FAMILY HOUSING
FUND

## BARGAIN SALES: A GOOD DEAL FOR SELLERS, BUYERS, AND RESIDENTS

*Ready to get out of the real estate business, but want to ensure that your long-term residents won't be displaced by a new owner? Looking for the best way to maximize your return on investment while leaving a legacy from your years of ownership?*

Getting top price for your property is likely a priority when you're selling. And for owners of multifamily buildings that offer affordable rents, nonprofit buyers may be able to offer the best total package: a larger financial return to the seller's bottom line and a stable home for residents.

In a bargain sale, the difference between a lower purchase price and the appraised value of a property becomes a tax-deductible donation to a nonprofit buyer, which could make the **total value to the seller higher** while the **price to the buyer is lowe**r. This pays off in the long term for **building residents** who face less pressure from rent increases.

In the first simplified example below, selling a building for $9 million to a nonprofit buyer, rather than for $10 million on the typical market, yields a bottom line that is $259,000 (6.6%) higher than the alternative. (In this case, the benefit is boosted by the fact that the appraised value is higher than the purchase price offered.)

**Example I**

**Typical sale**
$10M sales price
- Debt repayment
- Income taxes

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**$3.9M net to seller**

**Bargain sale with donation**
$9M sales price
- Debt repayment
- Income taxes
+ Tax benefit of donation @ $11M appraised value

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**$4.1M net to seller**

In a second simplified example, assuming the appraised value is equal to the purchase price offered, selling the same building for $9 million to a nonprofit buyer yields a slightly lower bottom line ($220,500 or 5.6% lower) for the seller than would a typical market transaction. However, in this case the nonprofit buyer receives the equivalent of a $1 million contribution for the effective cost of just $220,500 to the seller – a powerful philanthropic return on investment.

**Example 2**

**Typical sale**
$10M sales price
- Debt repayment
- Income taxes

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**$3.9M net to seller**

**Bargain sale with donation**
$9M sales price
- Debt repayment
- Income taxes
+ Tax benefit of donation @ $10M appraised value

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**$3.7M net to seller**

The hypothetical assumptions are shown in more detail on the following pages for each example.

*Thanks to Trent Senske and John Ries at Mahoney, Ulbrich, Christiansen & Russ, P.A. for these examples. This resource is intended as an example for discussion and should not be construed as professional tax advice. The body of tax law is in a continuous state of change. Accordingly, there could be developments, statutory or otherwise, that could alter the outcome of a transaction. In the event of subsequent developments, including statutory, legislative, or otherwise, the outcomes may change.*

To find connections to nonprofit buyers who may be interested in your rental property of any size in the Twin Cities, contact Family Housing Fund at 612-375-7690. Consult your tax advisor or *Mahoney, Ulbrich, Christiansen & Russ, P.A.* at 651-227-6695 to learn more about how to structure a mutually beneficial bargain sale transaction.

## Hypothetical Example I
## Based on assumptions – actual results may vary

| | Outright Sale | Bargain Sale | |
|---|---|---|---|
| Price per unit | $ 100,000 | $ 110,000* | *Appraised value* |
| | | | |
| Cash price of sale | $ 10,000,000 | $ 9,000,000 | |
| Donation part of sale | - | 2,000,000 | |
| Appraised Value | $ 10,000,000 | $ 11,000,000 | |
| | | | |
| Cash price of sale | $ 10,000,000 | $ 9,000,000 | |
| Debt upon sale | (3,000,000) | (3,000,000) | |
| Net cash proceeds | $ 7,000,000 | $ 6,000,000 | |
| | | | |
| Net cash proceeds | $ 7,000,000 | $ 6,000,000 | |
| Taxes | (3,111,000) | (2,789,000) | |
| Tax benefit of donation | - | 937,000 | |
| Net, after tax | $ 3,889,000 | $ 4,148,000 | **$ 259,000** |

Assumptions:

| | |
|---|---|
| Seller's Original Cost Basis | $ 6,000,000 |
| Depreciation | (5,500,000) |
| Adjusted basis of property | $ 500,000 |

## Hypothetical Example 2
## Based on assumptions – actual results may vary

| | Outright Sale | Bargain Sale | |
|---|---|---|---|
| Price per unit | $ 100,000 | $ 100,000* | *Appraised value* |
| | | | |
| Cash price of sale | $ 10,000,000 | $ 9,000,000 | |
| Donation part of sale | - | 1,000,000 | |
| Appraised Value | $ 10,000,000 | $ 10,000,000 | |
| | | | |
| Cash price of sale | $ 10,000,000 | $ 9,000,000 | |
| Debt upon sale | (3,000,000) | (3,000,000) | |
| Net cash proceeds | $ 7,000,000 | $ 6,000,000 | |
| | | | |
| Net cash proceeds | $ 7,000,000 | $ 6,000,000 | |
| Taxes | (3,111,000) | (2,800,000) | |
| Tax benefit of donation | - | 468,500 | |
| Net, after tax | $ 3,889,000 | $ 3,668,500 | **$ (220,500)** |

Assumptions:

| | |
|---|---|
| Seller’s Original Cost Basis | $ 6,000,000 |
| Depreciation | (5,500,000) |
| Adjusted basis of property | $ 500,000 |