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*Commercial Real Estate Investing – A Long Term Strategy
That Can Produce Substantial Tax Savings*

Stocks are a popular investment vehicle in the U.S. Regardless of how you trade in the stock market, you are going to end up paying a significant amount in taxes and there is no real way around that. Real estate investments, however, are an entirely different story.

Ownership of real estate can produce tax benefits that can transform a good investment into a great one. The goal with any investment is to protect large amounts of income from taxation. In the case of real estate investments, the goal is to protect income accrued from the property itself or from other sources from taxation. Deduction allowances that are available for most real estate investments include the following:

- **MORTGAGE LOAN INTEREST** can be deducted to offset an equal amount of income. For example, borrowing \$1,000,000 at 6% interest will yield an interest deduction of \$60,000 during the first year of the loan, which can be used to offset \$60,000 of income that would ordinarily be subject to income taxes. Regarding its effect on taxes, the interest deduction for investment real estate is the same as the interest deduction for a home mortgage.
- **PROPERTY TAXES** levied against investment real estate and paid to state or local governments can also be deducted from taxable income. The deduction for property taxes you pay on investment real estate is treated in the same manner as the property taxes paid on your home, if you itemize deductions. The higher the property taxes you pay, the greater the tax savings you can achieve.
- **INSURANCE PREMIUMS** for coverage of real estate investments are deductible from taxable income. Insurance premiums are not deductible for homeowners.
- **MAINTENANCE EXPENSES** are fully deductible in calculating the tax liability for a real estate investment. Expenses you incur for general maintenance, like fixing a water heater or painting a deck, are examples of costs that can be deducted from your other income, thus arriving at a lower tax bill. Maintenance costs can add up, especially for older properties, so being able to deduct these costs is an important benefit of owning investment real estate.

- **Improvements are the exception.** Any improvements that extend the life or increase the value of the real estate are treated differently from maintenance costs. While maintenance costs are deductible in the year that they are incurred, improvement costs will increase the cost basis of the real estate, thereby reducing any gain or increasing any loss when the property is eventually sold.
- **ENERGY SAVING ADJUSTMENTS** made to your piece of real estate, such as solar heating, sunroofs for lighting, and even insulation advances, allow a significant deduction. Under the Energy Policy Act of 2005, property owners are subject to a deduction of \$1.80/sf of enhancement for energy saving purposes. Adjustments are included as long as a 50% energy savings results from the work done.
- **DEPRECIATION** accounts for the decline in value of an asset over time, including most real estate. Depreciation decreases the accounting value (property value as shown on financial statements) of real estate and at the same time offsets an equal amount of income from taxation without affecting the market value of the property. Investors generally obtain maximum tax benefits by depreciating real estate as quickly as possible to offset income and tax savings sooner. Commercial investment property must be depreciated over 39 years while residential rental property is depreciated equally over 27.5 years.
- **OTHER DEDUCTIONS** include, but are not limited to, the following:
 - **Travel:** Real estate owners are entitled to a tax deduction whenever they drive or fly anywhere for their rental activity.
 - **Employees/Independent Contractors:** You can deduct the wages of anyone you hire to perform services for your rental activity.
 - **Casualty/Theft Losses:** If your rental property is damaged or destroyed from an event like a fire or flood, you may obtain a deduction for all or part of your loss.
 - **Legal/Professional Services:** Finally, you can deduct as operating expenses the fees that you pay to attorneys, accountants, property managers, real estate advisors, and other professionals for work related to your rental property.

As tax season approaches, this is an excellent time to consider how the above deductions could make a move out of stocks and into real estate a profitable one for many. In addition to tax advantages, real estate represents a tangible, transparent asset that historically has held its value well during inflationary periods. Between purchase and sale date, many properties, especially those in strong markets, can generate significant cash flow (i.e. rents). As a long term investment, real estate may be a very wise alternative asset choice for 2010.

Regards,

The LRG Capital Real Estate Management Team

About LRG Capital Real Estate Ventures

LRG Real Estate Ventures invests in and advises on a wide range of equity financing solutions, from joint ventures with operating and development sponsors to direct, active investments through LRG Capital Real Estate Partners, involving commercial, multi-family, retail and light-industrial real estate properties.

About LRG Capital Group

LRG Capital Group (www.lrgcapital.com) is a global investment, banking and advisory boutique that focuses on public and private companies in the technology, life sciences, hospitality, real estate and entertainment sectors. Founded by Lawrence Goldfarb, the firm provides capital via private equity, commercial loans and structured debt financing, and guides and advises clients on mergers and acquisitions, corporate finance and other strategic alternatives. Based in San Francisco with offices in New York, LRG Capital excels at relationship-focused guidance and financing.

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We are not Tax Professionals and this information should not be considered tax advice. Please consult a Tax Professional for clarification on specific investments.