UNCOVERING HIDDEN VALUE IN YOUR RE PORTFOLIO

Time is Now to Plan for Your Future

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Today's busy CEO continually seeks ways to generate cash and increase returns for shareholders. Although the capital markets are in the worst slump since the Great Depression, many corporations are holding properties that could be optimized. You may have the opportunity to release "hidden" value by selling a property or by renegotiating a long term leasehold contract. Impatient shareholders can benefit from a forward thinking real estate vision that includes these strategies and more.

I am recommending to companies, in every industry, to conduct due diligence on their real estate portfolios. The CEO should drive the project to maximize results. The team should include leaders with expertise in real estate, finance, human resources and IT, often referred to as shared services. This group, along with a real estate advisor, can create a strategy that incorporates the critical needs of these interrelated functions. The real estate advisor can help align and implement solutions with the financial and operational requirements of the company. We recently helped a northeastern based utility client generate $69 million dollars by restructuring their real estate portfolio and improving operational efficiency.

Real estate taxes should be a critical element of a company's overall tax strategy. Monetizing an asset can free up substantial capital as can subleasing excess space, but they also have tax ramifications. Even so, it may make sense to proceed with the transaction and reinvest the net proceeds in your core business.

The 1031 Exchange could present an important strategic opportunity. Interest in Section 1031 Exchanges has been down this year as a result of the current economic condition and the tight capital markets, however, we expect it to increase. It may be the right time to not only sell existing property, but also to purchase a more efficient, better designed or located facility, or dispose of an environmentally contaminated property. And, now is the time to begin to lay the groundwork for this effort.

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Internal Revenue Code, Section 1031, (the 1031 Exchange) provides that no gain or loss shall be recognized if a property is held for investment or for productive use in a trade or business and is exchanged for like-kind property held for investment or for use in a trade or business. In real estate, this means real property for real property or real property for a 30 year leasehold. For example, should your company own three factories that were originally purchased for only $500,000 and decide to sell them for $2 million, you would be faced with capital gains of $1.5 million. With the 1031 Exchange, you can reduce your capital gains exposure by using the $2 million in proceeds to purchase or lease other real property -- and not necessarily factories. It simply must be an exchange of like-for-like property (real property for real property). And, if the exchange property is purchased for only $1.7 million, you would only pay capital gains on the $300,000 difference, rather than on the $1.5 million. In today's challenging real estate market, this could be the right time to sell a building that's inefficient and expensive to operate and subsequently purchase or lease a building that's a better fit for the company.

In a 1031 Exchange there are important timing issues that must be adhered to:

- The new property must be identified within 45 days from the closing date of the sale of the initial property.
- The purchase of the new property must take place within 180 days of the sale closing date or by the due date, including extensions, of the tax return if earlier.

The advantage with Section 1031 Exchanges is that tax payments can be deferred indefinitely through continuous qualified real estate sale and purchase transactions as long as every sale complies with IRS rules. Moreover, a buyer can sell one piece of property and purchase multiple properties and still qualify. In this depressed real estate environment, there are numerous opportunities for the purchase of additional properties at prices that can be quite attractive.

The project timeline should anticipate a lengthy marketing, sales and acquisition process. Identifying, negotiating and due diligence by a buyer can take several months as can your relocation.

To maximize flexibility in a rapidly changing and unpredictable business environment, leasing has become very popular. Leases offer the opportunity for exit strategies. Owning a property is an illiquid investment and exiting can be difficult and costly.

It's a great time to restructure your portfolio to meet the future needs of the company and reduce your operating costs. Today's real estate market provides unusual leverage for tenants and buyers. Whatever occupancy approach you choose for individual facilities, it should be determined after the conclusion of a comprehensive portfolio review and tested against the company's tax strategy.

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