment once you have a complete picture of the what's being offered.