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5 LESSER-KNOWN REAL ESTATE INVESTMENT EXIT STRATEGIES

While buy-and-hold investors would like to hold their properties for as long as possible, we also know that unforeseen circumstances – such as a personal and urgent need for capital, negative cash flow, or a change in portfolio direction and investment goals – can make offloading properties necessary.

OPTION #1: THE 1031 EXCHANGE

The 1031 Exchange can seem daunting. After all, this strategy must follow some extremely strict rules that demand its consideration far in advance of selling a property. However, this strategy allows investors to trade a like-kind property (or properties) while deferring capital gains taxes.

You will need, among other things, a qualified intermediary (QI) as well as an identified property or properties within a strict time limit. You MUST know and prepare for a 1031 Exchange before you sell a property. By then, it is too late.

Work with experienced professionals who can help you navigate the process hassle-free.

OPTION #2: SELLER FINANCING

Seller financing can be beneficial when selling to someone who may not have the credit or means to secure bank financing. It keeps the transaction between buyer and seller without involving a bank. This arrangement often incentivizes the buyer to pay more for the property while you, the seller, benefit from a hefty downpayment and interest over time.

Plus, you only have to pay capital gains taxes on income made during each year of the agreement – usually lasting from two to five years.

This is a longer-term exit strategy that can fall apart if the buyer defaults on their payments.

OPTION #3: LEASE OPTIONS/RENT-TO-OWN

If you know well in advance that you would like to exit an investment, a lease option is possible. If your resident would like to own the home they rent, you can make an arrangement in which a portion of their (often increased) rental payment goes towards the ultimate purchase of the property. That, or a resident agrees to buy the property for a set price. These agreements usually demand the full purchase of the property within one or two years.

This prevents the investor from losing out on appreciation. Don’t utilize this strategy in a hot market, where that year or two could bring in significant equity through appreciation. However, in slower, less urgent markets, it can prove a beneficial strategy.

OPTION #4: BUILD A BUNDLE

When you’re culling your portfolio, you may find a multitude of properties that no longer suit your goals. You can target investors and investment groups by building a bundle – offloading multiple properties in one package deal.

Your buyer pool will be significantly smaller, but you can continue to earn passive rental income while you wait for the right buyer to come along. It's a swift way to clean up a bloated portfolio. This strategy also prevents you from dealing with the hassle of the sale of multiple properties. One bundle means one sale to market and execute.

OPTION #5: PASS IT DOWN

Building generational wealth is a big motivator for real estate investors. This can be done in several ways, but one way involves leaving property behind for your heirs. Doing so demands setting up a trust and a finely crafted will, but it isn't too difficult a process.

The big benefit here is that while you would pay capital gains taxes on the sale of a property, your children likely wouldn't have to. Of course, this strategy doesn't work if you're trying to get rid of a dud property. You want to leave behind high-performing, quality properties to your heirs.

Properties can also be added to trusts and later sold as a means of funding a grandchild's education or to meet other familial financial goals.

There's no one-size-fits-all exit strategy. What matters is that investors are well-aware of their options so that they can make informed, educated decisions regarding their individual investments and circumstances.

Selling may be the simplest path, but it isn't the only way to go.