

What is a Zero Cash Flow Deal?

A Zero Cash Flow Deal is ownership of real estate structured as a “Bond” and, then, highly financed due to the credit worthiness of your Credit Tenant. It’s called a Zero Cash Flow Deal because all of the rent goes to the institutional lender.

What kind of property can be made into a Zero Cash Flow Deal?

A Zero Cash Flow Deal is constructed like a bond. It must be backed by investment grade rated credit (AAA to BBB), a very long-term lease (generally at least 20 years); and have tightly drawn lease provisions making the tenant responsible for effectively everything relating to the leasehold.

Why would I ever do a Zero Cash Flow Deal?

There are many situations for which a Zero Cash Flow Deal is the ideal investment and tax deferral solution.

1. You’ve just made a “killing” by selling your highly appreciated property and you don’t want to buy back into the same high priced market. A Zero Cash Flow Deal will allow you to Cash Out your gain in the form of a “bond-style” re-financing and defer tax recognition. You are then free to reinvest the “Cashed-out Equity” in real estate or in any investment vehicle. You will have completed your trade and be free of the 45 day and 180 day requirements. Moreover, if you make a new investment, it will have full tax basis and you will have a larger portfolio including both the Zero Cash Flow Deal and the new investment. You can even use your cashed out equity for personal purposes.
2. You have a partnership or corporation that needs more depreciable basis to offset current income. A Zero Cash Flow Deal will allow you to buy the most depreciable basis with the least amount of equity, out-of-pocket.

3. You are concerned that Cap Rates may go back to historic levels and want to protect your equity. If Cap Rates just go back to 8% from current 6% levels that will represent a 33% reduction in property values. If you own property and have a loan of 67% or greater, you will be wiped out. To repeat, **YOUR EQUITY WILL BE WIPED OUT**. By contrast, in a Zero Cash Flow Deal the income is “pre-sold” to the lender in the current low rate environment. Cap Rate and interest rate changes do not impact the value of Zero Cash Flow Deals. Why not let a willing lender take this risk?
4. You have a threatened foreclosure with a large gain to be recognized. A Zero Cash Flow Deal can provide an ideal low equity trade that transfers your old basis to a new property rather than having to recognize the gain from a “deemed sale” under tax law.
5. You want to grow your portfolio in the safest, most risk-averse possible way. A Zero Cash Flow Deal let’s you leverage your tenant’s investment grade rating; and the Zero Cash Flow Deal structure to buy property worth 10 times your equity without personal recourse; with debt structures that generally don’t balloon for at least 20 years; and often are fully amortized by the tenant’s rental payments over the lease term.

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