GM PROPERTIES 50TH ANNIVERSARY

The Commercial Beat

FALL 2014

IRS CODE 1031 EXCHANGE CASE STUDY

The following is a case study of a tax deferred exchange, which is governed by Internal Revenue Service Code 1031. The exchange allows property owners who sell their properties for a gain to postpone paying taxes on the gain if they reinvest the proceeds in similar property (qualified as a like-kind exchange).

Subject: Moen Industries/Moen Family Trust

The former Moen Industries in Santa Fe Springs on Los Nietos Road was a 38,000 square-foot packaging plant that manufactured corrugated boxes. The company's owner, Lenard Moen, wanted to retire and recently sold the business to another company.

After the sale of the business, Moen was left with a vacant, tilt-up industrial building, which was the main source of income for him and his wife. He and his son Dale Moen, who helps him with his business affairs, contacted GM Properties to explore the option of whether it would be best to either lease or sell the building. They admit that considering the market conditions at the time, they were bracing for a prolonged period of vacancy and lack of income.

Dale said GM Properties recommended they put his father's building up for sale or lease for a two-month period. At the end of that time, if it hadn't been sold or leased, they both agreed to reassess the situation.

GM Properties aggressively marketed the property, and within a month, the owner had two legitimate purchase offers, one of which he accepted. With funds in hand, and ready to reinvest the proceeds, GM Properties advised him to pursue a 1031 tax deferred exchange.

Over the next few months, GM Properties presented Lenard with numerous retail, industrial, apartment and office properties within the Los Angeles and Orange County area while providing an exhaustive amount of comparative information. Since his goal was to invest the entire 1031 exchange fund, Lenard considered purchasing more than one property, according to Dale. Ultimately, Lenard settled on a triple net, multi-tenant retail center in Lawndale that utilized almost all of the 1031 proceeds and also offered a great return on investment in terms of lease income.

GM Properties oversaw the entire transaction and helped Lenard time the sale of his original building with the purchase of the new property that would meet the 1031 exchange period deadline.

In record time, and with the help of GM Properties, Lenard was successful at creating a stable income stream that they expect will last long into the future, Dale said.

Tenant Spotlight

GRAHAM FASTERNERS ON THE REBOUND FROM AILING ECONOMY

Like many businesses, Graham Fasteners Inc. in Santa Fe Springs had a pretty rough go of it during the recession, according to its VP/CFO Angela Graham. But that didn't stop the 34-year-old company from heading into the future with confidence and determination.

Graham said a willingness to stay the course even in tough times has been without a doubt the key to Graham Fasteners' long-standing success.

"We really felt the impact of the recession, as well as having to compete with so many oversees manufacturers," said Graham, who co-owns her business with her brother Paul Graham. "But we stuck with this because we knew we could get through it. Now, business is starting to come back and we feel very good about our future."

According to Graham, her father Rocky opened Graham Fasteners around 1990. The company manufacturers bolts, screws, nuts, rivets and washers. Graham said its parts are used in everything from eyeglasses and furniture to medical equipment and guns.

"Gun parts are about 40 percent of our business," Graham said. Along with carrying standard size parts, Graham Fasteners Inc. also does a lot of custom orders. Additionally, it offers short runs, which Graham said is unusual for a larger manufacturing plant like hers.

When it comes to its prices, the company remains competitive with both U.S. and oversees manufacturers.

"We make all kinds of oddball sizes, which give us an edge over our competitors," said Graham. "And I also think we stand out because of our great customer service. We always go the extra mile to make sure our customers are happy. On top of all that, our prices are very good."

In 2013, Graham Fasteners went through a small expansion when Graham and her brother purchased the building that was next door to them on Slauson Avenue. The extra room allowed them to add more equipment, which Graham said has also helped her business grow over the past year.

At the moment, she and Paul are pleased with the size of their operation and plan to keep it at its current size for at least a little while longer.

"If the economy remains stable over the next few years, we may expand again," said Graham. "But for now, we're happy with the size we've grown to. It's a great feeling to be carrying on the family legacy and we plan on being around for a long, long time."

A RUNDOWN ON THE RULES FOR LIKE-KIND EXCHANGES

When utilizing the IRS Code 1031 for a tax-deferred exchange, a straight property-for-property exchange will result in gains not being recognized. Still, all gains must be reported to the IRS on Form 8824.

In certain cases, the properties are not equal in value, so some cash or other (non-like-kind) property is tossed into the deal. This cash or other property is known as "boot." If boot is involved, you will have to recognize your gain, but only up to the amount of boot you receive in the exchange. In these situations, the basis you get in the like-kind property you receive is equal to the basis you had in the property you gave up. This basis is reduced by the amount of boot you received but increased by the amount of gain recognized.

