

## *The District Asheville, NC*



*Investment Date: Oct. 2015*  
*Capitalized Cost: \$48,557,333*  
*Sales Date: August 2019*  
*Sales Price: \$71,500,000*

The District was a ground-up development of a 309-unit, Class-A luxury apartment complex in Asheville, NC. The site was a mere quarter mile from The Biltmore Village, a retail center neighboring the famed Biltmore Estate. We were drawn to this project because of its desirable location and our long-running and successful relationship with our developer partner.

While initial leasing exceeded expectations, we experienced construction delays with the first and final buildings that led to cost overruns. Despite still being in lease up, we believed the performance and location of this project would bring offers reflecting a stabilized value, so we took the property to market in the fourth quarter of 2018. We received several strong offers and contracted with a buyer to sell the property for \$69.5 million as part of the buyer's 1031-exchange. The buyer indicated their purchase was not contingent upon the sale of the exchanged property, but this was ultimately not true, and they failed to close on the purchase once difficulties arose with the sale of their 1031-exchange.

We took the property off the market for several months and relisted in the spring of 2019 and

received multiple competitive offers. We accepted an offer of \$71.5 million with a large deposit and short closing time from a buyer with a strong reputation.

This project reinforced our apprehension towards buyers attempting 1031-exchanges. A 1031-exchange allows a property investor to defer paying capital gains on the sale of one property if they roll the proceeds into another "like-kind" investment. To qualify for this tax treatment, there are several strict requirements and timelines that must be met. Failure to meet any of these requirements can delay or derail a property sale.

When selling a property, we evaluate all purchase offers on a combination of price, terms, and the buyer's probability of closing. This means 1031-exchange buyers must offer a materially higher price for us to consider their offer given the exponentially higher probability of failing to close.

Many investors successfully use 1031-exchanges to defer tax obligations; but The District shows a 1031 exchange is often more of a "tax play" than it is a fundamentally sound real estate investment.

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