News Release

NATIONAL ASSOCIATION of REALTORS®
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NAR Survey finds Like-Kind Exchanges Promote Job, Economic Growth

WASHINGTON (July 9, 2015) – Real estate like-kind exchanges are an important vehicle for disposing of and acquiring properties and support the nation's financial growth, job creation and economy, according to a new report from the National Association of Realtors®.

The *Like-Kind Exchanges: Real Estate Market Perspectives 2015* survey of NAR's commercial and residential members found that real estate investors and commercial property owners place a very high priority on current like-kind exchange tax rules; 40 percent indicated that transactions would not have occurred in the absence of the tax provision, and 56 percent said even if the project would have occurred it likely would have been smaller in scale.

Realtors® are active participants in like-kind exchanges; 63 percent of Realtors® participated in a like-kind exchange transaction between 2011 and 2015. The survey found that like-kind exchanges in which Realtors® participated created between 10 and 35 new jobs, mostly resulting from spending on building improvements following acquisition.

"Like-kind exchanges that allow investors and businesses to defer capital gains taxes on the exchange of similar properties bring great advantages to investors, real estate markets and the economy," said NAR Chief Economist Lawrence Yun. "Realtors® and their clients often look for better economic use of existing properties that are underutilized, which helps promote local economic development and increase the nation's gross domestic product."

Internal Revenue Code Section 1031, a provision that has been in the tax code since 1924, provides individuals and businesses with critically needed tax deferment on gains after the disposition of a property as long as the proceeds are reinvested in a similar property through a like-kind exchange. Replacement properties must be identified in 45 days and the transaction completed within 180 days.

Survey respondents said the primary reason that they or their clients participated in a like-kind property exchange, aside from the deferral of capital gains taxes, was for equity to acquire additional properties. Other reasons were for estate planning, portfolio diversification and completion of a development project.

The tax savings resulting from like-kind exchanges are also helping bring more capital into local markets. Eighty-six percent of respondents said the savings from tax deferment allowed them or their clients to invest additional capital and make improvement in their acquired properties; these investments are generally responsible for the creation of new jobs, such as in construction and property management.

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EQUAL HOUSING OPPORTUNITY

NAR Survey finds Like-Kind Exchanges Promote Job, Economic Growth – add 1

According to the survey, in 68 percent of like-kind transactions, Realtors® acted as a broker or agent, and 24 percent participated as an owner or investor in the transaction. A larger percentage of commercial members (76 percent) reported engaging in a like-kind exchange transaction compared to residential members (45 percent). Of the total, 40 percent participated in between 1 and 3 transactions, and 23 percent participated in 4 or more transactions.

Residential properties comprised the largest portion of recent deals, accounting for 27 percent of disposed properties and 24 percent of acquired properties, followed by apartments (17 percent of dispositions and 22 percent of acquisitions). Land assets accounted for 19 percent of dispositions and 17 percent of acquisitions; retail properties accounted for 8 percent of dispositions and 13 percent of acquisitions; and office buildings comprised 11 percent of dispositions and 10 percent of acquisitions.

Investors tend to hold on to their properties for several years; 47 percent of respondents reported their holding period was between 5 and 9 years, and 27 percent indicated a holding period of 10 to 14 years.

NAR believes like-kind exchange transactions are fundamental to the real estate investment sector, and repealing the tax provision would have negative effects across real estate markets and the industry.

"Like-kind exchanges help investors more efficiently allocate capital and resources with less borrowed money into new investments that drive economic activity in communities across the nation," said NAR President Chris Polychron, executive broker with 1st Choice Realty in Hot Springs, Ark. "Any tax reform plan repealing like-kind exchanges would hurt investors and small businesses, increase financial leverage, weaken growth and the economy, and result in the loss of jobs."

Survey respondents indicated that repealing like-kind exchange tax provisions would reduce equity in real estate; 67 percent indicated repeal would lead to a large increase in financial leverage. Realtors® said the negative result would be reduced purchase money and new construction loans, and increased property holding periods. Ninety-six percent of Realtors® also said real estate values would decrease if like-kind exchange provisions were repealed.

The National Association of Realtors® *Like-Kind Exchanges: Real Estate Market Perspectives 2015* report is based on a survey of 49,593 commercial practitioners and 55,160 residential practitioners (total sample size of 104,753) in January 2015, which generated 3,450 responses from all 50 states and the District of Columbia. The survey had a response rate of 3.3 percent. The report is available at www.realtor.org/reports/like-kind-exchange-survey.

The National Association of Realtors®, "The Voice for Real Estate," is America's largest trade association, representing 1 million members involved in all aspects of the residential and commercial real estate industries.

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