

Real Estate Exit Strategies

An Example: Jessica Crest

Jessica Crest			
Cost	\$100	Cost	\$100
Equity	\$40	Land	\$25
Debt	\$60	Structure	\$75

Jessica Crest			
Initial Value	\$100	Value after Appreciation	\$140
Equity	\$40	Equity	\$80
Debt	\$60	Debt	\$60

Sale

Jessica Crest Capital Gains Taxes

Structure	\$75MM
Depreciation Time	40 years
Corporate Tax Rate	25%
Cap Gains Tax Rate	20%

Depreciation Tax

Depr. per year	\$1.875 MM
Depr. since we began	\$5.625 MM
Depr. Tax @ 25%	\$1.41 MM

Capital Gains Tax

Appreciation	(140-100)	\$40 MM
Capital Gains Tax @ 15%		\$6 MM

Jessica Crest Equity Calculation

Sales Revenue	\$140 MM
Debt	-\$60 MM
Fees	-\$3 MM
Capital Gains Tax	-\$ 6 MM
Depr. Taxes	-\$1.4 MM
<hr/>	
Remaining Equity	\$69.6 MM

Refinancing

Jessica Crest Refinance	
Equity Value (Total)	\$80 MM
Building Value	\$140 MM
Debt	\$91 MM
Equity in Building	\$49 MM
Equity to Holder	\$ 31 MM
Fees	-\$ 1 MM
<hr/>	
Equity For New Projects	\$30 MM

Like Kind Exchange (1031 Exchange)

- The exchange is not taxable until you sell your interest for a different type of asset, shares, or cash.

Jessica Crest Like Exchange	
Part 1: Sell Asset	
Sale Price	\$140 MM
Debt	-\$60 MM
Fees	-\$3 MM
Capital Gains Tax	\$ 0 MM
Depr. Tax	\$ 0 MM
Equity Freed	\$77 MM
Part 2: Buy US Gov't Leased Asset	
Purchase Price	\$140 MM
Debt*	-\$105 MM
Equity in project	\$35 MM
Equity Freed	\$77 MM
Equity in Project	\$35 MM
Fees on Purchase	\$1 MM
Equity For New Projects	\$41 MM

*We can have an increased LTV because of the high grade tenant

Selling to a Public Company

- Another possible exit strategy is to exchange your ownership interest in Jessica Crest for a monetarily equivalent ownership interest in a publicly traded company.
- Your tax basis from Jessica Crest will carry over to the EOP stock, and your capital gains will be determined based on the proceeds from the sale of the stock and the old basis. However, to achieve such deferral of capital gains will require rather complex structuring. This is not a “like-kind” exchange but a minority interest.

Go Public

- Initial Public Offering
 - Will incur total fees equal to 10% of the total money raised
 - Will incur \$500,000-\$1 million in fees whether you complete the IPO process or not
 - Timing is critical