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# New Study Shows Like-Kind Exchange Tax Provision Benefits US Economy

*Limiting Exchange Provision Would Slow Job Growth, Decrease Investment and Raise Rents*

WASHINGTON, DC (July 9, 2015) - A groundbreaking new economic study of the US commercial real estate market released today highlights the critical role the "like-kind exchange" tax provision plays in strengthening our economy, safeguarding property values and stabilizing rents.

Like-kind exchange or "1031 exchange" rules recognize that exchanging one business or investment property for a similar property does not change a taxpayer's economic status and therefore should not be taxed immediately. This rule encourages property owners to expand their holdings or reinvest in new businesses, allows capital to flow freely and ultimately supports US job creation and economic growth.

"The Economic Impact of Repealing or Limiting Section 1031 Like-Kind Exchanges in Real Estate" is a first-of-its-kind study that analyzed more than 1.6 million real estate transactions over an 18-year period. The authors, Drs. David Ling and Milena Petrova, found like-kind exchange rules have led to a more dynamic real estate sector by encouraging increased investment and reinvestment activity, allowing real estate owners to better allocate resources and decreasing levels of debt in commercial and multifamily real estate transactions. Link to the study here.

"Like-kind exchanges are associated with increased investment, shorter holding periods, and lower leverage," said study co-author David Ling.

Among the study's results is quantifying the link between like-kind exchanges and increased investment. On average, a taxpayer using a like-kind exchange acquires a replacement property that is $305,000 to $422,000 more valuable than the original property – additional value that is invested into the community. Likewise, the study shows properties acquired through like-kind exchanges are more likely to undergo building improvements and expansion, ultimately creating more jobs.

Elimination of like-kind exchanges would have serious consequences. Thousands of owners of commercial property would face an increased tax burden. The authors estimate that investors would need to raise rents on residential properties by nearly 12 percent to ensure a rate of return similar to the return available by using a like-kind exchange.

The study also finds that in nearly 90 percent of the cases, taxpayers using like-kind exchanges did not defer paying tax indefinitely, as some critics charge, but paid substantially more in tax when the property was sold than would have been due had the exchange not occurred.

“Removing the exchanges would decrease property values and net investment, increase holding periods, and increase the use of leverage to finance acquisitions,” said study co-author Milena Petrova. “These micro effects are likely to have macro-economic consequences as well by decreasing construction and investment activity in commercial real estate markets, which would depress employment in markets where like-kind exchanges are commonly used. It is critical to fully understand the positive economic effects of the like-kind exchange provision before considering any changes to the policy.”

Dr. David Ling is a finance professor at the University of Florida’s Warrington College of Business and past president of the American Real Estate and Urban Economics Association. Dr. Milena Petrova is a finance professor at Syracuse University’s Whitman School of Management.

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