

# IMG

INVESTORS MANAGEMENT GROUP

---

Woodland Hills, California • [IMGRE.COM](http://IMGRE.COM) Portland, Oregon • [IMGNORTHWEST.COM](http://IMGNORTHWEST.COM)



## ARTICLES & INFORMATION

MARCH 2018

KARLIN CONKLIN, EXECUTIVE VICE PRESIDENT, PRIVATE EQUITY  
[KARLIN.CONKLIN@IMGRE.COM](mailto:KARLIN.CONKLIN@IMGRE.COM) (971) 888.4010 EXT. 104

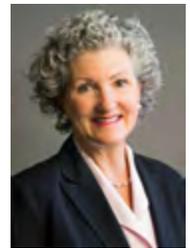
# GlobeSt.com™

Exclusive

## Is Crowdfunding Just Another Fad?

DECEMBER 19, 2017 | BY [NATALIE DOLCE](#)

When we asked that question to Karlin Conklin of Investors Management Group, based on a few comments we have heard over the past year or so, the principal and EVP says it is here to stay and provides a much needed opportunity in CRE today.



“Crowdfunding recognizes the fundamental changes brought on by technology—how people research, evaluate and act via online tools—which connects firms with investors.” Those thoughts are according to Karlin Conklin, a principal and the executive vice president, private equity, of Investors Management Group Inc., located in Woodland Hill, CA. Conklin leads IMG’s client relations and equity raising efforts for the acquisition of multifamily properties across the country and spoke with GlobeSt.com recently about all things crowdfunding.

***GlobeSt.com: Some comments we have heard over the past year is that crowdfunding for real estate is just another fad. What do you say to that and how did this form of investing become so prominent?***

***Karlin Conklin:*** Crowdfunding began in earnest in 2012 due to federal regulatory changes with the Jumpstart Our Business Startups Act, or JOBS Act, which has allowed private firms and startups to raise capital without having to be dependent on investment firms. The JOBS Act has also allowed for direct investing in real estate. Crowdfunding recognizes the fundamental changes brought on by technology—how people research, evaluate and act via online tools—which connects firms with investors. It’s more than a fad. It gives individuals the opportunity to invest in a similar manner as institutional investors, with a check as small as \$25,000.

***GlobeSt.com: What is the vetting process for sponsors looking for funding?***

**Conklin:** A legitimate crowdfunding site will look at the sponsor's experience and the track record of the principals. Though future results are not guaranteed by past performance, there certainly is a correlation. In a nutshell, sponsors need credentials that demonstrate they can take an investment at this level and achieve the targeted returns. A strong team is important.

***GlobeSt.com: From a sponsor's perspective, what are the advantages and challenges of crowdfunding?***

**Conklin:** From IMG's perspective, crowdfunding has the advantage of reaching large numbers of qualified investors who have broad geographic interest in real estate. We are a dynamic company with an entrepreneurial mindset. At the start of this cycle, our equity came from institutional partners and family offices. As the cycle progressed, we recognized this form of equity was beginning to pull back so we pivoted to friends, family and referrals. At present, the cycle has matured and online investing has reached critical mass; therefore, we are pivoting once again and using crowdfunding to reach new investors and secure equity.

As for challenges, we have found that a majority of platforms keep a wall between sponsors and investors. The crowdfunding platform will assemble all the equity, so the sponsor never knows those investors, just the crowdfunding company itself. It's very hands-off. IMG's culture calls for a high level of communication and "touches" with our investors, which is why we now work with CrowdStreet, allowing us this direct relationship with our investors. We want to know with whom we are investing.

***GlobeSt.com: From an investor's perspective, what are the advantages of crowdfunding?***

**Conklin:** Investors can see many different opportunities that in the past were out of their reach. In addition, they now have access to a phenomenal amount of information presented to them in a very organized manner. They can analyze a property in Raleigh, Denver and Seattle, for example, and make a very informed decision in regards to investing.

***GlobeSt.com: From an investor's perspective, what are the risks/challenges of crowdfunding?***

**Conklin:** There's always a risk. Real estate goes in cycles. Always do the due diligence on the property and the sponsor of the real estate — a savvy investor will do that anyway. The risk is in the market, not in using a crowdfunding platform, which is merely the vehicle to connect investors with sponsors.

# 2018 Tax Law

## Impact of the 2018 Tax Law on Real Estate Owners

1031  
Knowledge



Congress has approved sweeping tax cuts and tax reform that have not been tackled by the federal government in over 30 years (since the Tax Reform Act of 1986.). The tax law, formally referred to as "The Tax Cuts and Jobs Act," will go into effect January 1, 2018. This article has the most up-to-date information along with a summary of how the tax law provisions will affect homeowners and real estate investors who own all types of investment property. Although this article generally does not delve into tax issues not associated with real estate, there are many new tax provisions and this is essential information for anyone that owns real estate to understand.

