

The Effects of 1031 Exchanges to Property Valuations

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The task presented is to remedy a design and develop a commonsense approach to identify and **apply** corrective applications in regard to a 1031 investments property type and limit its use while comparing over investment inflated values to non-exchange properties.

1031 Exchange Valuation Properties

- The effects of a 1031 exchange as it pertains to the physical property valuations are increasingly causing inflated values in our Kansas commercial and residential properties.
- When a 1031 is exercised the seller is listing both the “Physical Retail Property “along with the “Guaranteed lease” for one multiple. This multiple allows the buyer the opportunity to utilize the 1031 Exchange to purchase an income stream based on the lengthy lease the tenant has in place.
- This purchase elevates the assets physical purchase well beyond the “Actual” value of the space, in some cases 400% depending on the lease term and the strength of the guarantor. The issue I experience is some taxing authorities are able to utilize these inflated 1031 properties as a comparable to our non-1031 property...causing an overinflated taxable value.

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This Bill will help in many ways.

- Reduce the risk in Commercial Property Tax Over Inflation
- Will Notify the Proper Taxing Authority of the 1031 Exchange
- Will Eliminate the possibility for improper comparable to establish a new increased valuation to other surrounding and new properties.
- Will allow transparency between the Taxing Authorities and the L.L.
- Will offer some mitigated relief to many small business owners / tenant who are collateral damage the process.
- Will create a set of check and balances that will help keep the system honest and correct as we see more of the 1031 Exchanges as the market continues to be volatile.

