DISPOSITION / RENOVATION OF INCOME PROPERTIES

Exit Strategies: To realize the increased **Equity** value created from an appreciated **Property**, an owner may **Sell**, **Exchange** or **Refinance** the **Property**.

Hold/Sell Analysis: Analyze the **Marginal Rate of Return** from **Holding** the **Property** for an additional period of **Time** as compared to **Selling** the **Property** currently.

Property Sale: **Sell** for **Cash** and **Pay Off** all outstanding **Debt** and pay all federal, state, and local **Taxes** on any **Capital Gain**. See **IRS Form 1040 and Schedule D**.

Installment Sale: **Sell** on an **Installment Sale** basis receiving the **Sale Price** over **Time** and paying a proportional amount of the **Capital Gain Tax** with each **Installment** received. The amount of **Installment Sale Income** to be reported each year upon which **Tax** must be paid is a function of the **Ratio** between the "**Gross Profit"** on the **Sale** (i.e. **Sale Price** minus **Adjusted Tax Basis**) divided by the **"Contract Price"** as defined in **IRS Form 6252**. An **Installment Sale** is a form of **Seller Financing**.

Section 1031 Exchange: **Trade** the **Property** for **"Like Kind" Property** in a **U.S. Internal Revenue Code Section 1031** exchange transaction to **Defer** the **Taxes** on any **Capital Gain** but with the **Exchange Property** receiving a **Substituted Tax Basis**. **Section 1031** requires that the **Exchange Property** be **Identified** within **45 days** of the **Prior Sale** closing date, and the **Exchange Property** must be **Acquired** within **180 days** of the **Prior Sale** closing date. **"Unlike" Property** acquired in a **Section 1031** transaction is called **"Boot"** and is subject to **Capital Gain Taxes** on the **Sale**. **"Boot"** includes **Cash**, **Personal Property**, and any **"Unlike" Real Property** received in the transaction. See **IRS Form 8824**.

Refinancing: Replacing an existing **Loan** with a new **Loan**. If you **Refinance** with a larger **Loan** you will not pay any **Tax** on the additional **Loan Proceeds** received in connection with the **Refinancing**. If **Interest Rates** have fallen, it might be possible to **Refinance** with a larger **Loan** while reducing the annual **Borrowing Cost**, but **Points**, **Appraisal Fees** and other **Loan Costs** must be considered.

Renovation: As an alternative to a **Sale**, a **1031 Exchange,** or a **Refinancing**, the **Property** may be held and **Renovated** to increase **Rents**, increase **Occupancy**, and/or reduce **Operating Costs**, all of which should increase the **Net Operating Income** and thereby increase the **Property Value**. But in addition to the estimated **Renovation Costs**, the **Time**, **Effort** and **Opportunity Costs** related to the **Renovation** must also be carefully considered.