### PRIMARY RESIDENCE HOMEOWNERS

As a result of doubling the standard deduction to \$12,000 for single filers and \$24,000 for married filing jointly, according to Moody's Analytics, as many as 38 million Americans who would otherwise itemize may instead choose the higher standard deduction under the new tax plan. The doubling of the standard interest deduction, in essence, removes a previous tax incentive of moving from renting a residence to home ownership. A likely unintended outcome will be fewer Americans choosing to become homeowners versus renting a residence solely for the tax advantages.

Any home mortgage interest debt incurred before December 15, 2017, will continue to be eligible for the home mortgage interest deduction up to \$1,000,000. Any home mortgage interest debt incurred after this date will be limited to no more than \$750,000 qualifying for the home mortgage interest deduction. Beginning 2018, the deduction for interest paid on a home equity line of credit ("HELOC") will no longer be eligible for the home mortgage interest deduction. However, the tax law preserves the deduction of mortgage debt used to acquire a second home. This should have a positive impact on supporting property values in resort and vacation destinations.

State and local taxes (referred to collectively as "SALT") can be deducted, but will no longer be unlimited as under previous tax law. The 2018 tax law will allow homeowners to deduct property taxes and either income or sales taxes with a combined limit on these deductions being limited to no more than \$10,000. Top earners who live in a state with higher taxes like California, Connecticut, Oregon, Massachusetts, New Jersey, New York will be negatively affected the most by no longer having the previous full federal deduction available. There is the potential for home values in high state tax areas on both the West Coast and East Coast to see a reduction in property values partially due to the new capped SALT deduction at \$10,000 and partially due to the new maximum \$750,000 home mortgage deduction. A National Association of REALTORS™ study found there could be a drop in



HQ 800.282.1031 | NY 866.394.1031  
[apiexchange.com](http://apiexchange.com) | [info@apiexchange.com](mailto:info@apiexchange.com)

# 2018 Tax Law

## Impact of the 2018 Tax Law on Real Estate Owners

1031  
Knowledge



home prices up to 10 percent in these and other high state tax areas as a result of limitations in the tax law that won't be as favorable as prior law for some property owners.

Both the House and Senate tax bills had originally proposed increasing the length of time a homeowner would need to live in a primary residence (from five out of eight years versus the current requirement to live in a primary residence two out of five years to qualify for the Section 121 tax exclusion). This proposed change did not become a part of the 2018 tax law. Homeowners will continue to only need to live in their primary residence 24 months in a 60 month time period to be eligible for tax exclusion up to \$250,000 if filing single and up to \$500,000 if married filing jointly. Property owners will still have the ability to convert a residence into a rental property or convert a rental property into a residence and qualify for tax exclusion benefits under both the primary residence Section 121 rules and also potentially qualify for tax deferral on the rental property under the Section 1031 exchange rules.

### INVESTMENT PROPERTY OWNERS

Investment property owners will continue to be able to defer capital gains taxes using 1031 tax-deferred exchanges which have been in the tax code since 1921. No new restrictions on 1031 exchanges of real property were made in the new tax law. However, the tax law repeals 1031 exchanges for all other types of property that are not real property. This means 1031 exchanges of personal property, collectibles, aircraft, franchise rights, rental cars, trucks, heavy equipment and machinery, etc will no longer be permitted beginning in 2018. There were no changes made to the capital gain tax rates. An investment property owner selling an investment property can potentially owe up to four different taxes: (1) Depreciation recapture at a rate of 25% (2) federal capital gain taxed at either 20% or 15% depending on taxable income (3) 3.8% net investment income tax ("NIIT") when applicable and (4) the applicable state tax rate (as high as an additional 13.3% in California.)

Some investors and private equity firms will not have to reclassify "carried interest" compensation from the lower-taxed capital gains tax rate to the higher ordinary income tax rates. However, to qualify for the lower capital gains tax rate on "carried interest," investors will now have to hold these assets for three years instead of the former one-year holding period.

Some property owners, such as farmers and ranchers and other business owners, will receive a new tax advantage with the ability to immediately write off the cost of new investments in personal property, more commonly referred



HQ 800.282.1031 | NY 866.394.1031  
[aplexchange.com](http://aplexchange.com) | [info@aplexchange.com](mailto:info@aplexchange.com)

# 2018 Tax Law

## Impact of the 2018 Tax Law on Real Estate Owners

1031  
Knowledge



to as full or immediate expensing. This new provision is part of the tax law for five years and then begins to taper off. There are significant concerns these business and property owners will face a “tax cliff” and higher taxes once the immediate expensing provision expires.

