

# HOW INVESTING IN TRIPLE NET PROPERTIES YIELDS PASSIVE CASH FLOW AND DEFERS TAXES

**BONUS DEPRECIATION PROVIDES A SIGNIFICANT TAX DEFERRAL** for individuals through investing in NNN properties. Cascade Capital Group LLC offers a “turnkey” service that streamlines the work necessary to take advantage of this opportunity. We handle the underwriting and the entire acquisition process, removing any roadblocks and time commitment associated with this strategy.

## STRATEGY

**OUR MISSION** is to help busy professionals generate passive returns and defer taxes through investing in Triple Net Properties. Triple Net Properties (“NNN”) are assets where in addition to monthly rent, the tenant also pays for real estate taxes, building insurance, and common area maintenance, resulting in a true passive nature of the investment.

There are multiple benefits to a NNN investment:

- ▶ **PASSIVE INVESTING** – the tenant typically pays for all the operating expenses associated with holding real estate
- ▶ **REGULAR CASHFLOW** – monthly lease payments by the tenant occupying the real estate
- ▶ **PRINCIPAL PAYDOWN** – the tenant is paying down the principal balance of the investor’s loan on the building
- ▶ **APPRECIATION OF THE ASSET** – historically real estate has been a good inflation hedge
- ▶ **TAX BENEFITS OF DEPRECIATION** – every commercial building generates depreciation, which is generally used to offset passive income gains. In simple terms, depreciation is the reduction of value of the asset as it ages, and IRS allows you to treat depreciation as an expense.

### *What is Bonus Depreciation and how to benefit from it?*

When you purchase a new building, the land improvements such as infrastructure and landscaping, and non-structural items like wall coverings, carpet, fixtures and others are all subject to Bonus Depreciation. Let’s say you purchase a building for \$1,000,000, and you put down \$250,000, and borrow the rest from a bank. You can hire an engineer to conduct what’s called a Cost Segregation Study to see how much Bonus Depreciation you can recognize. Bonus Depreciation allows the investor to take one large deduction the same year he/she purchases the property. Your first-year deduction in our example will likely be somewhere between \$220,000 and \$260,000, which can be used to shield income. The takeaway here is that if you understand the tax law, you can often apply bonus depreciation to drastically defer how much taxes you are paying.

### *What is Real Estate Professional Status?*

If you have a non-working spouse (e.g., a homemaker), and you and your spouse file taxes jointly, your spouse may obtain Real Estate Professional Status (“REPS”). To qualify for REPS, a person must materially participate in real property trades or business for at least 750 hours per year, which must also constitute at least 51% of the person’s annual working hours. “Material participation” requires that the taxpayer is involved in the operations of the activity on a basis that is regular, continuous, and substantial. The benefit of qualifying for REPS is that the taxpayer’s passive losses in real estate (which are not generally deductible except against passive gains) become deductible against active income such as wages or Schedule C income. This is very important, because a taxpayer who qualifies for REPS can use depreciation from their real estate holdings to defer taxes on their active income.

## What is Bonus Depreciation and how to benefit from it?

### Proxy Deal Economics

You acquire an industrial building with a NNN tenant who signs a 5-year lease with you.

- ▶ **PURCHASE PRICE:** \$2,800,000
- ▶ **TRIPLE NET LEASE (ANNUAL):** \$210,000
- ▶ **ANNUAL LEASE ESCALATION:** 3%
- ▶ **BANK LOAN:** \$2,240,000
- ▶ **DOWN PAYMENT:** \$560,000
- ▶ **BANK DEBT:** 5.25% (as of 6/30/2022)

PROJECTED DEAL ECONOMICS					
	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
CASH FLOW	\$44,933	\$51,233	\$57,722	\$64,406	\$71,290
PRINCIPAL PAYDOWN	\$42,938	\$45,360	\$47,919	\$50,622	\$53,478
PROJECTED EXIT PRICE					\$3,151,425
PROJECTED IRR*	19.7%				
ESTIMATED BONUS DEPRECIATION	\$588,000				
CASH-ON-CASH RETURN	8.0%	9.1%	10.3%	11.5%	12.7%

\*IRR calculation excludes the tax benefits generated by Bonus Depreciation

In the example above, the investor is making between 8% and 13% annual cash return on their investment, in addition to having principal paydown, appreciation on the property, and an estimated \$588,000 in Bonus Depreciation, which can be used to defer the taxes on the income generated by the property. Further, if you or your spouse have Real Estate Professional Status and you file taxes jointly, then bonus depreciation can be used to defer taxes on active income that you generate. For someone with a 45% tax bracket, \$588,000 in deductions could result in approximately \$265,000 of additional tax savings in year one. **To conclude, your original investment of \$560,000 produces cash flow of \$44,933, principal paydown of \$42,938, as well as \$265,000 of tax savings all in the first year of investment.**

### Bonus Depreciation Impact on passive income

There are millions of people who receive significant passive business income as reported on a K-1. For those people, bonus depreciation can provide a material benefit. Take, for example, someone with \$350,000 of K-1 passive activity gain from an unrelated business. In our example above, this same person also has \$588,000 of first-year bonus depreciation from their Triple Net Property. Instead of paying tax on \$350,000, they may apply the \$350,000 of depreciation and pay no income tax on their passive income in that year. The remaining bonus depreciation goes on their books and carries forward twenty years.

Cascade Capital Group, LLC can help you locate an investment suitable to your specific needs, and provide assistance with the entire acquisition process, resulting in a "turnkey" service.

**Reach out for a free consultation at [paul@cascadecapitalgrp.com](mailto:paul@cascadecapitalgrp.com) or 917.686.1915.**

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