

Empowering Wealth Managers to Proactively Serve the Commercial Real Estate Needs of Their Clients

NAI Global, the leading managed real estate network in the world, has joined forces with Intelligent Edge Advisors to create NAI Intelligent Edge, the first and only commercial real estate services platform offered exclusively to wealth managers and financial advisors to serve the diverse needs of their clients who own commercial real estate. *By collaborating with NAI Intelligent Edge, advisors can expand their asset oversight capabilities into commercial real estate.*

Timely and Compelling Service Offering

There are several converging trends that make NAI Intelligent Edge's service offering timely and compelling.

- Clients of advisors own vast amounts of commercial real estate which often comprises a significant portion of a client's net worth. Over the next decade baby boomers will sell or monetize trillions of dollars of real estate to fund retirement. Working with NAI Intelligent Edge empowers advisors to capture additional assets under management.
- Wealth management is fiercely competitive and is becoming more "holistic" as advisors attempt to differentiate themselves. Advisors are taking on the role of "family CFO" and are viewed as the key trusted advisor clients turn to for advice on an increasing array of wealth planning issues. Right now most advisors aren't involved with real estate decisions their clients make because they oversee their clients' *liquid* wealth. As a result, clients usually work with local real estate brokers that have limited knowledge of the clients' overall financial planning goals. NAI Intelligent Edge positions advisors to proactively assist real estate owners to maximize the utility of their real estate holdings in the context of their overall wealth planning goals.
- Financial advisors and wealth managers are leaving the largest firms in droves and "going independent". This trend should continue and accelerate. In doing so, these breakaway advisors may no longer have access to the types of sophisticated commercial real estate services available in the past.
- Over the past few years owners of sub-investment grade commercial real estate have seen the value of their properties plummet, and in many instances the prospects for a robust recovery in prices are not particularly compelling. NAI Intelligent Edge works with advisors to help owners compare the risk/reward of continued ownership of their real estate assets versus cashing out and deploying the proceeds into other asset classes. Along those lines, a wide range of strategies is available to enable real estate investors to tax-efficiently monetize their real estate investments to generate liquidity in order for their financial advisors to invest in other investment opportunities.

Value Proposition of NAI Intelligent Edge

NAI Intelligent Edge empowers wealth managers to proactively serve the commercial real estate needs of their private clients. As mentioned above, financial advisors normally oversee or manage only their clients' *liquid* wealth and as a result, clients who own commercial real estate usually work in isolation with a local real estate broker who unfortunately has limited knowledge of the client's overall financial objectives. As the following case study highlights, this could conceivably result in decisions and transactions that actually impede, rather than fulfill, the wealth planning goals of the client.

Case Study: The client of a financial advisor owns a piece of raw land that at its peak was worth \$5 million, but is currently worth \$3 million. The client's tax basis in the property is \$1 million because the property was acquired for that price a number of years ago. Because the prospects for significant price appreciation in the near term are not compelling, the client is considering selling the land and reinvesting the after-tax proceeds in asset classes and investment opportunities that he expects to perform better than this piece of raw land. If the property is sold for \$3 million, a capital gains tax on \$2 million will be incurred by the investor.

A local real estate broker approaches the owner and suggests that, instead of an outright sale which would trigger an immediate capital gains tax, the owner execute a “1031 exchange” whereby the piece of land is sold but another “replacement property” is acquired with the proceeds of the sale. If executed properly, a realization event will have occurred for tax purposes (sale of the land), but the sale will be a non-recognition event for tax purposes (no immediate capital gain tax is due) if the parameters of Internal Revenue Code Section 1031 are satisfied. The client likes the idea and the 1031 exchange is executed without the advice of the financial advisor. The land is sold with no immediate taxable event and the proceeds reinvested in another real estate investment of the same value that takes on the same tax basis as the property that was sold (zero in our example). This is a very attractive result and the 1031 exchange is a proven and valuable tax deferral tool for real estate investors. However, in this situation the 1031 exchange may not have been necessary.

That’s because the client’s financial advisor, who has a detailed understanding of the client’s overall financial and tax picture, was not part of the decision-making process with respect to implementing the 1031 transaction. If the financial advisor had been involved in this process, he would have reminded the client he possessed certain deferred tax assets that had not yet been utilized - the owner incurred capital losses on his securities portfolio during the financial meltdown a few years ago and is still carrying forward \$2 million of unused capital losses. Therefore, the piece of land could have been sold outright and 100% of the proceeds deployed by the financial advisor in asset classes and investment opportunities that the financial advisor and client expected to perform better than the replacement property that was purchased.

Takeaway: If the financial advisor had been involved there would likely have been an outright sale of the land (one transaction and one commission), the client’s deferred tax assets would have been utilized to fully offset the gain on the sale, and 100% of the sale proceeds would have been invested in a diversified investment portfolio rather a single replacement property. By bringing together an understanding of the client’s real estate holdings with other important financial and tax considerations, the financial advisor can help the client chart a more efficient path and make better decisions.

Enhance the Value Proposition Delivered to Private Clients While Increasing Assets Under Management

NAI Intelligent Edge empowers advisors to proactively assist clients to maximize the utility of their real estate in the context of their overall financial and wealth planning goals. Advisors can play a critical role orchestrating optimal solutions for clients who wish to monetize their commercial real estate. By collaborating with NAI Intelligent Edge, advisors have access to the talent and resources to convert their clients’ real estate into assets under management. In addition, a wide range of other services is available including valuations, corporate solutions, property management, project management, leasing/tenant representation and workout/restructuring services.

By working with NAI Intelligent Edge, advisors can create a key role overseeing their clients’ real estate investments. The wealth management process is more holistic and the value proposition delivered to clients is enhanced.

To Learn More: NAI Intelligent Edge is pleased to offer its services exclusively through wealth managers and financial advisors. Please feel free to contact either Tom Boczar or Liz Ostrander to set up a call or meeting.

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