Investment property owners can continue to deduct net interest expense, but investment property owners must elect out of the new interest disallowance tax rules. The new interest limit is effective 2018 and applies to existing debt. The interest limit, and the real estate election, applies at the entity level.

The tax law continues the current depreciation rules for real estate. However, property owners opting to use the real estate exception to the interest limit must depreciate real property under slightly longer recovery periods of 40 years for nonresidential property, 30 years for residential rental property, and 20 years for qualified interior improvements. Longer depreciation schedules can have a negative impact on the return on investment (“ROI”). Property owners will need to take into account the longer depreciation schedules if they elect to use the real estate exception to the interest limit.

The tax law creates a new tax deduction of 20% for pass-through businesses. For taxpayers with incomes above certain thresholds, the 20% deduction is limited to the greater of: 50% of the W-2 wages paid by the business or 25% of the W-2 wages paid by the business, plus 2.5% of the unadjusted basis, immediately after acquisition, of depreciable property (which includes structures, but not land). Estates and trusts are eligible for the pass-through benefit. The 20% pass-through deduction begins to phase-out beginning at \$315,000 for married couples filing jointly.

The tax law restricts taxpayers from deducting losses incurred in an active trade or business from wage income or portfolio income. This will apply to existing investments and becomes effective 2018.

State and local taxes paid in respect to carrying on a trade or business, or in an activity related to the production of income, continue to remain deductible. Accordingly, a rental property owner can deduct property taxes associated with a business asset, such as any type of rental property.

This article is only intended to provide a brief overview of some of the tax law changes, which will affect any taxpayer who owns real estate and is not intended to provide an in-depth overview of all the tax law provisions. Every taxpayer should review their specific situation with their own tax advisor.



HQ 800.282.1031 | NY 866.394.1031  
[apiexchange.com](http://apiexchange.com) | [info@apiexchange.com](mailto:info@apiexchange.com)

## New Tax Laws Likely to Increase HNW Investment in Real Estate

*Legal and tax experts say the law bestows several benefits that make it more appealing for HNW investors to buy properties.*

by: John Egan | Jan 24, 2018

For high-net-worth (HNW) investors in commercial real estate, the federal tax overhaul is practically a financial home run. Legal and tax experts say the law bestows several benefits that make it more appealing for HNW investors to buy properties.

Broadly speaking, the tax law, enacted in December, represents a huge win for HNW real estate investors, says Jamie Byington, a tax partner in the Coral Gables, Fla. office of financial and management advisory firm Cherry Bekaert LLP.

"It's a great time to be in real estate from a tax standpoint. There is a definite leaning toward favoring real estate investments," Byington says.

One of the pro-HNW wrinkles in the new tax law is the 20 percent deduction for qualified net business income stemming from pass-through entities. Subject to some complicated limitations, this applies to owners of real estate via partnerships or LLCs and investors in both public and private real estate funds, says Steven "Sonny" Ginsberg, co-founder of Chicago-based law firm Ginsberg Jacobs LLC.

Under the new law, HNW individuals will want to try to make real estate investments that are fully, or at least partially, eligible for the 20 percent deduction, says Allen Walburn, a real estate tax attorney at Los Angeles-based law firm Allen Matkins LLP. The deduction expires in December 2025.

Abe Schlissfeld, a partner at New York-based accounting firm Marks Paneth LLP, adds that the law enables a taxpayer to factor 2.5 percent of the original purchase price of a property into the calculation of the 20 percent deduction for pass-through income.



This last-minute addition to the legislation will yield "significant savings" for commercial real estate investors, Schlissfeld says. Potentially, an HNW investor could reduce real estate investments to an effective 29.6 percent tax rate, which is 10 points lower than it was in 2017, he notes.

The tax law "essentially creates an incentive for investors to shift capital from equities to pass-through businesses, all other things being equal," Ginsberg says. "This shift in capital should increase demand for commercial properties."

Another positive for HNW investors is the expansion of the Section 179 deduction for depreciation.

Under the Section 179 revision, the new tax law lets owners of commercial real estate count the cost of improvements such as roofs, HVAC systems and security systems as a direct expense in the year they were installed, according to John Blake, a partner at Trenton, N.J.-based accounting firm Klatzkin & Co. LLP.

"Under the previous law, these items had to be capitalized, and a small piece was expensed each year until the full cost was exhausted," Blake says.

This means an investor could spend, say, \$50 million on an office building and then qualify for an immediate multi-million-dollar tax write-off tied to improvements, according to Byington. Unlike other parts of the law, she adds, the Section 179 change is retroactive to the 2017 tax year (Sept. 27, to be exact). *(cont'd)*

## New Tax Laws Likely to Increase HNW Investment in Real Estate

*Legal and tax experts say the law bestows several benefits that make it more appealing for HNW investors to buy properties.*

### NATIONAL REAL ESTATE **Investor**

*(cont'd)* "I never want to recommend anything to my clients where the tax tail wags the dog, but as long as it makes underlying economic sense, I would say this is a great place to create some deductions," Byington notes.

