

# Eric J. Christopher Closed Transaction CASE STUDY

## THE CHALLENGE

After three decades of managing their own apartments, Sam and Deloris were ready to scale back day-to-day duties in order to travel more. One property, a 4-plex in Los Alamitos was selected for sale. Like many long term owners, the capital gain on sale would have triggered a massive tax bill, which was unacceptable to them. How could they execute a 1031 exchange to defer the capital gains taxes, but also maintain cash flow and relieve the day-to-day responsibility of owning apartments?



12 UNIT APARTMENT COMPLEX

1031 EXCHANGE



### Single Tenant Burger King Store

- No Management or involvement required from you
- Tenant responsible for Taxes, Insurance, Maintenance
- Long Term Lease - 20+ years!
- Strong corporate guaranteed leases
- Usually a higher return + a new depreciation schedule!

## THE SOLUTION

An excellent solution that answers all three questions is a 1031 exchange into a Single Tenant Net Leased Investment (STNL). A STNL investment is a technical term for a building (and/ or the land underneath), which has say, Starbucks, or Burger King, or Auto Zone in it with a long term lease in place. The terms of these leases call for the tenant to take care of everything relating to the building – Maintenance, taxes, insurance, etc. Ownership does no management of any kind, except receiving a rent check each month! There are literally hundreds of options available to fit almost any profile at any given time. Typically, there are a few categories -- fast food, drugstore and other retail Advanced Auto Parts or Sherwin Williams Paints.

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## SELECTION IS KEY

Like any kind of real estate acquisition, selection is key. Location, location, location always applies, but with STNL Investment, brand name, operator strength and term of the lease are equally important. In this scenario, using my accounting background, Buyer and I screened 14 different assets, of which two met their criteria to go into contract with – a Taco Bell in Lake Charles, LA and a Taco Bell/KFC combination store in Newcastle, OK. Both were in solid locations, with good operators and long term leases.



## THE CLOSING

The two assets compared favorably, but Sam and Deloris selected the Taco Bell/KFC store in Newcastle, OK based on overall return available (6.50% cap rate versus 5.75%). At approximately \$1,600,000, Using 50% debt and a great interest rate, cash on cash return was approximately 7% with no management duties required whatsoever.

When selected properly, a Single Tenant Net Leased Investment can be an excellent solution to 1031 exchange out of your apartment complex and also provide cash flow without any management required.



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