

Price & Farrington's Estate and Tax Planning Fast Faxes

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Estate, Tax and Family Wealth Preservation Planning For Advisors

Price & Farrington

Attorneys and Counselors at Law

12501 Bellevue-Redmond Road, Suite 215

Bellevue, Washington 98005

425-451-3583

Email: pricefarr@aol.com

UPREITs: A Powerful, Often Overlooked Tax and Estate Planning Tool

Here's a valuable tax-planning tip to share with your clients.....

Real estate investors finally have a tax deferred alternative to the traditional Section 1031 like-kind exchange. The option is called an UPREIT, or Section 721 exchange, and they are becoming more commonly used than ever before. In an UPREIT exchange capital gain taxes can still be deferred, and the process can be much less costly and complicated than the 1031 exchange. The seller also receives a multitude of estate planning benefits not associated with a Section 1031 exchange.

Why isn't your broker or agent telling you about UPREITs when you are considering selling your property? Simple. While we often hear the phrase "I always do what is best for the client", the truth is that real estate brokers won't earn a commission by selling you a replacement property if you choose an UPREIT exchange over a 1031 exchange. You can't blame the broker for trying making a living, but it is important to know that you do have options which may give you much more for your investment dollar.

A Seattle area company, Cascade

Group Commercial Real Estate Services, offers tax planning opportunities to investment real estate owners in the Puget Sound and throughout the U.S. by arranging UPREIT transactions. They can accommodate owner/sellers of almost all types, ages and conditions of investment real estate, including apartments, office, retail, industrial or even raw land.

What is an UPREIT?

An UPREIT, or Umbrella Partnership Real Estate Investment Trust, is an operating partnership that is controlled by a real estate investment trust (REIT) which allows the REIT to acquire real estate in a tax-deferred transaction for the seller, provided all conditions are satisfied. The seller receives units in the umbrella partnership (operating partnership) generally equal in value to that of the property sold.

Why are more real estate investors choosing UPREITs over traditional section 1031 exchanges? Real estate can present many unnecessary challenges to heirs settling an estate besides the burdensome tax implications associated with highly appreciated property with a low tax basis. By exchanging your property for partnership units in an UPREIT you can very effectively diversify your holdings into a more liquid form of ownership without paying capital gain taxes while relying on a reputable partner with strong expertise in real estate management and capital markets.

What are the benefits of UPREITs for real estate owners?

- ✓ Deferral of tax gain on sale of commercial properties
- ✓ Potential to convert illiquid, long term assets into liquid securities
- ✓ Potential to recognize unrealized gains as earnings



"I'd rather have had dot-com money and lost it than never to have been insanely wealthy at all."

- ✓ Improvement of balance sheet
- ✓ Improved cash position through leveraging of units
- ✓ Income distributions
- ✓ Diversification of real estate holdings
- ✓ Professional property management
- ✓ Estate simplification

Which real estate holdings are good candidates for an UPREIT transaction?

- ✓ Family-owned properties with unresolved succession issues
- ✓ Surplus property generated by consolidations
- ✓ Properties with third-party tenants
- ✓ Partnerships that need to be dissolved
- ✓ Long-term assets with very low basis

The bottom line. Add a potent weapon to your estate and tax planning arsenal: take advantage of UPREITs.

For a complimentary consultation and property evaluation or to find out more about UPREIT transactions, we suggest you contact Jimm Butler at Cascade Group Commercial Real Estate Services at 425.643.7200 or visit their website at www.cascadegroup.com.

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