

# FINANCIAL ADVISORY

## Easier 1031 Exchanges With Partial Interest Properties

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**M**y idea for this month's article came easily: I am in the middle of a 1031 Exchange for my personal portfolio. Whenever I'm buying, selling, or doing extensive construction on properties, I feel like I'm taking on an extra full-time job. Since, in a 1031 exchange, I'm selling one property and buying another simultaneously, it can seem like I've picked up 2 full time jobs – on top of the one I already have.

### LET'S REVIEW THE VOCABULARY AND TIME DEADLINES OF 1031 EXCHANGES

In a 1031 Exchange, an investor sells his down leg, or relinquished, property and buys an up leg, or replacement, property. If he follows all the guidelines correctly, it will result in a completely tax-deferred 1031 Exchange. Remember that the IRS has inflexible guidelines concerning when things need to happen: After your down leg property closes, you have 45 days to identify some properties that you might buy, and 135 more days (or 180 total) to close on one, some or all of them. These deadlines are all firm and set by the IRS: If one of them falls on a weekend or Christmas Day, then you need to get it done before then.

### MY PERSONAL EXCHANGE

I'd never recommend putting all your eggs in one basket: In my career, I have purchased partial interest properties from myself AND I've bought local properties that I own all of. My current 1031 exchange is (if everything works out) between a rental property that I own all of and a 4-unit apartment building that will also be the sole owner of.

In this case, I am paying much more attention to my replacement property – what I am buying – compared with what I'm selling. After all, I already know all about what I'm selling – I'll have what I'm buying for at least the next 20 years. Therefore, I started shopping for my replacement property before I even listed the (soon to be) relinquished one. (I did some renovating of that property prior to listing.) As such, I am under contract for a property to purchase before I have a sales contract for my down leg. (This is actually the second purchase contract I've been in – the first fell out of escrow.) Will I be able to sell my property in time? Will my purchase complete in the proper time period to defer my taxes? As I do 1031 Exchanges for a living, (399 of them so far), I'm comfortable in this position. For those

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## WANT A REPLACEMENT PROPERTY WITHOUT ACTIVE MANAGEMENT?

Recent offerings, located nationwide, have included:

- Office • Apartments • Triple Net • Retail • Energy Royalties

I have completed over three hundred 1031 exchanges for investors.  
\$200,000+ equity required.

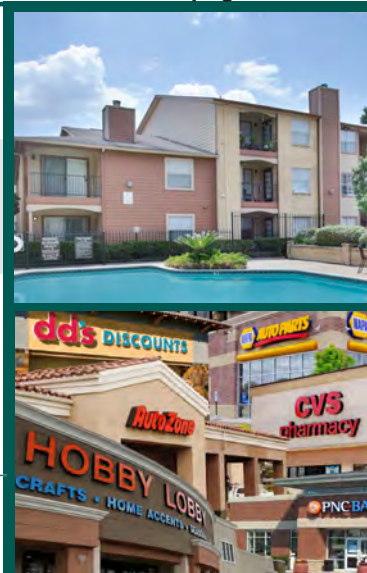
Learn more about our investment programs at [www.ChrisMiller1031.com](http://www.ChrisMiller1031.com)

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Investing in real estate, with or without use of a 1031 exchange, carries the risk of losing your principal, income or tax benefits. Additionally, the IRS has issued inflexible guidelines for completing tax-deferred 1031 exchanges. Failure to follow these guidelines could lead to a loss of tax benefits. 1031 Exchanges can involve significant fees. This does not constitute an offer to buy or sell any security. Investments may be illiquid in nature and those seeking to dispose of their investments early may be unable to do so. Securities offered through Emerson Equity LLC. Member FINRA/SIPC, MSRB registered. Advisory services offered through Emerson Equity LLC an SEC registered investment advisory. Emerson Equity LLC and Specialized Wealth Management are unaffiliated.



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who are not so familiar with the process, facing all of these hard-set rules can be daunting.

### **WILL I DO A FORWARD OR A REVERSE EXCHANGE?**

As I mentioned previously, I'm more concerned with what I buy than what I sell. After all; it is said, (and I believe), that you make your money when you BUY a property correctly as opposed to when you sell it. For this reason, and since I'm under contract to buy but not to sell, I am prepared to do a reverse 1031 Exchange if possible. With a reverse 1031 Exchange, I can buy a replacement property first, then sell my relinquished property within 180 days and pay myself back "tax-free." Although a reverse exchange is almost 10 times more expensive than a traditional exchange, the taxes generated from not completing an exchange would surely be greater than several thousand dollars – so the more expensive reverse could be a wise investment.

The Reverse 1031 Exchange surely isn't a cure-all, though. If my apartment purchase closes without a problem, and I run into issues selling my down leg, I could run into a "fire sale" situation where I need to unload that property fast – and selling fast usually means selling cheap – and potentially leaving money on the table.

### **PARTIAL INTEREST PROPERTIES, AND HOW THEY CAN HELP**

Partial-interest properties can remove a LOT of stress from the 1031 Exchange process. To go this route, we'll start shopping for DSTs when, or even before, your down leg property is listed. I work with my clients through a process to find replacement properties that are right for their individual situations. Once my clients know what they are looking for, then they are ready to sell, choose a replacement DST (or DSTs), and close to complete their tax-deferred 1031 Exchange.

DST properties can be described as "turn key." All the due diligence, negotiating and loan arranging (if applicable) has been done, and the properties are ready to close. If we found a property for you today that you loved, we'd fill out some paperwork and – most of the time – have you closed within 5 days. Then you'll get your first income check next month. It sure can be a lot easier than doing things the "traditional" way.

If a simpler life as a landlord appeals to you, perhaps partial-interest DST investments would to. If you have any questions, I'd love to review these options with you. Call my office toll-free at (877) 313-1868.

*This does not constitute an offer to buy or sell any security. Investments in securities are not suitable for all investors. Investment in any security may involve a high degree of risk and investors should review all "Risk Factors" before investing. Investors should perform their own due diligence before considering any investment. Past performance and/or forward-looking statements are never an assurance of future results. Examples given in this article are for illustrative purposes only. Individual results may vary based on IRS tax changes, market conditions or tenant occupancy. Securities offered through Emerson Equity LLC, member FINRA/SIPC. Emerson Equity LLC and Specialized Wealth Management are not affiliated. All investing involves risk. Always discuss potential investments with your tax and/or investment professional prior to investing.*

#### 1031 Risk Disclosure:

- There is no guarantee that any strategy will be successful or achieve investment objectives;
- Potential for property value loss – All real estate investments have the potential to lose value during the life of the investments;
- Change of tax status – The income stream and depreciation schedule for any investment property may affect the property owner's income bracket and/or tax status. An unfavorable tax ruling may cancel deferral of capital gains and result in immediate tax liabilities;
- Potential for foreclosure – All financed real estate investments have potential for foreclosure;
- Illiquidity – Because 1031 Exchanges are commonly offered through private placement offerings and are illiquid securities. There is no secondary market for these investments.
- Reduction or Elimination of Monthly Cash Flow Distributions – Like any investment in real estate, if a property unexpectedly loses tenants or sustains substantial damage, there is potential for suspension of cash flow distributions;
- Impact of fees/expenses – Costs associated with the transaction may impact investors' returns and may outweigh the tax benefits



**Christopher Miller** is a Managing Director with Specialized Wealth Management 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 three hundred 1031 Exchanges. Chris has been featured as an expert in several industry publications and on television and earned an undergraduate business degree and an MBA emphasizing Real Estate Finance from the University of Southern California. Chris began his real estate career in 1998. Call him toll-free at (877) 313 – 1868.