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The next great real estate family is your neighbor! Is it that easy?

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New York has certainly seen its fair share of great real estate families. From Trump to Silverstein to Schneider, the list goes on and on. However, in today's ever escalating real estate market, is there any room or possibility of a new real estate family emerging? The answer to this question is a resounding yes and in all likelihood, they could very well be your next door neighbor. In order to understand why, one usually does not have to look any further than the rezonings that have taken place around the city and one simple number–1031.

In recent years, The city of New York has rezoned various neighborhoods in the boroughs to permit and encourage residential development. Places like Williamsburg and Greenpoint in Brooklyn and Long Island City in Queens, that were once your run-of-the-mill industrial/manufacturing neighborhoods are slated by such rezonings for major residential projects. The owners of these typically owner-occupied industrial pieces of property, who are often manufacturers or distributors of some product, are selling their property to residential real estate developers for astronomical prices. Most people in this situation are receiving more money than they or their family could have ever imagined in their lifetime. These fortunate owners have been appropriately called members of the "lucky zoning club."

It is at this point the members of the club begin to count how much they will net from the sale of the property and see the tax bill that Uncle Sam has waiting for them. The number–1031–then becomes the most important number in their life, being the section of the Internal Revenue Code that permits reinvestment of sale proceeds into "like kind" property, i.e., property acquired for investment or for use in a trade or business, and a deferral of capital gains tax on the sale. Just like that, the members of the club are your next owners of office buildings, residential apartment buildings and shopping centers. Simple, right?

However, is it really that simple? How is it that someone who only six months ago was manufacturing Christmas ornaments, T-shirts, power tools, is now evaluating a nine figure real estate investment and becoming the next real estate mogul? With real estate prices escalating the way that they have in recent memory, it is very easy for someone in the club to think that it is as simple as I have just described.

Each of the new members of the club should not think it's that simple, and veteran members can attest that it's no simple task. Although a tremendous amount of capital is a great start, it is certainly not the only thing that should concern a Club member. As my Mom and Dad always tell me, "It's hard to make money, but twice as hard to keep it." So for all of those club members who are ready to be the next Donald Trump, please evaluate your property carefully.

In reviewing the viability of potential investment properties, you should at a minimum understand some of the most basic elements of buying investment properties. Here are a few tips:

• You should consider properties that can be physically accessed rather easily. In order to understand the real estate market and the asset that you are purchasing, it is helpful to be able to go and see and touch the property. If the property is too far away, you will in all likelihood not put as much time into it.

• Assuming you are comfortable with the property's proximity to you, the type of property that you are considering is extremely important in order to evaluate the tax ramifications as well as the resources you must invest in order manage the property. We have seen numerous members of the club attempt to take proceeds from the sale of their property and invest it in projects that marketed as potential condominium conversions. You must be very careful about this and seek solid tax advice. You could potentially convert the capital gains that were due on the sale of the relinquished property into ordinary income, which would not only blow your 1031 exchange, but also create an even bigger tax liability.

• Complete a full financial evaluation of your investment. The rate of return on your investment and a pro forma of your potential future rate of return on your investment at a minimum should be completed.

• Analyze the role that financing will play in your acquisition of the replacement property or in the potential refinance of the replacement property. This must be evaluated carefully to avoid over-leveraging the acquired property, which could result in a failure to adequately shelter all of your sale proceeds within the required reinvestment period, which is 180 days after the closing of the property being sold.

• Watch out for the quick acquisition of the replacement property. Since members of the club usually do not have any real estate experience, the sellers of the potential available replacement properties usually push for a quick contract followed by a quick closing. Performing and completing your due diligence in the correct manner is critical and often takes some time. Consider some of the following typical due diligence items:

• Review of the zoning of the replacement property. You should evaluate the zoning of the property carefully and take into consideration any future possible development and development restrictions of the property.

• Study of the environmental status of the property and neighboring properties. There may be government assistance available in owning, developing and operating an environmentally contaminated property.

• If the property is an income producing property, a careful evaluation of the leases should be undertaken. Identifying problem tenants and the potential to attract new tenants is critical to the stability of the property in the future. In addition, you should consider the possibility of relocating tenants within the building to increase the likelihood of attracting larger tenants.

• Evaluation of potential government incentives that may be available at the property. This could be critical in attracting new tenants, maintaining existing tenants and keeping the costs of building operation in check.

• Creating relationships within the real estate community in which the property is located. For example, property managers and brokers are essential initial contacts and these are important relationships to maintain.

• Solicitation of advice from various professionals in the industry.

• Finally, if the property doesn't make sense, don't buy it. The worse case scenario is that you pay the tax at the long term capital gains rate!

Although the foregoing list is by no means meant to be exhaustive, it is intended to be a guide of some things that investors should consider when evaluating property.

Only time will tell if the reinvestment of sale proceeds into 1031 qualified exchange properties by the members of the Lucky Zoning Club will be the beginning of one or more new real estate families for generations to come.

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