CONTRIBUTION SCENARIOS

PARTNERSHIP/LLC OWNER I

Property is owned by an LLC taxed as a partnership or partnership that is owned by multiple parties, but only some of them want to exchange their property.

SCENARIO

If the property has little or no debt, the non-contributors may be bought out by the contributors. To facilitate this transaction, the fund would loan the contributors the money required to acquire the non-contributors' interest in the company (to secure this loan, the contributors would pledge their units in the Fund). This loan would remain in place until the contributors fully repaid the note. Until then, it would accrue interest, which would be paid with the contributors' quarterly distributions. This scenario will typically only work if the non-contributors' interest makes up less than 25% of the total value of the property and there is little to no existing debt.

An alternative would be to physically split the land so that the value of each parcel is proportionate to the value of each partner/member group's interest: those that want to contribute their land to the fund (the A Group) and those that don't (the B Group) (note that this will typically only work if the land has less than 25% debt to value).

Once the land is split the company will contribute the A Group land into a new wholly owned, disregarded LLC (A Co.) and will contribute the B Group land into a separate wholly owned disregarded LLC (B Co.) Now the company owns two subsidiaries: one that owns the Fund units and one that owns land. If there was debt on the whole of the land prior to the split, new separate loans will be required. The company then distributes A Co. to the A Group and B Co. to the B Group. Later, A Co. contributes the land to the Fund. If the property is secured by a mortgage that is not assignable, the Fund would loan the contributors the money required to pay off the existing debt (to secure this loan, the contributors would pledge their units in the Fund). This loan would remain in place until the contributors fully repaid the note. Until then, the note would accrue interest, which would be paid by the contributors' quarterly distributions. Whether such a transaction can be done on a tax deferred basis requires careful analysis and is fact specific. Please consult with your tax advisor before proceeding.

Note: if the A Group wishes to own their units individually, A Co. may be able to distribute the assets proportionally to the A Group owners.