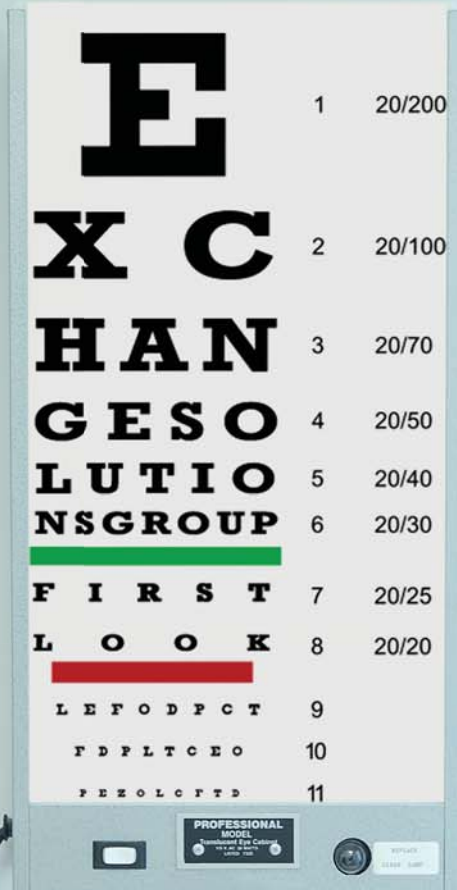


NET LEASE ADVISOR

YOUR SOURCE FOR INVESTMENT REAL ESTATE™

First Quarter 2009

Exchange
Solutions
Group
is seeing
20/20 on
1031
exchanges



Calkain opens
New Division:
Opportunity
Services

Medical Office
Buildings
Are they today's
investment of choice?





Exchange Solutions Group

Taking a different approach to your 1031 exchange solution

Calkain's Executive Vice President, David Sobelman, had the chance to sit down with the founder of Exchange Solutions Group, James Brennan, and ask him first hand what makes ES Group stand out among the rest.

CALKAIN: Why did you leave Wachovia to start your own Qualified Intermediary (QI)?

BRENNAN: The Qualified Intermediary industry was broken. You could see the industry's complete lack of value and leadership based on the fragmentation in market share. Not one qualified intermediary in the entire industry possesses more than 5% of the market. I believe that the industry is fragmented due to a universally broken business model predicated on holding investors' exchange proceeds and not allowing them to influence where the proceeds will be held. When I decided to leave Wachovia it was not just to start "another qualified intermediary", it was to turn the industry on its head and offer a different

value proposition to customers. I believe the model we are building empowers clients to have a more transparent transaction and gain a better understanding of the moving parts. The exchange accounts, in my opinion, should not be a black hole where clients have no awareness of the process or the location of their money. Hopefully, we will continue to see our model gain traction and investors and companies will appreciate the value we are bringing to the marketplace both technically with exchange information and competitively with our unique platform.

CALKAIN: What is different about ES Group than other Qualified Intermediaries?

BRENNAN: I break the industry into three segments: (1) Captive Qualified Intermediaries that are part of banks or financial institutions

that offer 1031 exchange depository services as part of their own proprietary product line; (2) independent intermediaries that are not banks that aggregate investors' funds in an effort to leverage their singular relationship with a bank; and (3) our model which is simply a platform that allows clients to interact with a panoply of banks and arrange the accounts properly. Large independent intermediaries often object to repositioning their companies to allow for self-direction of proceeds because they do not want to deal with multiple relationships and accounting headaches related to interest they make on clients' funds.

CALKAIN: Tell us about expansion plans and where you have done business thus far?

