FICTIONAL EXAMPLE

What happens when a 2021 loan comes due

From Mark Pietramale · October 2026 · Pages 2 to 5 are a sample report on a fictional building. Every name and figure is made up.

I built Maturity Math for my own building. My loan balloons in 2028, and I couldn't find one place that showed what each exit actually costs. So I built it. This is what it produces.

The problem

Loans written from 2019 to 2022 at 3.5% to 4.5% are maturing into a market near 7%. Owners find out at the closing table that the refi needs cash. The ones who did cost segregation find out something worse: a sale sends a large share of the proceeds to the IRS at ordinary rates, and a 1031 does not automatically protect all of it.

The product

An independent report that answers four questions when a small-balance multifamily or commercial loan balloons: refinance, sell, 1031, or pay down. The owner uploads the note, T12, rent roll, the depreciation detail from the tax return, and the cost seg study. The report comes back in two business days. I review every report before it goes out.

Why it's different

Lender calculators size the refi. Brokers value the building. QIs run the exchange. CPAs do the tax math by hand. Nobody puts the refi, the value, and the exit tax in one place. Nobody in this report is selling anything: no loans, no listings, no referral fees.

Who it's for

Owners with a loan maturing in the next 12 to 36 months, especially those who took bonus depreciation from 2018 to 2023. If your clients fit that, you can deliver the report to them as part of your service. Your client relationship stays yours.

Where it stands

The engine is built and tested on my own building and one outside owner. It is not launched. I'm talking with professionals first.

What I'd like from you

1. What's wrong or missing? Anything that would make you not trust it.
2. Does the refi sizing and the tax build match how you would run it?
3. Would your clients pay for this? How far ahead of maturity would they need it?
4. Would you offer it to your clients? If so, let's talk.

Share it freely. Everything in it is fictional.

Thank you.

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FICTIONAL EXAMPLE. The property, owner, loan and every figure are invented to show how the report works. Rates are illustrative. Estimates only; not an appraisal; not tax, legal, or lending advice.

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Your loan matures June 1, 2028. Here is what each exit costs.

Example Property · 18-unit multifamily · Mesa, AZ · 3.95% fixed, 7-year term, 30-year amortization
Prepared from the promissory note, T12 (Oct 2025 to Sep 2026), rent roll (9/30/2026), 2025 federal return (depreciation report, Form 8582, carryovers), and the 2021 cost segregation study

The numbers favor selling and completing a 1031 exchange, closing between March 3 and May 15, 2028.

A refinance needs $363K of new cash at today's rates. A taxable sale sends about a third of the cash to tax, more than half of it at ordinary rates, because of the 2021 cost seg. The exchange defers it, but only if the replacement property carries enough equipment content (page 5). If the owner wants to keep the building and has the cash, a paydown refinance is a real alternative.

$363K
Cash you bring to refinance at 6.75%

4.9%
Rate at which a refinance needs no cash in (1.25x)

34%
Share of sale cash lost to tax in a taxable sale (income value)

$335K
Tax deferred by a properly structured 1031 (income value)

Your four options at a glance

OPTION	CASH YOU BRING	CASH YOU WALK WITH	TAX NOW	VERDICT
Sell + 1031 exchange	**$0**	**$974K reinvested**	**Near $0 if structured**	Best fit
Pay down + refinance	$133K to $403K	$0	$0	Fallback
Taxable sale	$0	$639K after tax	$335K	Avoid
Renew with current lender	Unknown	$0	$0	Quote to beat

Values at an income-based price of $3.03M (5.5% cap on trailing NOI of $166,400). Refinance cash ranges over 5.50% to 7.00% at 1.25x coverage on actual NOI. Comparable sales imply $3.55M; the gap is explained on page 4.

Rate reference used in this example

Illustrative small-balance multifamily rates, October 2026: agency small-balance about 6.6% to 6.8%; banks and credit unions about 6.5% to 7.5%, depending on term and recourse. This example uses **6.75%** as today's rate. A customer report cites a dated market source.