Another facet of the tax law that's a boon for HNW investors is retention of tax-free 1031 swaps for real estate.

HNW investors should be pleased that lawmakers didn't yank 1031-exchanges for real estate, as they did for aircraft and other types of personal property, notes Ginsberg. Under the new law, in fact, 1031 trades are restricted to real estate.

All in all, real estate represents probably "the most accessible way" for HNW investors to profit from the tax law, Ginsberg says.

However, Walburn cautions that a number of "unanswered questions and gray areas" remain in the tax law, so it's best for HNW investors to consult a tax adviser before updating their real estate investment strategies. Sean Aguilar, a Northern California-based private banker for real estate investors, recommends that in response to the law, HNW investors proceed "carefully and in a highly organized manner."

Ginsberg notes that without the impending shift in HNW capital based on the tax law, commercial real estate prices likely would have stalled in 2018, thanks to the upward movement in interest rates and the downward movement in cap rates.

"Now, instead of talking about whether we are in the seventh, eighth or ninth inning with respect to commercial real estate growth, we are discussing how many extra innings will be played," Ginsberg says. "Investors should keep in mind, though, that while the new tax law may increase after-tax return on commercial real estate, the law will not change the fundamentals for such properties. [It] will not cause multi-family or office rents to increase."





## 5 Trends in Multifamily Investing for 2018

If you're an investor, there will be a few surprises and some changes you should be prepared for, according to Karlin Conklin, vice president of private equity at Investor's Management Group and principal at IMG Northwest.

by Karlin Conklin | Oct 13, 2017

National Finance & Investment ViewPoint



As 2017 ends, it's time to predict upcoming trends in the multifamily rental market. If you're a multifamily investor, there will be a few surprises and some changes you should be prepared for. Here are five areas to follow.

### BUILDING RENOVATIONS STAY THE COURSE

There's a considerable amount of new construction in cities where there is demonstrated and structural job growth, including Portland, Seattle, Los Angeles and Denver. Traditionally, developers have been able to pencil in growth and get a good return for the risk of that development. New multifamily units being constructed in urban areas, urban cores or high-growth and high-job areas have caused a softening in the Class A market for the first time in years. In the new-built market, we're finally seeing a plateau where supply is meeting demand. Do we need more Class B properties built in suburban locations to meet demand? Absolutely. Are they going to get built? Probably not. The risk/return for developers just doesn't pencil. The upside to a softening market? Older existing Class B multifamily units built in the '70s, '80s and even '90s, which have been renovated will be in higher demand.

### DON'T BYPASS THE SUBURBS

As the population is forced out of the urban core, the suburbs are becoming more attractive. This represents a golden opportunity for investors to look beyond the hot cities and search Class B properties in the outer ring of cities as well. If the suburbs want to grow and be vibrant, they need to create a sense of neighborhood that includes amenities. And that has, for many communities across the country, never been a part of their planning. People want a neighborhood. They want livability. They want walkability. They want an environment that draws people together. Purchasing a building is an investment into the community. Buying distressed buildings, under-performing buildings or under-managed buildings gives an investor the opportunity to enhance those neighborhoods.

### DEMOGRAPHICS

The biggest multifamily rental pools will continue to be Millennials and Baby Boomers, and to some extent Generation X. The Baby Boomer market will keep growing as there are more than 70 million Baby Boomers across the country. As this group ages and sells their homes, they'll want to downsize to amenity-rich multifamily properties. The Millennial rental population will also continue to grow. Like Baby Boomers, Millennials want less space but more community, including the ability to walk or bike to work and have close access to shopping and dining. Many properties in close-in suburbs will fill this need.

### EVER-CHANGING INTEREST RATES

Cap Rates have stabilized at a low plateau, but will likely inch up as interest rates climb. This makes it challenging to purchase a property and reach a return hurdle. Yes, the debt will remain available, but with uncertainty surrounding interest rates, it makes underwriting more challenging. Agency lenders like Freddie Mac and Fannie Mae, both a huge part of recent multifamily market growth, have always been solid debt vehicles for multifamily investors and will continue on that path.

### HOT MARKETS FOR 2018

Transactional volume is down year-over-year in most markets across the country. The issue isn't finding a multifamily property, but finding one that makes financial sense. Plus, many investors are looking for the same thing. Case in point: Portland, Ore. Many investors want to buy in Portland but can't find a deal that makes sense. Just a few years ago Portland was considered a secondary market. Now it's a top-tier market. Why? There's job growth, in-migration, vibrancy and public investment in infrastructure. Cities like Portland, Denver, Charlotte and Seattle all have that trait in common and ones that investors will continue to seek out.

