

# The 1031 exchange by the numbers

By Mike Consol

**C**ertain assets, asset classes and investing instruments become the talk of the year. A few years ago, it was crowdfunding and cannabis. A year later people couldn't stop talking about opportunity zones. Then interval funds were in the mouths of babes and sages. Student housing had its moment as well.

When we harken back to 2021, we will likely recall the mantra "1031 exchange" — the provision of the U.S. tax code that allows people to swap of one investment property for another while deferring capital gains taxes. It one of the many tax breaks real estate investors benefit from, and perhaps even feel entitled to. That is until, of course, Section 1031 of the tax code is revised by a new presidential administration.

Enter the Biden White House with its broader-based list of priorities that include major expenditures on "social infrastructure." The funds needed to underwrite that budget package will come, in part, from the repeal of tax incentives perceived to be geared for a privileged class of Americans, such as those who avail themselves of the 1031.

Figuring the 1031 will cease to exist in its current form has set off a frenzy of 1031 deal-making to come in under the wire, as portrayed by the tables and charts from Mountain Dell that accompany this article. Consider that the 1031, which raised equity totaling a trifling \$170 million in 2010, is on a 2021 trajectory hit \$5.5 billion in deal equity.

Keith Lampi, president and COO of Inland Private Capital Corp., a major player in the space, says overall performance of the sector this year has been "incredibly strong." He notes, however, "There is some variability by sector. The multifamily sector has been far and away the largest representation among DST investments," the structure of choice for today's fractional-ownership approach to 1031 property exchanges. Lampi adds, "Multifamily has

experienced strong rent collections, occupancy and rent growth. This trend has led to healthy increases in multifamily net operating income and value creation, igniting a meaningful uptick in liquidity events, which are expected to result in substantial profits to investors."

Asked to characterize the impact of the 1031 as it is currently constituted, Louis Rogers, founder and CEO of Capital Square, fired off this staccato reply: "Jobs! Jobs! Jobs!" Rogers referenced a 2021 study by Ernst & Young that concluded 1031 exchanges are expected to support 568,000 jobs and contribute \$27.5 billion in labor income and \$55.3 billion of value added to U.S. GDP in 2021. The research also found like/kind exchanges will generate \$7.8 billion in federal, state and local taxes this year. In addition, forgone depreciation (reduced

deductions on the replacement properties) is estimated to bring in another \$6 billion per year in income tax revenue.

"In addition," Rogers says, "there is a housing shortage in the United States. A large number of exchanges involve multifamily housing. In this way, Section 1031 exchangers are providing a large number of needed housing units from coast to coast."

Josh Hoffman, president of Bluerock Value Exchange, challenged the perception among some that the 1031 is a fat-cat program for the rich, pointing to its use by "everyday Americans" looking for an opportunity to convert their assets into income-oriented investments to help underwrite their retirement years.

"Limiting or restricting this century-old investment practice would have significant

## 1031 MARKET

Since 2002

YEAR	EQUITY (MILLIONS)	NUMBER OF ACTIVE PROGRAMS	NUMBER OF SPONSORS WITH ACTIVE OFFERINGS
2002	\$356.60	45	14
2003	\$756.00	84	21
2004	\$1,770.00	141	39
2005	\$3,210.00	306	57
2006	\$3,650.00	341	71
2007	\$2,830.00	261	64
2008	\$1,293.00	149	50
2009	\$228.80	43	28
2010	\$169.80	21	13
2011	\$227.60	31	10
2012	\$277.80	21	8
2013	\$427.10	45	12
2014	\$731.45	47	16
2015	\$1,074.57	105	25
2016	\$1,438.64	113	29
2017	\$1,947.49	126	30
2018	\$2,479.89	139	38
2019	\$3,486.19	171	38
2020	\$3,192.32	170	40
8/15/21	\$3,528.32	164	37

## 1031 MARKET & MARKET SHARE

Aug. 15, 2021

Inland Private Capital Corp.	16%
Capital Square Realty Advisors	13%
Black Creek Group	8%
ExchangeRight Real Estate	8%
Passco Cos.	7%
Cantor Fitzgerald Investors	6%
Kingsbarn Realty Trust	4%
RK Properties	4%
BlueRock Real Estate	4%
Versity Investments	3%
Four Springs TEN31 XCHG	3%
Madison Capital Group	3%
Carter Exchange	3%
NexPoint Securities	2%
Inspired Healthcare Capital	2%
Livingston Street Capital	2%
Net Lease Capital Advisors	1%
IDEAL Capital Group	1%
InCommercial Property Group	1%
Time Equities	1%

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unintended consequences that could span decades,” warns Hoffman, “including wiping out billions in generational wealth, greatly reducing tax revenues paid on these investments and negatively impacting a multitude of important industries and jobs involved in the chain.”