Example. Ted exchanges land (investment property) with a basis of $100,000 for a building (investment property) valued at $120,000 plus $15,000 in cash. Ted's gain on the exchange is $35,000: he received $135,000 in value for an asset with a basis of $100,000. However, since it's a like-kind exchange, he only has to recognize $15,000 of his gain: the amount of cash (boot) he received.

Ted's basis in his new building will be $100,000: his original basis in the land he gave up ($100,000) plus the $15,000 gain recognized, minus the $15,000 boot received. Note that no matter how much boot is received, you will never recognize more than your actual ("realized") gain on the exchange.

If the property you are exchanging is subject to debt from which you are being relieved, the amount of the debt is treated as boot. The theory is that if someone takes over your debt, it's equivalent to his giving you cash. If the property you are receiving is also subject to debt, then you are only treated as receiving boot to the extent of your "net debt relief" (the amount by which the debt you become free of exceeds the debt you pick up).

SOLAR ENERGY SYSTEMS BENEFIT PROPERTY OWNERS IN A MULTITUDE OF WAYS

If your electric bill for your commercial property is getting out of hand, it may be time to go green with a solar energy system, according to Steve Rethmeier, owner of Blackstar Energy Solutions in Anaheim.

Rethmeier says while the initial investment of installing a solar energy system may seem pricey, property owners can save a surprising amount on their electricity costs long into the future.

"Under the right circumstances, solar energy systems can be extremely cost effective, especially with the rebates many utility companies are offering right now," said Rethmeier, president of Synmar Associates, a real estate appraisal firm based in Anaheim. "And the government is offering a 30 percent tax credit, which is applied to taxes owed and is not a deduction."

Rethmeier founded Blackstar Energy Solutions earlier this year with Chris DeWitt, who has an extensive background in design, development and construction of solar energy systems. The company offers everything from envelope evaluations and audits to installation and design.

BLACKSTAR ENERGY SOLUTIONS

According to Rethmeier, a solar energy system for a small, commercial building in Anaheim will cost around $85,000. He said the city is currently offering a $30,000 rebate and that, combined with tax credits and usage savings, the system may only cost a property owner $10,000.

"When we show potential clients these numbers, their first response is disbelief," said Rethmeier. "We hear all the time that it sounds too good to be true."

To assure clients these figures are legitimate, Rethmeier and DeWitt can provide them with a detailed analysis of the costs, savings and other benefits of installing a solar energy system. Additionally, Rethmeier says he and DeWitt can help clients secure financing.

"Chris and I have found in our research that many lenders are willing to finance these systems," said Rethmeier, "and may lend up to 90 percent of the system cost provided certain criteria are met."

This list of criteria includes a property owner securing a building permit. In addition, the solar energy system must be permanently attached to the building and it has to be owned, not leased, by the property owner.

According to Rethmeier, switching to solar energy is not just a money saver, it also is good for the environment because it's clean, quiet and eliminates the need to use fossil fuels.

"American Clean Energy, LLC has published a study that shows the air quality benefits of just one solar energy system is equivalent to 10 automobiles removed from the road," said Rethmeier. "It also is equal to 3,300 trees cleaning the air for one year.

"The bottom line is that solar energy make sense and in many cases, installing it is really a no-brainer."

For more information about Blackstar Energy Solutions, visit www.blackstarnrg.com

PREFERRED VENDORS

Team GM PROPERTIES


Jason Jamison, SIOR


Marcy Monaco, CPM

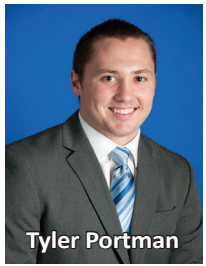

Harry S. Lu


Ben Greer, CCIM


Dustin Wheelan


Matt Wagner


Brent Haskell


Tyler Portman


Cherry Lu


Justin Wells

Featured Properties:

SOLD

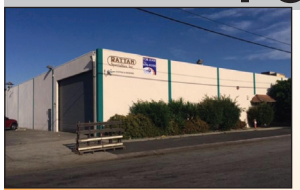
1653-1667 Florence Ave.
Los Angeles, CA

Size Ranges: 11,275 sf

For additional information:
www.gmpropertiesinc.com

Free Standing Retail Building
Heavy Power

FOR SALE



8222 Allport Ave.
Santa Fe Springs, CA

Size: 19,950 sf

For additional information:
www.gmpropertiesinc.com

Free Standing Industrial Building
Fenced Yard
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