### PARTING ADVICE

We'll see some pullback in the industry in 2018, compounded by a slowing of rent escalations in the market. That's normal and nothing to be alarmed about. Buy right, underwrite correctly and hopefully you'll make your money on the buy. If you get too exuberant in your underwriting, you're going to have a difficult time getting your return on sale. Overall, it's going to be another successful year.

Karlin Conklin is executive VP, Private Equity of Investor's Management Group and principal of IMG Northwest.

## HOW THE NEW TAX REFORM ACT HELPS MULTIFAMILY

Changes to rules governing depreciation, pass-through entities are especially beneficial.

By: Douglas Fisher

A lot has been written about the new Tax Cuts and Jobs Act (TCJA) and its potential implications for the real estate investment industry since the law was passed on Dec. 22 of last year. I'm not a tax expert by any stretch, or a prognosticator of market dynamics; however, as an owner of one of the most active real estate investment brokerage firms in Chicago, I can speak somewhat to the legislation's tax benefits to, and potential implications for, our clientele. In general, the new tax act's changes, and lack thereof, appear to be beneficial to the industry.

Several primary tax laws have a direct impact on investors' economic interests: capital gains, the 1031 exchange, the step-up in basis rule, depreciation, operating-expense deductions, pass-through entities, and carried interest. The loss of any one of these could influence the decision to complete a transaction. In addition, changes to individual income taxes and mortgage interest deductions could have a significant, albeit indirect, effect on the housing industry.

Let's look at how each of these tax laws individually will be affected, if at all, by the TCJA.

### Capital Gains Rate

Long-term capital gain is defined as the increased value of assets held more than one year. Short-term capital gains are taxed as ordinary income and are defined as gains made on assets held for one year or less. Since 1922, the maximum long-term capital gains tax rate has ranged from 12.5% (1922-33) to 35% (1972-77 and 1979). The lowest in recent history was 15% (2003-12), and currently it's 20% (since 2013).

Since the installation of the new administration, there's been speculation about reducing the rate again to encourage investment. The TCJA, however, left the long-term capital gains rate unchanged, at 20%, and also didn't change how short-term capital gains are taxed. Although lower ordinary income taxes improve the economics for assets held less than one year, the overall tax benefit of holding longer is much greater.

### The 1031 Exchange

Prior to the new tax act, Section 1031 of the tax code allowed for real and personal property held for business or investment to be exchanged for "like-kind" property without recognizing a gain. Instead, the gain was deferred for tax purposes. It's estimated that real estate accounts for 36% of all 1031 exchanges and that approximately 10% to 20% of real estate transactions utilize the 1031.

Upon sale, an investor would be subject to capital gains and depreciation recapture. Thus, the 1031 exchange effectively enables an investor to defer these taxes. The TCJA eliminated the 1031 exchange for personal property, but, the good news is, the law left it intact for real property.

### Step-Up in Basis

Closely related to the tax benefits discussed above is the step-up in basis tax rule. Upon death, beneficiaries receive a "step-up" in basis. In other words, the cost basis for beneficiaries becomes the current fair market value at the time of inheritance. This eliminates taxable appreciable gain between the original cost and the current value. The new tax act did not repeal or modify this rule. Essentially, those "lucky" enough to have died having always exchanged, or never selling, successfully avoided paying taxes on these assets.

**The new law temporarily increased the allowance for what is called "bonus" depreciation ... to 100% from 50% ... . This is a substantial added incentive and should spur the improvement and rehabilitation of investment properties.**

### Depreciation

Tax law allows for a reduction in taxes resulting from the gradual obsolescence of various investment assets. The deduction, referred to as depreciation expense, can be applied to buildings, improvements, and personal property but not land. Real property depreciation (cont'd)

Source:  
[http://www.multifamilyexecutive.com/business-finance/how-the-new-tax-reform-act-helps-multifamily\\_o](http://www.multifamilyexecutive.com/business-finance/how-the-new-tax-reform-act-helps-multifamily_o)



(cont'd) is calculated instead using a straight-line accounting basis. The tax law, before and after the TCJA, allows for multifamily property to be depreciated over 27.5 years. Therefore, a property acquired for \$30 million with land value of \$2.5 million can provide a depreciation expense of \$1 million per year.

The new law temporarily increased the allowance for what is called "bonus" depreciation, which includes personal property and improvements. The new tax act increased the bonus depreciation to 100% from 50%, all of which can be immediately expensed the year of purchase or when the work is performed. This includes appliances, carpet, mechanical equipment, and the like ("personal property") as well as roofs, landscaping, parking lots, and so on ("improvements"). This is a substantial added incentive and should spur the improvement and rehabilitation of investment properties.