The three things that decide this

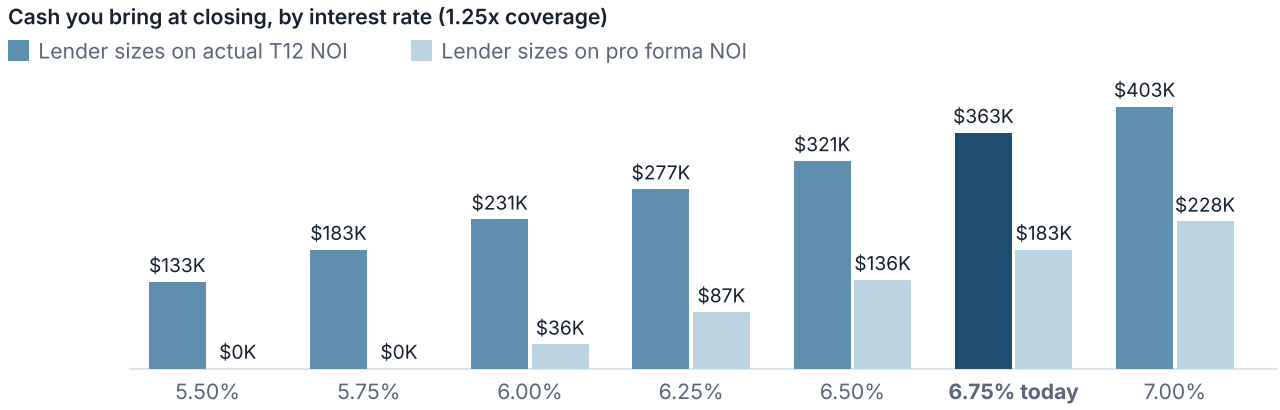
- **Interest rates in early 2028.** Every 0.25% moves the refinance cash requirement by $40K to $50K.
- **What a buyer will pay.** Buyers who finance at today's rates price on income, not on price per unit.
- **The replacement property's equipment content.** It decides whether $448K of recapture is taxed inside the exchange.

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1. Can you refinance without bringing cash?

No, not at today's rates. A lender sizes the new loan off net operating income. Underwritten NOI is $156,800: the T12 of $166,400, less a $300 per unit reserve and $4,200 of 2026 insurance and property tax increases. At 1.25x coverage, that supports $125,440 a year of debt service, about $2,700 less than the payment today. At 6.75% that is a loan of about $1.61M. Paying off the $1,944,780 balloon with a loan that also covers its own 1.5% closing costs takes $1,974,396. A loan for that amount would cost $153,671 a year; underwritten NOI covers that 1.02 times. Lenders want 1.25.



RATE	MAX NEW LOAN	CASH IN, 1.25X	CASH IN, 1.20X BANK	CASH IN, PRO FORMA	NOI COVERAGE*
5.50%	$1,841,059	$133,337	$56,626	$0	1.17x
5.75%	$1,791,264	$183,132	$108,496	$0	1.13x
6.00%	$1,743,528	$230,868	$158,221	$36,278	1.10x
6.25%	$1,697,749	$276,647	$205,908	$87,166	1.07x
6.50%	$1,653,830	$320,566	$251,656	$135,987	1.05x
6.75%	**$1,611,681**	**$362,715**	**$295,562**	**$182,840**	**1.02x**
7.00%	$1,571,215	$403,181	$337,714	$227,822	0.99x

*Underwritten NOI coverage of a loan large enough to pay off the full balloon. Underwriting: 30-year amortization, 75% LTV (never binding; coverage limits the loan at every rate), 1.5% closing costs, $300 per unit reserve. Pro forma NOI of $183,900 assumes renewals at market and no concessions; the pro forma column sizes on $174,300 after the same reserve and adjustments. At 5.50% and 5.75% on pro forma, the refinance returns $72K and $17K of cash.

What would close the gap

- No cash in: rates at or below **4.9%** (1.25x) or **5.2%** (bank at 1.20x). If the lender sizes on pro forma: **5.8%**.
- Or underwritten NOI of about **$192K** at 6.75% (about $202K on a T12 basis, 21% above today).
- In-place rents average $1,295 against a market of about $1,395. Closing that and ending concessions ($6,200 in the T12) gets most of the way to pro forma. Each $1K of NOI adds about $10K of loan capacity.

What your note says

- 3.95% fixed. P&I $10,677.09 a month ($128,125 a year)
- Balloon $1,944,780 due **June 1, 2028** (final payment, including the last month's interest)
- Prepayment: 2% in loan year 6, 1% in year 7, waived in the last 90 days (from March 3, 2028). Up to $225,000 a calendar year prepays with no penalty
- Default rate after maturity: note rate plus 5%. The balloon date is a hard deadline.

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2. What you keep if you sell outright

Less than you think. The 2021 cost seg study let you deduct $709,650 of bonus depreciation in the first year. On a sale, $589K of depreciation comes back as ordinary income before any capital gain is counted. Sale assumed after March 3, 2028 (no prepayment penalty), payoff about $1.95M, 3.5% selling costs.

SALE PRICE BASIS	PRICE	CASH BEFORE TAX	ESTIMATED TAX	CASH AFTER TAX	LOST TO TAX
Income: 6.0% cap, actual NOI	$2.77M	$730K	$260K	$470K	36%
Income: 5.5% cap, actual NOI	**$3.03M**	**$974K**	**$335K**	**$639K**	**34%**
Income: 5.5% cap, pro forma NOI	$3.34M	$1.28M	$420K	$861K	33%
Comparable sales ($197K per unit)	$3.55M	$1.48M	$471K	$1.01M	32%

Why two values? Recent comparable sales imply about $197K per unit ($3.55M). Your income supports about $3.03M. A buyer paying that with 75% debt at 6.75% pays about $177K a year against $166K of NOI. That is negative leverage, so expect offers closer to the income value.

