



11150 Sunset Hills Road • Suite 300 • Reston, VA 20190
Direct 703.801.4178 • Fax 703.663.9889

November 15, 2009

A Credit to 1031's: New Homeowners Get a Tax Credit Extension and Investors Get to Sell

The Senate has passed a proposition that will both extend a popular tax credit for first-time home buyers past the previous Nov. 30 deadline and expand it to include certain current homeowners. This development has implications which directly affect the market for 1031 like-kind exchanges, as it will propel home purchases, allowing many investors to exchange their rental properties in a 1031 exchange.

So far, ES Group has already facilitated dozens of exchanges driven by these buyers, often using FHA financing, in 2008. The reasons for exchange have been somewhat varied. In two exchange case studies the owners simply exchanged their previous residential rental properties for new investment properties, often times with a more desirable location, such as a rental property closer to a child's college or located in a potential retirement community. In the other case, the owner was simply tired of running an active investment and decided to enter into a tenant-in-common syndicated commercial real estate investment (TIC). Either way, the tax credit supplied the impetus for those taxpayers interested in utilizing the 1031 exchange.

With the tax credit's extension, it seems only logical that there will continue to be an upswing of 1031's in this area. Especially since residential values have been faring better recently, recovering from their precipitous decline. The economy, though posting a positive GDP in the latest quarter, remains in an economic quagmire with unemployment still high and showing little signs of lessening in the near future. Thus, selling now to people incentivized by tax credits could be less risky than waiting for opportunities during a "jobless recovery". These government incentives will not continue forever and investors need to constantly keep an eye on where they would ultimately like to end up.