### Operating Expenses

Mortgage interest, property taxes, property insurance, repairs, and maintenance are all common expenses necessary for the operation of investment properties and constitute some of the largest expenses of ownership. The cost and expense associated with them have been and apparently will continue to be deductible against the income of the property.

### Pass-Through Tax Entities

Most of our clients hold their real estate investments in a limited liability company (LLC). In addition to the legal protection they provide, LLCs aren't taxed, but, rather, the income flows through to the owners at the ordinary income tax rate. Effective Jan. 1, 2018, the new tax act reduced the maximum corporate income tax rate to 21% from 35%. In order to provide similar benefit, owners of pass-through entities, subject to certain limitations, receive a 20% reduction in their taxable income. This has the potential to provide substantial savings to investors and developers.

### Carried Interest

The change in taxation to carried interest will negatively affect real estate professionals who utilize it.

Carried interest primarily affects managers of investment partnerships and is treated as a capital gain. It's defined as the profit such managers make in excess of the return on their contribution, if any (also known as a "promote" or "profits interest"). The old

law required investments to be held for over one year to qualify. The new law requires that these assets be held for at least three years; otherwise, they'll be taxed at the ordinary income tax level.

Many investment managers base their performance on an internal rate of return (IRR). The more quickly their objectives are met, the higher the IRR. The result of this tax change will likely reduce some managers' pursuit of assets that can be quickly flipped for a profit.

### Other

In addition to the above, the tax reform act lowered individual income taxes, reduced the mortgage interest deduction, and removed the interest deduction for home equity loans. Lower income taxes may put more money in consumers' pockets, but the change in interest deductions could motivate would-be home buyers to rent instead. The combination of these changes could be an additional boon to the multifamily investment industry.

*Note: This article isn't meant to be exhaustive, as there are many nuances to the above tax laws. Nor is it meant to be definitive in terms of the information provided. It is only one, fairly active real estate investment practitioner's understanding. Investors should always consult their respective tax counsels before making investment decisions.*



Source:  
[http://www.multifamilyexecutive.com/business-finance/how-the-new-tax-reform-act-helps-multifamily\\_o](http://www.multifamilyexecutive.com/business-finance/how-the-new-tax-reform-act-helps-multifamily_o)



## TAXES: The New Law and the Top 5 Tax Benefits of Real Estate Investing

February 9, 2018 By: ArborCrowd

Real estate continues to be considered one of the best wealth-creation strategies. The 2010 foreclosure crisis spooked many investors, but the market has since recovered and we're in the midst of an 8+ year real estate upswing.

The benefits are hard to overlook – especially when it comes to the tax advantages. But be careful – to truly benefit, investors still need access to quality deals.

The right crowdfunding model can give investors diversity in their real estate portfolios by providing access to a wider net of high quality deals.

The challenge is finding a partner that has institutional-quality deals – which generally means a property with strong real estate fundamentals that would capture the attention of large national or international investors, such as insurance companies, private equity firms or real estate investment trusts. These are the types of properties that were previously exclusive to a small network of players and high net worth individuals with the right connections.

Crowdfunding has not only given a new class of investors access to previously exclusive deals, but has given people a repeatable model that was untenable to the average individual investor. For example, crowdfunding can provide exponential growth in returns if investors participate in several deals and continue to do so in the long term.

### The Trump Administration's New Tax Law

The Tax Cuts and Jobs Act ("The New Law") reduces

tax rates for individuals and corporations and includes provisions that provide certain bonus depreciation deductions, which are discussed below.

Under the New Law that is now in effect, individuals and other non-corporate taxpayers that receive certain business income from a partnership, may be able to deduct up to 20 percent of their income from such partnership (subject to income and other limitations).

However, the New Law requires an individual taxpayer to aggregate all of their income or losses earned through all of their pass-through investments (such as real estate crowdfunding partnerships). If the aggregate amount results in a loss, the taxpayer will not be able to offset this ordinary income (w-2 income for example) by such loss. However, now the loss can get carried forward indefinitely and offset future pass-through investment income.

### 5 MAJOR TAX BENEFITS

Whether you're brand new to commercial real estate or a long-time investor, understanding your tax benefits can be complicated. Here, we break down the five major tax benefits that real estate offers:

#### DEPRECIATION.

Under the existing tax code, real estate investors can offset the gains produced by income-generating property through an annual tax deduction known as depreciation. The IRS defines the depreciation deduction as "an annual allowance for the wear and tear, deterioration or obsolescence of the property."

Residential rental properties are typically depreciated over 27.5 years, which the IRS considers the "useful life" of a residential or multifamily building. However, it is possible to accelerate depreciation even faster through a cost-segregation study.

