



# 12 - Disposition and Renovation - ch. 14

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|-------------|--|
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## ▼ Supplemental

## ▼ Lecture

### ▼ exit strategies

▼ to realize increased equity value created from an appreciated property → owner may sell, exchange, or refi the property

### ▼ hold/sell analysis

▼ analyze marginal rate of return from holding the property for an additional period

## Resources

[https://s3-us-west-2.amazonaws.com/secure.notion-static.com/8aafd997-1425-4959-8cb8-c937d853cdf1/10\\_-\\_DISPOSITION\\_AND\\_RENOVATION\\_OF\\_INCOME\\_PROPERTIES\\_-\\_Chapter\\_14.pdf](https://s3-us-west-2.amazonaws.com/secure.notion-static.com/8aafd997-1425-4959-8cb8-c937d853cdf1/10_-_DISPOSITION_AND_RENOVATION_OF_INCOME_PROPERTIES_-_Chapter_14.pdf)

of time compared to selling the property

▼ property sale

▼ sell for cash and pay off outstanding debt and pay all federal, state, local taxes on capital gain

▼ IRS form 1040 schedule D

▼ installment sale

▼ sell on an installment sale basis receiving a price over time and paying a proportional amount of the capital gains tax with each installment received

▼ amount of installment sale income to be reported each year upon which tax paid is a function of the ratio between gross profit on the sale / contract price

▼ installment sale is a form of seller financing

▼ section 1031 exchange

▼ trade the property for like kind property in a US Internal revenue code section 1031 exchange transaction to defer taxes on any capital gains but with the exchange property having a substituted tax basis

▼ section 1031 requires exchange property must be identified within 45 days of prior sale close

and acquired within 180 days of the sale close

▼ unlike property acquired in a section 1031 is called Boot and subject to capital gains tax on the sale

▼ Boot includes cash, personal property, and any unlike real property received in the exchange

▼ IRS Form 8824

#### ▼ Refinancing

▼ replace an existing loan with a new loan

▼ if you refi with a larger loan you pay NO tax on additional loan proceeds

▼ if interest rates have fallen → might be possible to refi w/ larger loan WHILE reducing annual borrowing cost → should consider points, appraisal fees, and other loan costs

#### ▼ renovation

▼ as an alternative to a sale, 1031 exchange, or refi: property may be held and renovated to increase rents, occupancy, and/or reduce operating costs → increase NOI → increase property value

- ▼ renovation cost, time, effort, and opportunity cost must be considered
- ▼ sale leaseback
  - ▼ alternate means of monetizing a property where seller retains use for duration of lease term
  - ▼ with a repurchase option in the lease → seller may buyback the ownership in the future
  - ▼ now irrelevant due to FASB ASC 842: leases >1yr must be reported on balance sheet not just expenses on income sheet

## ▼ Discussion



### SUMMARY