

FINANCIAL ADVISORY

Never Apply for Another Loan Again with Partial Interest Properties

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Occasionally, I will refinance a property from my portfolio or get a new loan to buy another – and I am reminded what an awful experience it is. Gather all your documents together and send them over – then do that every month until the loan closes, answer the same questions multiple times and worry about meeting loan-to-value guidelines. Your loan broker may check your credit 5 or 6 times, then you’ll need to explain to the lenders why your credit has been checked. If you’re completing a 1031 Exchange, all this must be completed within a tight timeline. Everyone else in the deal knows this, so they will sometimes try to “re-trade” you (by raising the interest rate), or the seller may decline to make reasonable concessions. Partial interest properties can help you avoid many of these issues; this month we will discuss how.

WHAT ARE PARTIAL INTEREST PROPERTIES?

For over 20 years, my real estate advisory practice has focused on helping clients complete 1031 exchanges by purchasing partial interest properties. My clients can sell their 8-unit property in Los Angeles and exchange into part (say 3%) of a 300 unit apartment complex in Dallas or a CVS drugstore in suburban Atlanta. I source these properties

through management companies that focus on this part of the real estate industry: they buy these properties, offer partial interests to investors, then stay on to manage the property through their business plan.

BENEFITS OF PARTIAL INTEREST PROPERTIES

These investments offer many potential benefits to my clients:

- No daily management responsibilities. Even investors who hire property managers will often spend quite a bit of time “managing the manager,” but are relieved of those duties with my offerings.
- An opportunity to buy outside of California. Many of my clients are worried about California, and are open to moving their investments to other states. Partial interest properties represent an easy way to do this.
- Diversity. An investor can sell his \$2 million property here and buy, perhaps, portions of 4 or 5 partial interest properties. This way, we can buy properties in different metro areas and in different asset classes, (such as apartments and triple-net leased), to find potentially more growth.



Christopher Miller is a Managing Director with Specialized Wealth Management and specializes in tax-advantaged investments including 1031 replacement properties. Chris’ real estate experience includes work in commercial appraisal, in institutional acquisitions for a national real estate syndicator and as an advisor helping clients through over four hundred and fifty 1031 Exchanges. Chris has been featured as an expert in several industry publications and on television and earned an undergraduate business degree and an MBA emphasizing Real Estate Finance from the University of Southern California. Chris began his real estate career in 1998. Call him toll-free at (877) 313 – 1868.

FINANCIAL ADVISORY ALL THE NEGOTIATING HAS BEEN DONE

When buying real estate on your own, there is a lot of negotiation with sellers. Your inspection will almost always turn up some negative characteristics of the property, and you'll need to approach the seller and seek concessions – usually in the form of a price reduction. If the seller knows that the buyer is completing a 1031 Exchange, (and he does because it needs to be written into the sales contract), he may not feel like granting any concessions at all. After all – if his buyer has 1031 Exchange deadlines to meet; what are the chances that he'll drop out of escrow and start all over with another property?

With partial interest properties, on the other hand, all the negotiations have already been done in advance. The managers we work with buy their properties first before re-selling them to investors. These managers don't have any 1031 deadlines to meet, or any pressure to move quickly at all. This gives them more power when negotiating with sellers – and the potential to get better deals.

NEVER APPLY FOR ANOTHER LOAN AGAIN!

With partial interest properties, the manager will purchase the property upfront by using temporary mezzanine financing. In some cases, they will buy the property with leverage and arrange a permanent loan for the property as well. So – when purchasing a hypothetical \$50 million apartment property in Dallas, they may arrange a \$20 million fixed-rate loan, then use an additional \$30 million of temporary financing to close the purchase. The manager will then raise \$30 million of equity from investors to pay back the temporary loan. Investors will then get “credit” for

their portion of the loan: a 1% equity investment (\$300,000) will also “buy” 1% of the loan (\$200,000), so that they investor now owns \$500,000 of property.

Many of my investors need to replace debt as part of their 1031 Exchange, or desire debt in order to “Buy More Basis” and create more depreciation deductions and tax savings for themselves. The use of partial interest properties could be a great way for you to accomplish these goals, too.

“OFF BALANCE SHEET” LOANS

The partial interest properties that I offer are structured in such a way that the non-recourse loans are not the personal responsibility of my investors. (The property itself is the only collateral for the loan.) I therefore refer to these loans as “off balance sheet.” This means that any loan associated with your partial interest investment will have no effect on your ability to get additional credit in the future. When you put together a balance sheet, you will count your equity in the property – but not the debt. In this way, you're still free to buy “traditional” investment properties on your own while holding partial interests as well.

My clients use partial interest properties to defer (potentially forever) the capital gains and accumulated depreciation taxes from the sale of their investment properties. They also enjoy the potential for other benefits such as monthly income, increased depreciation deductions, freedom from management responsibilities and capital appreciation. Could a partial interest property work for your next 1031 Exchange? My office number is (877) 313-1868.

WANT A REPLACEMENT PROPERTY WITHOUT ACTIVE MANAGEMENT?

Recent offerings, located nationwide, have included:

- Office • Apartments • Triple Net • Retail • Energy Royalties

I have completed over four hundred 1031 exchanges for investors.

\$200,000+ equity required.

Learn more about our investment programs at www.ChrisMiller1031.com



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Investing in real estate, with or without use of a 1031 exchange, carries the risk of losing your principal, income or tax benefits. Additionally, the IRS has issued inflexible guidelines for completing tax-deferred 1031 exchanges. Failure to follow these guidelines could lead to a loss of tax benefits. 1031 Exchanges can involve significant fees. This does not constitute an offer to buy or sell any security. Investments may be illiquid in nature and those seeking to dispose of their investments early may be unable to do so. Securities offered through Emerson Equity LLC. Member FINRA/SIPC, MSRB registered. Advisory services offered through Emerson Equity LLC an SEC registered investment advisory. Emerson Equity LLC and Specialized Wealth Management are unaffiliated.