A cost segregation study separates personal property from land and building improvements, and then assigns a useful "life" to each asset segregated. For instance, personal property (such as furniture, carpets, fixtures and appliances) can be recovered in as little as 5 years. Land improvements (such as sidewalks, paving, fences and landscaping), can be depreciated over a 15-year recovery period. Cost segregation studies are complex but can save thousands of dollars each year, particularly in the first few years of ownership.

Under the New Law, there is an ability for bonus depreciation, which may allow a business to take (cont'd)

an immediate first-year deduction of 100 percent of the purchase of eligible business property, including certain commercial property.

In any event, depreciation is a useful tool for reducing income generated on an investment property without any impact to actual cash flow. This is true whether you own the property outright, or indirectly own it through a limited partnership or limited liability company as is common in some crowdfunding investments. In all cases, the depreciation deduction reduces the income generated by the property, and ultimately, reduces the amount of taxes that an investor would have to pay on such income.

#### **INTEREST EXPENSE.**

Often, interest paid on a real estate loan obtained to acquire an investment property is tax deductible. This is an important deduction for real estate investors and can result in significant tax savings. The interest expense deduction is treated similarly to the depreciation deduction discussed above in that it too reduces income generated on an investment property (but also reduces cash flow), and ultimately, can reduce the amount of taxes that an investor would have to pay on such income.

How much can be saved? It depends on your federal tax bracket, but at the highest federal bracket of over 37 percent, you would save 37 cents for every \$1 you paid in interest expense.

#### **NON-TAXABLE DISTRIBUTIONS.**

During the time an investor may hold a real estate investment, you may receive cash distributions in excess of the income that is allocated to you. This may occur because cash flow from the property is in excess of taxable income. The cash distributions are not taxable to you.

#### **LONG TERM CAPITAL GAIN ON EXIT.**

Investments – whether in real estate, stocks or otherwise – are typically subject to two forms of taxes: ordinary income tax and capital gains tax.

You pay ordinary income tax rates when the investment generates operating income and capital gains tax rates upon sale of the asset. Depending on your federal tax bracket, ordinary income tax rates can be as high as 37 percent whereas capital gains tax rates top out at 20 percent. It's obvious why making real estate part of an investment strategy can be advantageous to the savvy investor.

#### **1031-EXCHANGES.**

There's a provision in the tax code that allows real estate investors to defer paying capital gains taxes upon the sale of an investment asset. It's known as the 1031-exchange. This provision allows a real estate investor to sell a real estate asset and reinvest the proceeds into a like-kind investment, another real estate asset, thereby deferring capital gains tax in the process.

By reinvesting the sales proceeds through a 1031-exchange, the capital gains tax will not be due at the time of the sale which allows the investor to acquire a new real property using more of the sale proceeds. This can enable the investor to purchase a more valuable real property with better cash flows. Investors who take advantage of these 1031-exchanges in perpetuity can defer paying taxes while building equity along the way. It is important to note that there are extensive rules set forth by the IRS in order to complete a successful 1031-exchange – so weighing the complicated nature of this benefit should be taken into consideration.

There are many ways to invest depending on an investor's comfort level, risk tolerance and income. Always remember that investors should speak to their tax professionals to discuss which benefits may apply to them. Nonetheless, by finding institutional-quality deals and taking full advantage of available tax benefits, savvy investors can create an incredible wealth-generating cycle for those who invest wisely.