BRENNAN: Over the last four years I have done business nationally. Since we started Exchange Solutions Group our transactions have come from California, DC, Maryland, and Virginia. We have regional offices in Texas and Los Angeles, and plan to expand to the Northeast, Southeast and Mid-West within the year. We like the baby boom generation for the private client market. We like the metropolitan regions for our institutional focus. We are working with several of the largest investment sales brokerages to develop presences in the metro areas. We plan on expanding primarily through strategic banking relationships and working directly with clients and their advisors. Bank Boards are dominated by property management companies and title companies. Our model allows those regional banks to capture deposits they would not

"...it was to turn the industry on its head and offer a different value proposition to customers"

have retained by partnering with ES Group. The "retail" business will be driven directly by educational seminars and joint calls with clients and their advisors.

CALKAIN: What types of assets qualify for 1031 or 1033 exchanges?

BRENNAN: Typically any capital as-

set that generates a capital gain or loss qualifies for an exchange. Most clients focus on real estate assets because the capital gain is readily apparent. Personal property capital gains tax liability is much more latent, and hidden deep in the transaction. Thus, depreciation recapture often gets overlooked and personal property exchanges on equipment such as telecomm, trucks, and business equipment do not get the attention they deserve.

Exchanges under Section 1033 we see most often as a result of fire, flood, and eminent domain. You do not need a Qualified Intermediary for these transactions; however, we do get questions on them very often because the concepts are so similar. The pitfalls on 1033 exchanges are often related to the misconception that the 1031 rules apply. First of all, on many of the conversions you cannot use the broad definition of "like-kind" as you are allowed under Section 1031.

CALKAIN: There has been a considerable amount of discussion from Washington, DC on the increase of the long-term capital gains rate. Can you discuss what you are hearing and what impact that will have on like-kind (tax-deferred) exchanges?

BRENNAN: Increasing capital gains taxes will cause more exchanges certainly. From our sources on Capitol Hill we hear President Obama is listening to his economic advisors and not proactively raising capital gains rates to levels as high as 30 percent which may deter transactions; however, that being said, rumor is that he will let the "Bush tax cuts" expire and we will see a mechanical move-

"Section 1031 is allegedly not on the table to be removed as a tax benefit for investors..."

ment upward in federal capital gains tax liability. Section 1031 is allegedly not on the table to be removed as a tax benefit for investors so that will continue to be an incentive to "trade into" better performing replacement property rather than hold still or cash out.

CALKAIN: Explain the benefits of using a tax deferred exchange in this

James' responsibilities include serving as the primary point of contact for affluent and institutional clients. James works closely with a team of experienced advisors to offer customized exchange solutions. Prior to founding ES Group, James served as the Mid-Atlantic Regional Manager for two of the leading National 1031 Exchange Qualified Intermediaries, where he was responsible for assisting real estate investors, accountants, attorneys, REITs, and private equity groups with executing like-kind exchange transactions.



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James is a licensed attorney and possesses an undergraduate degree in finance from the University of Scranton and a law degree from the Wake Forest University School of Law. James additionally obtained his Masters of Law (LL.M.) Degree from Georgetown University Law Center focusing on matters of securities law and tax planning.

James has executed hundreds of 1031 exchange transactions including dispositions approaching and exceeding one billion dollars. He has been featured in the Washington Business Journal, CNNMoney, the Commercial Property News, and Costar regarding complex exchange strategies. The regional periodical Bisnow on Business deemed James "Mr. 1031" for his stature in the industry.

From 2005 to 2008, James served as an Adjunct Faculty member at George Washington University in their MBA Program teaching real estate development case studies. James resides in Alexandria, Virginia, with his wife Shelley and puppy Kona.

economic climate.

There are two trends we are seeing right now: (1) lack of abundant liquidity in the marketplace for most assets and zero liquidity for many assets, and (2) the ability to acquire assets at very reasonable cap rates. These two trends work together nicely to allow for private clients to engage in both estate planning and recalibrating their real estate portfolio. For instance, if clients wanted to get out of land, perhaps take a "haircut" on what they would like to sell it for, and reposition it into credit tenant investment properties they can accomplish two things: (1) get cash

flow which often mitigates need for liquidity, and (2) acquire financeable real estate in today's economic conditions. 1031 is a vehicle that allows this transition to take place.

