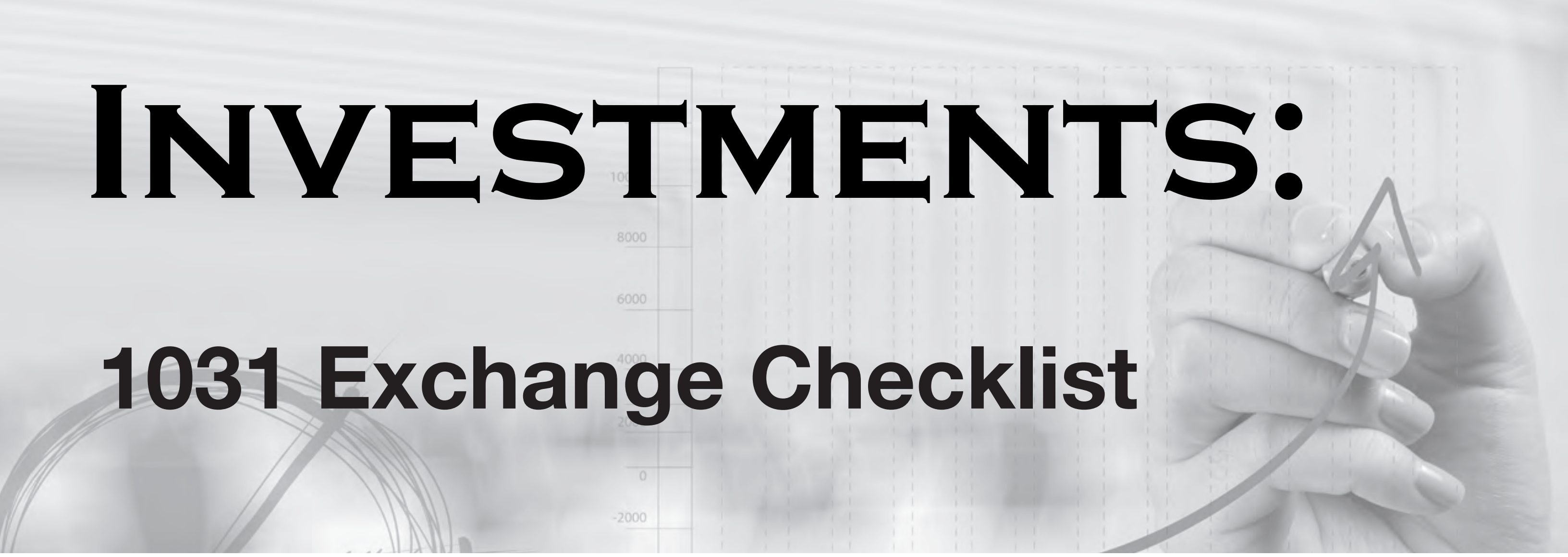

Investments:

1031 Exchange Checklist

I often field phone calls from investors who call me in the "wrong" part of their 1031 exchange. For example, they will call me on day 35 of their 45 day identification period, seeking a property with very specific characteristics. Even if the perfect property is available, (and it sometimes is), 10 days is a very short amount of time to get comfortable with a property and commit to it.

This is why I advise my clients to start planning their exchange in advance. This month, I'll lay out a "checklist" of sorts that can be used to prepare for your next exchange.

Start Planning in Advance.

If you start searching for replacement properties on the day your sale closes you will, in effect, give yourself a 45 day deadline to make some big decisions. Instead, start planning in advance. Ideally, you should start shopping before you list your current property. Why sell your current property until you have an idea what you'll replace it with?

Identify Your Wants and Needs for A Replacement Property

Would you rather own another apartment complex in town, or a triple net leased property? Many of my investors are looking to move their investments out of California – would you be interested in out of state holdings? Perhaps you would want a partial-interest ownership, where all the management decisions are taken care of by someone else. The 1031 exchange process gives investors a large amount of freedom: take some time to enjoy this and to shop around for your next investment property.

Identify the Financial Requirements of Your 1031 Exchange, and Seek Replacement Properties That Meet Them

As my regular readers know; a 1031 exchange requires an investor, with his upleg property purchase, to replace all of the equity and the debt received from his downleg, (the building he sold), property. Let's say our investor sold his apartment property for $1,500,000 and paid off a loan of $800,000 to receive $700,000 of equity. To complete a fully tax-deferred 1031 exchange, this investor must spend at least $700,000 of equity on a replacement property with at least an $800,000 loan.

As I have mentioned in previous articles, there are ways to add cash and "buy down" this leverage requirement. Call me and ask for my past article for more information on this strategy.

Your equity and debt requirements will affect which replacement properties will work best for you. Need high leverage or having problems qualifying for a loan? Partial interest properties may be the best option for you. Have zero debt on the property you sold? Great – you can buy pretty much whatever you want.

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Christopher Miller is a Managing Director with Specialized Wealth Management in Tustin, California and specializes in tax-advantaged investments including 1031 replacement properties. Chris' real estate experience includes work in commercial appraisal, in institutional acquisitions for a national real estate syndicator, and as an advisor helping clients through over two hundred 1031 exchanges. Chris has been featured as an expert in several industry publications, and on television, and earned an MBA emphasizing Real Estate Finance from the University of Southern California. Call him toll-free at (877) 313 – 1868.

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List Your Property for Sale, and Keep an Eye On the Market

Once you have a rough plan of what you'd like to do, list your property for sale. While your property is listed, keep a close eye on deals you may be interested. Although these properties may no longer be available by the time you are "in cash," (your downleg property has closed, and your equity is at an accommodator waiting for reinvestment), this process will help you nail down the sort of replacement property that you'd like.

Once you have accepted an offer on your listed property and entered a contract to sell, it's time to make an offer on a replacement property.

Select Backup Options

As my readers know, 1031 exchangers have 45 days to identify in writing three properties that they might buy, and 135 more days (180 days total) to close on one, some or all of them. There are ways to identify more properties but this is, again, a long discussion that was covered in a past article.

I coach my investors to use their ID spots for a property they really want, a plan B and a plan C. For investors seeking to buy a property on their own, it may make sense to identify a partial ownership property as Plan C. I have done many exchanges over the years where an investor saves his exchange, (and hundreds of thousands of dollars in taxes), by buying a partial-interest property as a "Plan C." Partial-interest properties can be ideal as a backup option: They are "turnkey," meaning that a loan is already in place. Investors need only fill out paperwork and wait a week or two to close. This short turnaround can be a great "life preserver" for exchangers who find themselves without a Plan A or Plan B anymore, and up against a time deadline.

Investors who would like a partial interest property as their "plan A," of course, don't need to worry as much about the 45 day ID period. Due to this quick turnaround, we often close on our investors downleg property within their 45 day identification period. This means that, for most accommodators I've worked with, an identification isn't even needed. Better yet, our investors finish their exchange quickly, cut down on worries and stress from the exchange process and – best of all – start earning their potential income immediately. That's probably a topic for another article, as well.

Prepare to Succeed With Your 1031 Exchange

Win two ways by being prepared: You're not rushed, AND you can close a replacement property faster. Although the 1031 rules give you 180 days to close on your replacement property, do you really want to go without income for that long? A quicker closing puts income in your pocket faster.

As I mentioned, many of my clients close on their replacement properties within 45 days of their sale. This allows them to start earning income on their principal immediately. To discuss how we do this, or if you have any other real estate questions, please call my office at (877) 313-1868.