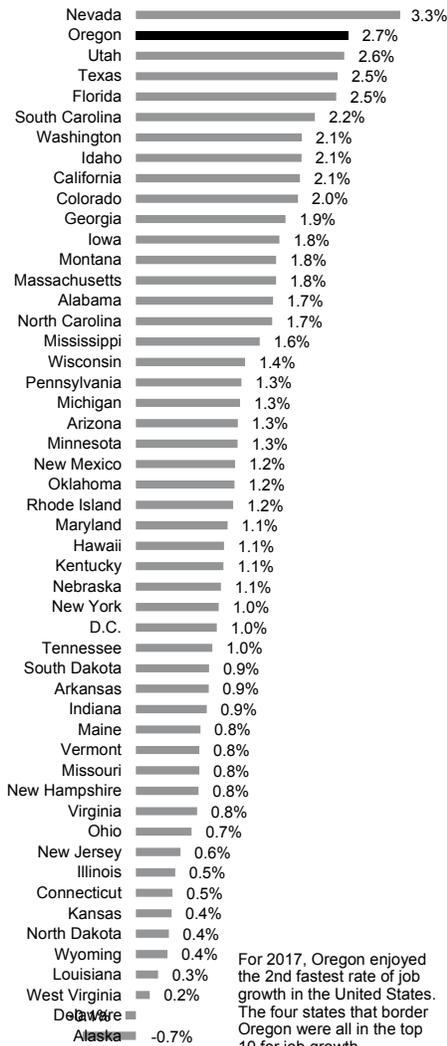


Jan  
2018

City of Portland  
**Economic**  
INDICATORS

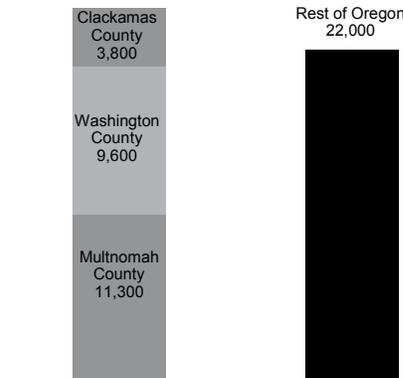


**Job Growth by US State**  
December 2016 to December 2017



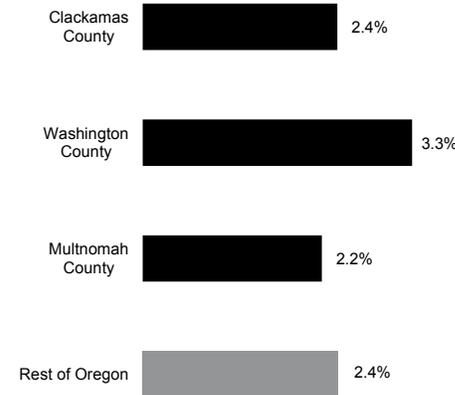
For 2017, Oregon enjoyed the 2nd fastest rate of job growth in the United States. The four states that border Oregon were all in the top 10 for job growth.

**Employment Growth by County**  
December 2016 to December 2017



24,700 new jobs were created in the three largest counties in the Portland region (excluding Washington). More than the rest of Oregon combined.

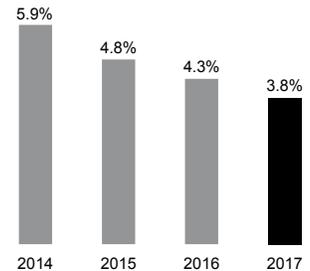
**Employment Growth by County**  
December 2016 to December 2017



On a percentage basis, employment growth in the Portland area has been comparable to the rest of Oregon.

**EMPLOYMENT TRENDS**

**December Unemployment Rate**  
Portland Metro - Seasonally adjusted



**Employment Growth**  
Portland Metro

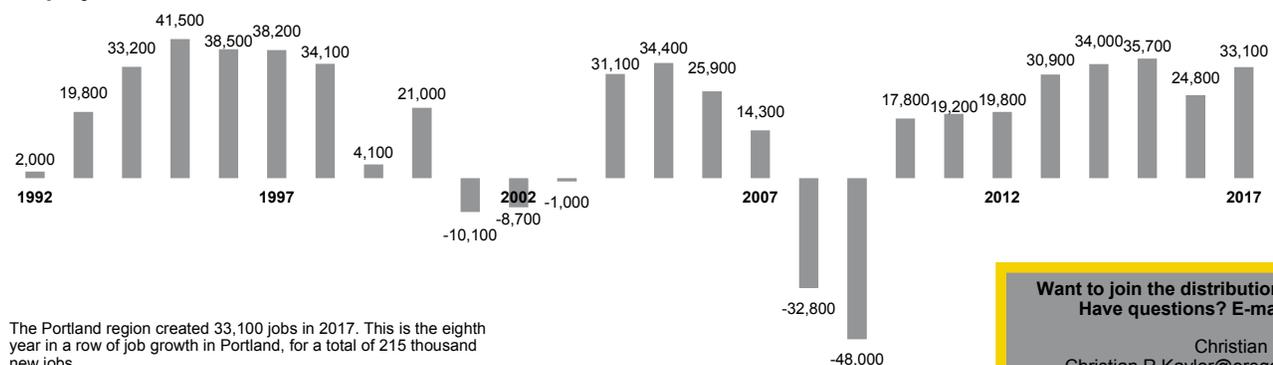
Dec 2017: 1,194,700  
Growth: +33,100 (+2.8%)  
Year-over-year

**Industry Growth**  
Portland Metro - December

Year-over-year growth (percentage)

Construction	+5,700 (+9.1%)
Healthcare & Social Assistance	+6,000 (+4.3%)
Transportation & Warehousing	+1,600 (+4.1%)
Manufacturing	+4,300 (+3.5%)
Professional & Business Services	+4,800 (+2.7%)
Leisure & Hospitality	+3,100 (+2.6%)
Information	+100 (+0.4%)
Financial Activities	+100 (+0.1%)

**Employment Growth - Portland Metro - Year over Year** 1991 to 2017 - December



The Portland region created 33,100 jobs in 2017. This is the eighth year in a row of job growth in Portland, for a total of 215 thousand new jobs.

Want to join the distribution list?  
Have questions? E-mail me!

Christian Kaylor  
Christian.R.Kaylor@oregon.gov