How the tax adds up (income value case, $3.03M, full recapture before any sale allocation)

LAYER	AMOUNT	TAXED AT	TAX	IRC
§1245 recapture: 5-year cost seg property (appliances, cabinets, flooring, fixtures)	$448,200	Ordinary rates	$133,231	§1245
§1250 additional: bonus on 15-year land improvements above straight line	$141,183	Ordinary rates	$41,968	§1250(a)
Unrecaptured §1250 gain (regular building depreciation), less $30,000 capital loss carryover	$406,537	25% max	$101,634	§1(h)(6), §1212
Long-term capital gain	$0	15% / 20%	$0	§1(h)
Net investment income tax (passive owner), limited by MAGI over $250,000	$935,920	3.8%	$35,565	§1411
Federal total			**$312,398**	
Arizona, after the 25% subtraction on long-term capital gain	$894,285	2.5%	$22,357	A.R.S. 43-1022
Total estimated tax on sale			**$334,755**	

Gain of $1,025,920: net sale price of $2,919,564 less adjusted basis of $1,893,644 (cost basis $3,050,000 less $1,156,356 of depreciation through the sale date). Married filing jointly, 2026 brackets, about $160,000 of other taxable income in the sale year, mostly wages (MAGI about $190,000 before the sale). Ordinary-rate tax is split between the two recapture layers in proportion. No suspended passive losses remain.

One lever most owners miss. Recapture is limited to the sale price allocated to the old equipment. Seven-year-old appliances, flooring and cabinets are worth far less than their $448K original cost. A documented allocation of about $110K keeps total gain the same but moves $338K out of ordinary rates: about $130K to the 25% layer and $208K to long-term capital gain. Total tax drops to about $291K, a saving of about $43K. It also shrinks the 1031 trap on page 5.

What we used

Promissory note (2021) · Trailing 12-month operating statement · Rent roll · 2025 federal return (depreciation report, Form 8582, carryover schedules) · Cost segregation study (2021) · Insurance renewal and 2026 property tax bill · Illustrative rate reference (October 2026). Uploaded documents are deleted after delivery.

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3. The 1031 exchange, and the one trap in it

ITEM	INCOME VALUE	PRO FORMA VALUE
Net sale price (replacement must cost at least this)	$2.92M	$3.23M
Equity to reinvest	$974K	$1.28M
Debt to replace (cash can substitute)	$1.95M	$1.95M
Tax deferred	$335K	$420K

The trap: $448K of 5-year recapture can be taxed inside the exchange

Under IRC §1245(b)(4), recapture on cost seg personal property is recognized unless the replacement property carries at least as much §1245 property. Uncovered, that is about **$152K of tax** in an exchange you expected to be tax-free, due in a year with no sale cash to pay it. With the documented sale-side allocation on page 4, the exposure drops to about $30K.

One limit: since 2018 a 1031 covers only real property. Sale price allocated to true personal property, such as appliances, is taxable no matter what you buy. Cabinets, built-ins and fixtures that count as real property can be covered. Expect a small amount of tax on the appliance allocation, about $10K to $15K in this example.

The fix: order a cost seg study on the replacement at acquisition, and choose a property with enough appliances, cabinets, flooring, fixtures and site equipment to allocate at least what you are giving up. Recently renovated buildings usually carry more. Bare land does not qualify. The §1250 layers are covered when the replacement is depreciable real property of equal or greater value.

4. Pay down and refinance (fallback)

Bring $231K at 6.00% to $363K at 6.75% on actual NOI, less if the lender sizes closer to pro forma. No tax is triggered, and if held for life, the basis step-up at death removes the recapture entirely. You keep the property, the management, and likely a personal guaranty on the new loan. The free annual prepayment lets you stage up to $225K in 2027 and again in early 2028 to shrink the balloon ahead of time.

5. Your timeline, back-solved from June 1, 2028

WHEN	ACTION
Now to Q2 2027	Push NOI toward pro forma: renew at market, end concessions. Each $1K of NOI adds about $18K of value at a 5.5% cap. Screen replacement properties; ask sellers for equipment lists.
Q3 2027	Get two income-based broker opinions of value. Line up a qualified intermediary and a cost seg firm for the replacement. Get refinance quotes as the fallback.
Q4 2027	Commit to the exchange and list the property. Document the equipment allocation for the sale.
Mar 3 to May 15, 2028	Close the sale with no prepayment penalty. Identify replacements within 45 days; close within 180. Cost seg the replacement at acquisition.
Fallback trigger	No buyer under contract by February 1, 2028: pay down and refinance before June 1.

Confidence and what would change the answer

- **High** on the mechanics: built from the note, the return's depreciation report, the cost seg study, and the code.
- **Medium** on value: owner-prepared T12; no broker opinion yet. A strong offer changes the timing, not the structure.
- Rates near 5.5% with pro forma underwriting make a paydown refinance competitive, and holding for the step-up competes with the 1031.