Real Estate Finance & Investment

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Title: New syndication platform aims to streamline 1031 process
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Realized, a newly launched commercial real estate syndication platform, is hoping to use technology to make the process of completing a 1031 exchange more efficient for investors. "You have saved, you have paid down your mortgage and you have a big gain [after selling your property], and you don't want to pay taxes. But here's the problem: you have a very short time – 45 days after the relinquished property is sold to a buyer, to find a replacement property in a competitive market," said David Wieland, founder and ceo.

Under Section 1031 of the U.S. Internal Revenue Code, an investor can sell a property and reinvest the proceeds in a new asset while deferring all capital gain taxes. The challenge, however, is time – and failure to meet the 45-day identification period requirement can be costly. "Depending on how long you've owned the property and which state the property is located in, capital gains and other taxes can range from 30% to 40% an investor's total profits," Wieland pointed out.

There are other challenges to using the structure, including completing due diligence, securing bank financing, and closing the purchase within 180 days. Realized aims to make 1031 exchanges less time-consuming, complex and difficult, explained Wieland. The online marketplace offers a variety of qualified opportunities, including a class of commercial real estate properties that are structured as securities in a Delaware Statutory Trust, Wieland said.

DST properties allow investors to purchase interests in a trust that buys real estate. Investors are not direct owners of the real estate, instead, the trust holds title to the property and guarantees the mortgage loan while investors hold beneficial interests. DST properties are institutional grade commercial properties sponsored by national real estate developers, usually valued at $5m to $50m.

The structure lends itself to being a passive investment that requires very limited input from investors, Wieland noted the structure is a good match for older, retired investors who do not wish to be hands-on property owners.

"Historically if you sell a duplex or a small shopping center investors would buy another investment property in the same town or city. [Your 1031 investment] is concentrated by geography and you have to be the landlord. But with our technology-enabled syndication platform, we are taking a $50m, $100m asset and allowing investors of any size to buy in increments of $1,000 after meeting the minimum investment which starts at $50,000," Wieland said. "And this is what's interesting, the platform works well for small investors who want to diversify their $250,000 to $500,000, but also for investors who have a large blocks of capital to exchange," he added.

While during the previous downturn several DSTs went under due to foreclosures, Wieland pointed out sponsors are more disciplined with leverage in the current cycle, between 50% to 60% LTV compared to 75% to 85% in the last cycle. Furthermore, he noted the last cycle saw more smaller sponsors putting together DSTs. The number has since consolidated from 75 sponsors of various sizes to about 10 to 12 larger sponsors with established track records.

The platform was recently launched, with a soft launch in March and an official launch in June, but Wieland is optimistic about investor demand. "Based on publicly available IRS data, we estimate that this year individual investors, excluding corporations and small partnerships, will reinvest $60bn in 1031 equity and purchase $187bn in real estate," he said.

Realized uses Regulation D, a provision added to the JOBS Act that enabled companies to use general solicitation, including online advertising, to raise money from accredited investors, to list their offerings. The platform offers a variety of DST/TIC co-ownership and NNN net lease opportunities.