CALKAIN: What should a seller do if they are contemplating completing a like-kind (tax-deferred) exchange?

BRENNAN: Sellers should conduct a

joint conference call or meeting with their tax advisor and Qualified Intermediary. CPAs and tax attorneys possess comprehensive relationships with their clients. Qualified intermediaries will be intimately familiar with the particular rules of the like-kind exchanges because of their focus. With a multitude of advisors clients will benefit from the communication and dialogue. This dialogue should not happen at settlement and should happen as soon as there is any contemplation of disposing of an asset. Integrating a disposition and/or exchange should fit into a client's overall plan and without upfront planning the client will make myopic decisions. ■

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MEDICAL OFFICE BUILDING SALES & SALE-LEASEBACKS

Are they today's investment of choice?

By: Guenter Manczur, CCIM

With the country's graying population, our need for medical care increases each year. That need translates to demand for additional medical staff and with that, demand for more healthcare facilities ranging from physician's offices to laboratories, specialty treatment centers, ambulatory surgical facilities and acute care hospitals.

New facilities are built in areas of population growth to address this need as well as to replace existing, obsolete facilities. Technology demands will also require new infrastructure within different sectors of the medical industry. Within the broader category of healthcare real estate, single tenant medical office buildings (MOBs) fall into discrete uses including special purpose facilities such as dialysis centers, cancer treatment centers, ambulatory surgery centers, eye surgery centers and offices that house a single physician practice or a small group of complementary practices.

In order to determine the viability of single tenant MOBs as real estate investments, we must understand

both sides of the landlord/tenant relationship.

Why do some medical providers choose to lease instead of own?

Capital is a resource that remains in high demand. The recent reduction of available mortgage loans for commercial properties has caused owners to be even more cautious in determining where and how to deploy their own capital. Physicians and other medical service providers who aren't required to spend their own funds towards the ownership of the real estate they occupy can utilize that money for business operations and to purchase newer or additional medical equipment.

Frequently, investments that improve operations and patient care also provide higher financial returns than the returns achieved from the ownership of real estate. Capital spent for the ownership of business real estate will reduce money otherwise spent on rent. However, the same money spent on medical equipment can increase billable fees while improving the practice's patient care capability.

Another benefit of leasing medical offices as opposed to owning them is the elimination of mortgage debt. Leases for business facilities, when unencumbered with co-ownership provisions or below-market purchase options, are typically considered to be operating leases that are not listed as liabilities on the tenant's balance sheets.

Finally, physician groups are often corporations, partnerships and other business entities comprised of many diverse individuals with varying financial backgrounds, capabilities and investment goals. By making the strategic decision to separate the core business of operating a medical practice from the ancillary business of owning the practice's occupied real estate, the group's members eliminate a significant area of potential internal conflict.

Why are investors attracted to single tenant MOBs as real estate investments?

Investors, whether private or institutional, are increasingly attracted to owning healthcare real estate. The healthcare industry is one of the

fastest growing sectors of the economy and provides numerous investment opportunities. Sean Keehan, et al, in "Health Spending Projections through 2017" projects U.S. healthcare expenditures to account for some 20% of the country's entire GDP in only eight years.

MOBs serve the needs of different medical practices. They are found in a variety of locations to serve those needs and have different underlying real estate values. Imaging centers, cardiologists and cancer treatment centers are some of the uses that often locate close to hospitals for the convenience of both patients and physicians. Because of the high cost of land and strictly regulated design criteria, on-campus medical office buildings are among the most expensive medical buildings to develop and to lease. Facilities such as pediatrician's offices and dentist's offices are often located in or near predominantly residential areas and are subject to lower land and development costs.

