

Important Factors to a Successful 1031 Exchange

A 1031 exchange is an investment tool used to defer taxes when you sell an investment property and purchase a new investment property. The replacement property must be “like kind” which means that it does not have to be the exact same property type but must be used for investment. It cannot be used as a personal property like a home that you occupy.

The value of the replacement property must be either the same or greater than the exchange amount. This means that you have to invest all of the proceeds from the sale into the replacement property. It also has to be the same title holder for both properties. The time frame to complete the 1031 exchange is to identify a new property and/or properties within 45 days of closing escrow on the property you sold. You would need to close escrow within 180 days from close of escrow on the property you sold.

Once you have found a replacement property and are in escrow, here are some important factors to remember:

- It is important to review the lease(s) including all attachments and amendments as soon as possible. If you can review prior to opening escrow that is ideal. Many leases that state they are NNN which means the tenant is responsible for all expenses can have caveats written into the lease that do not make it a true NNN lease. It is imperative to have your broker review this and make sure the lease meets your investment requirements. I also recommend having an attorney review the legal aspects of the lease(s).
- Write into the purchase agreement that the tenant completes an estoppel certificate to verify the terms of the lease. This will show if there are any

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outstanding issues between the landlord and tenant.

- In many NNN leases, the landlord is responsible for the roof. It is important to have a roof inspection to ensure the condition of the roof. If there is an outstanding roof warranty, it should be transferred to the new owner, if possible, upon the sale.
- Request a copy of a Phase 1 environmental report completed on the property. It is also pertinent for a buyer to obtain a new report if one has not been completed within the last few years.
- Have a lease assignment and assumption completed prior to close of escrow and signed by all parties. This transfers the rights, obligations and benefits of the lease from the current owner to the new owner upon the sale.

If you have any questions or need assistance with a 1031 exchange, please feel free to contact me at 626-358-8287 or by email at Linda@TopComRealty.com

**Current SBA 504
Effective Rate for
February 2022 is 3.46-3.608%**

Effects of Inflation on Commercial Real Estate

The inflation rate for the US reported last week at an increase of 7.5% which is the highest it has been in over forty years. Prices rose 0.6% from January to February which was preceded by four consecutive months with prices growing by more than 0.5%. Shortages of supplies and workers, heavy doses of federal aid, ultra-low interest rates and robust consumer spending combined to send inflation leaping in the past year. And there are few signs that it will slow significantly anytime soon according to the Labor

Department. It is expected that the Federal Reserve will raise interest rates in March to try to ease inflation from getting worse. This will have an effect on commercial real estate lending being more costly. It also influences leases tied to the Consumer Price Index (CPI). We have already seen landlords asking for a higher annual increase on rents to align with inflation and price increases. This affects businesses expenses which they typically have to pass increases on to their customers to bridge the gap.

The Fed is expected to have a more dramatic increase of 0.5% to the key rate rather than the typical 0.25% increase. Higher rates affect a wider range of borrowing including mortgages, credit cards, auto and business loans. Typically, this has a result of reducing consumer spending which begins to stifle inflation. In the past this has caused commercial values to level off and decrease. I will watch closely and keep you updated as we see the effects of inflation relating to commercial properties.

Source: CoStar Newsletter 2/16/2022 and Us News 02/10/2022

Substantial Price Reduction!



900 S. 1st Avenue Arcadia, CA

\$750K Price Reduction!

10,000 SF medical office building for sale on almost an acre of land located at corner intersection of 1st and Duarte Rd. Minutes to Methodist Hospital and City of Hope.

Completely renovated in 2009-2010. Separated into four medical practices- Excellent for multiple partner ownership. The building has an elevator, sprinklers, common area lobby and restrooms. No expense spared on build-out.

Excellent owner/user opportunity. Occupy 51% with SBA and lease out remainder for income.

Linda Vidov (CA Broker Lic. #1715788)

Linda specializes in commercial and industrial sales and leasing throughout the San Gabriel Valley. She has extensive knowledge in 1031 exchange transactions, investment opportunities, and market analysis. Feel free to contact Linda with any questions or requests for information.



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