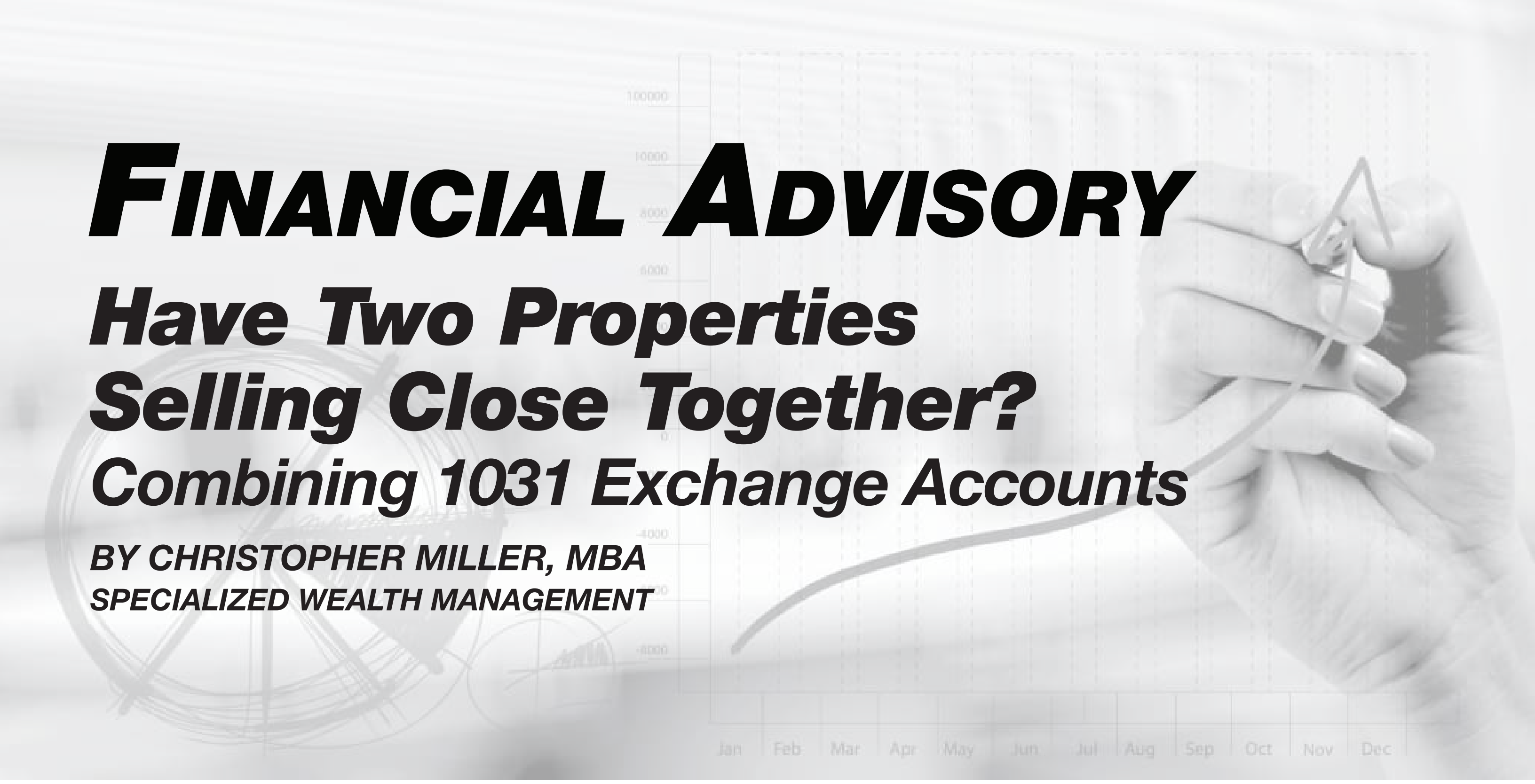

Financial Advisory

Have Two Properties Selling Close Together?

Combining 1031 Exchange Accounts

BY CHRISTOPHER MILLER, MBA
SPECIALIZED WEALTH MANAGEMENT

I have been guiding my clients through 1031 Exchanges for a long time – since 2001 I have completed over 500 Exchanges using partial interest properties such as the Delaware Statutory Trust.

Most of my clients own more than one DST investment and sometimes their investments will sell at about the same time. This month, I'll talk about how we can combine more than one property sale into the same 1031 Exchange Account and the various benefits we can receive by doing so.

A WAY TO DECREASE EXPENSES

Today, a 1031 Exchange using a reputable and bonded Exchange Accommodator will cost about $1,250 plus about $250 for each additional property purchased. This isn't a lot of money when we're dealing with saving hundreds of thousands of dollars in taxes, but every bit helps these days – and part of the reason we became successful landlords is we know how to control costs.

MAKE DIVERSIFICATION EASIER

Combining two sales into one Exchange can help us diversify our holdings. Many of my clients started with smaller DST investments and, happy with their experience, exchanged some of their larger holdings into partial interest properties as well. Imagine an investor with two properties selling this month – one for $200,000 and the other for $800,000. Using one accommodator will allow us to "pool" these funds for easier reinvestment: Two new $500,000 investments can make more sense than splitting the money "80/20" in a client's portfolio.

HANDLE HIGH LEVERAGE REQUIREMENTS BY COMBINING WITH LOWER LEVERAGED PROPERTIES

I use these combination exchanges most often in

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 five 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.

order to manage loan-to-value requirements for 1031 Exchanges. To review: in order to effect a completely tax-deferred exchange, an investor must replace all the equity he receives from a sale and all of the debt he paid off. Let's say an investor sold a $2,250,000 property, paid off a $900,000 loan, and is left with $1,350,000 of equity to re-invest. The IRS tells us that, in order to completely defer his taxes, he must invest all of that $1,350,000 equity into a replacement property and assume at least $900,000 of debt with this new purchase. The Loan to Value ratio, or LTV, for this sample exchange is a very manageable 40%. ($900,000 / $2,250,000 = 40%)

Let's say that I have a client selling the property above and another property with a $1,150,000 sales price and a $700,000 loan payoff, leaving $450,000 of equity. This second property has a much higher LTV ratio: ($650,000/$1,150,000 =) 61%, which can be hard to reach in today's environment. Our choices of replacement properties may be narrow for this sale.

Combining these two amounts together, however, eases the process considerably. We now have a ($2,250,000 + $1,150,000=) $3,400,000 sales price with ($1,350,000 + $450,000=) $1,800,000 of equity to spend and ($900,000 + $650,000=) $1,550,000 of debt to replace. This gives us a nice, manageable ($1,550,000 / $3,400,000 =) 45% LTV, and many different choices of replacement DSTs to choose from or a more manageable loan amount if you'd like to buy something on your own.

Now, rather than potentially taking on more risk by purchasing higher-leveraged offerings, we can select properties with more conservative debt. We can also select 3 properties to diversify by manager, geographic region, and maybe even asset type (apartments and NNN) with $600,000 of equity allocated to each.

If you have two sales occurring within one or two months, consider combining your 1031 Exchanges into one accommodator account. It could make things easier for you in many ways. If you would like to discuss how, my office number is (877) 313-1868.

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.