That has led to a cloudy 1031 outlook for 2022, according to Larry Sullivan, president of Passco Cos.

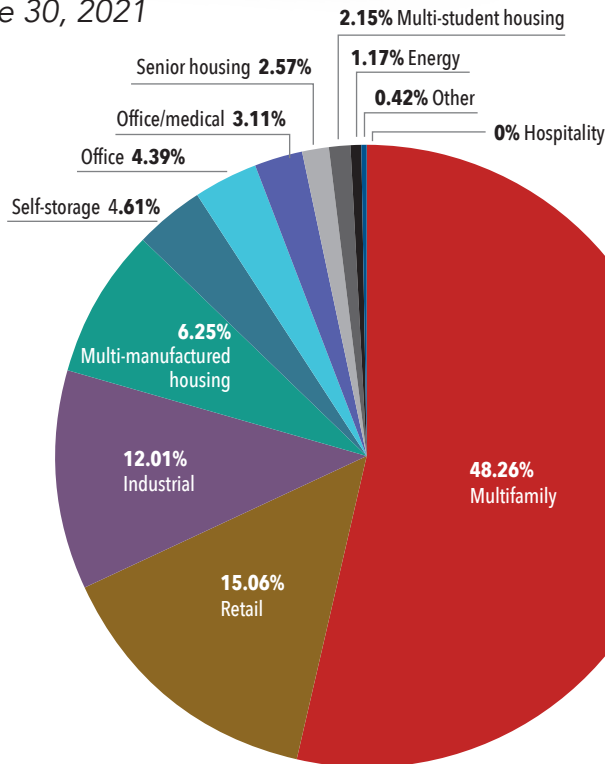
“With the White House proposing to limit 1031 use, educating lawmakers on the potentially disastrous consequences to main street Americans and the importance

of preserving \$55 billion in annual economic contributions from 1031 remains paramount,” says Sullivan. ■

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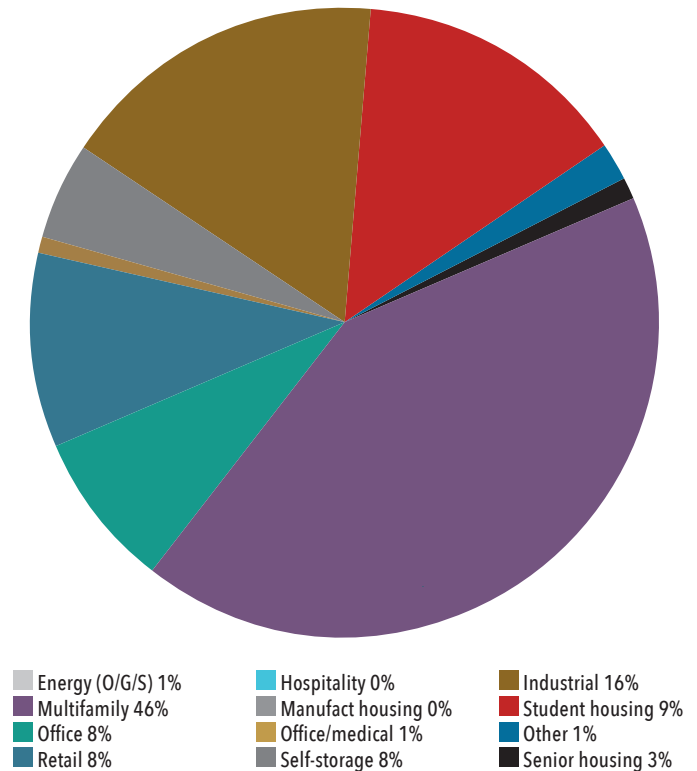
## SALES BY ASSET TYPE

June 30, 2021



## AVAILABLE EQUITY BY ASSET TYPE

As of Aug. 15, 2021



## EQUITY RAISE BY ASSET TYPE

Aug. 15, 2021

ASSET TYPE	AMOUNT RAISED	% OF TOTAL
Multifamily	\$1,702,725,653	48.26%
Retail	\$531,220,712	15.06%
Industrial	\$423,919,561	12.01%
Self-storage	\$220,591,888	6.25%
Manufactured housing	\$162,653,668	4.61%
Office	\$154,889,582	4.39%
Office/medical	\$109,828,833	3.11%
Senior housing	\$90,841,286	2.57%
Multi-student housing	\$75,692,914	2.15%
Other	\$41,260,000	1.17%
Energy (oil and gas)	\$14,693,932	0.42%
Hospitality	\$0	0.00%
<b>TOTAL</b>	<b>\$3,528,318,029</b>	<b>100.00%</b>

## CUMULATIVE EQUITY RAISED COMPARISON

As of June 30, 2021