Single tenant MOB investments are typically structured as the fee simple ownership of commercial real estate subject to long-term leases with minimal responsibilities imposed on landlords. Throughout the term of the leases and renewal options, landlords receive rent payments. At the conclusion of the leases, landlords may sell, re-lease or re-develop their properties for other uses and will receive the benefit of each property's residual value.

Tenants of most single tenant MOB properties are financially sound corporations, limited liability companies or partnerships and sometimes provide personal guarantees. Investors view the development or purchase of these properties as stable, low risk real estate investments.

Leases are typically for initial terms

of ten to twenty years and may include several renewal options. Initial base rents and periodic increases are negotiated at the onset of the lease and vary depending on land and construction costs, financing

"The healthcare industry is one of the fastest growing sectors of the economy..."

costs, tenant strength and local market conditions. Responsibility for maintenance, insurance and property taxes commonly rests with the tenant. Because physicians are generally very image conscious, MOB tenants commonly strive to keep their facilities extremely well maintained.

MARKET OUTLOOK

Changing financial markets have created challenges for many owners of commercial real estate, whether to find new purchase money mortgages or to refinance existing mortgages when those notes become due.

The sale-leaseback of owner occupied facilities is an increasingly popular strategy that allows owners to sell their property, access their entire equity and continue to occupy the

property for a predetermined length of time.

Whether sold as newly developed properties or as the sale-leaseback of existing owner-occupied facilities, investment activity for single tenant medical office buildings will continue to grow for the foreseeable future. ■



MOB investment purchases are sought by private market as well as institutional investors. High quality underlying real estate, tenant stability, long term leases, minimal landlord responsibilities and a growing market segment are the elements common to typical MOB investment sales that are frequently sought by the investment community.

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Calkain Opportunity Services

Calkain Companies Forms Net Lease Property Division For Adverse Situations

Calkain Companies announces that it has formulated its newest division, Calkain Opportunity Services (COS). With a daily influx of conversations on how to maximize value of its client's property in the current market environment, Calkain felt it was important to formalize its procedures on how to handle this specific real estate dynamic. With the new division comes a new hire within the multi-disciplinary commercial real estate firm. Todd Harrison, COS's Managing Director, will personally oversee the new division and its operations. Todd is a veteran commercial real estate professional having served in leadership positions for leading consulting, due diligence, brokerage and real estate investment firms. He has been involved in over \$2 billion of commercial real estate pertaining to analysis, underwriting, due diligence and transactions in his tenure.

Calkain feels that the growing number of potential debt restructurings,

litigation from soured transactions and failed investments will see an onslaught of needs from investors, sponsors, attorneys and appraisers to have an impartial third party evaluate the value of assets and help determine a realistic exit strategy. Jonathan Hipp, Calkain Companies President and CEO, commented, "For those individuals involved in less than ideal situations, Calkain will be able to formulate a plan on how to exit their challenging situation with realistic and fast results. Therefore, we are thrilled to have Todd on board. His diverse background is particularly well-suited to the operations of this new division."

There is an obvious increase in the number of net leased assets defaulting on their loan commitments and, subsequently, banks taking control of the property. Even stabilized, net lease assets may have a caveat that will force a non-traditional approach to relieving the challenging situation. Hipp continued, "With the previous

several years of aggressive prices paid for net leased investments, many landlords took on debt that may be maturing in the near-term. COS is set up to evaluate options for the landlord and help with determining several options for their investment."

Harrison commented, "There is no other service like this for net leased assets. Calkain is nationally known as a leader in the industry for this specialized property type and we feel that we are best equipped to handle the deluge of situations that have been presented to us in recent months."

COS will work with landlords, banks, attorneys, multimember ownership situations and a plethora of other stakeholders involved in any one asset or portfolio of assets. IRC § 1031 Tax Deferred Exchanges, Debt Work Outs, Restructuring & Reorganizations, Litigation and Dispute Resolution, and Expert Witness Litigation Support will be the focus of the newly formed division. ■

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