1031 Specialists

The Magic of 1031 Exchanges

WELL, HELLO!

Ted Stefan – VP, Biz Dev

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I. 1031 BASICS

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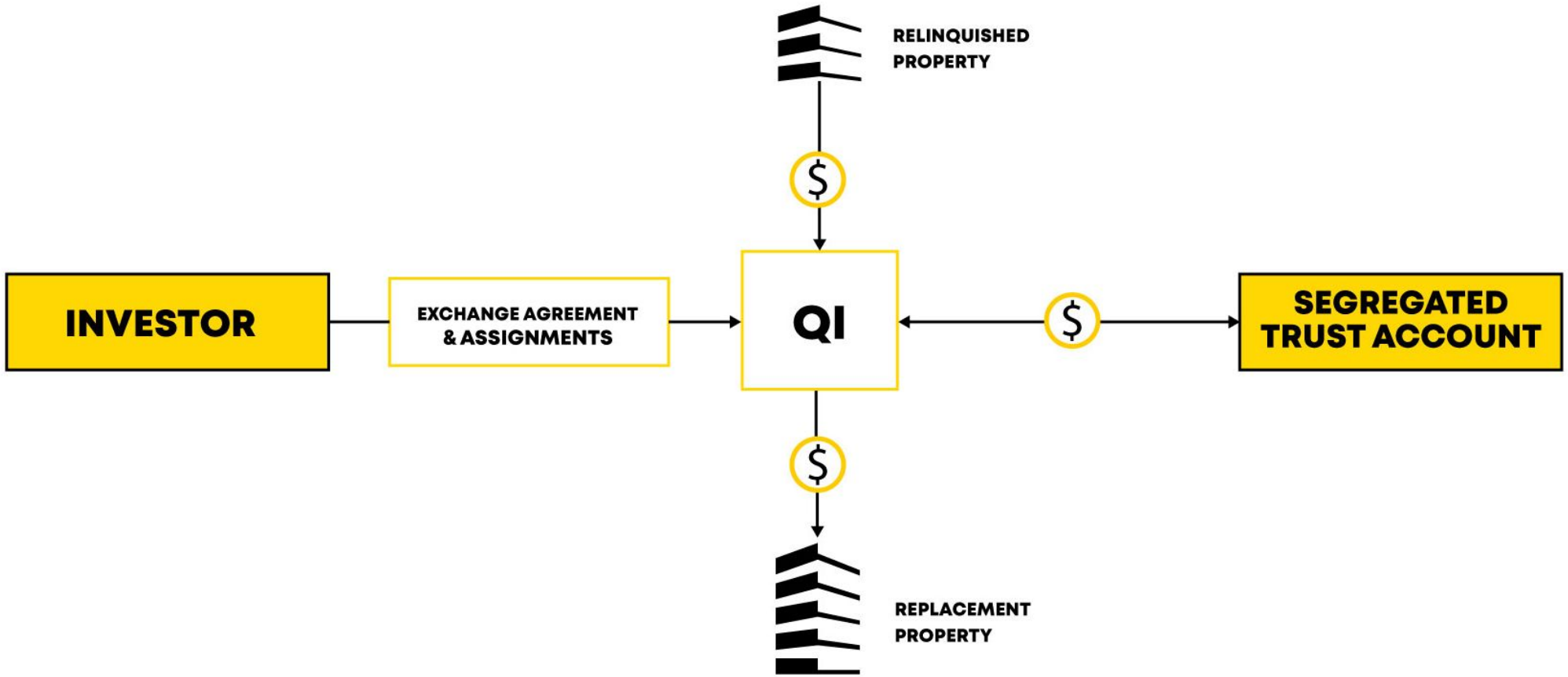
WHAT'S A 1031 EXCHANGE?

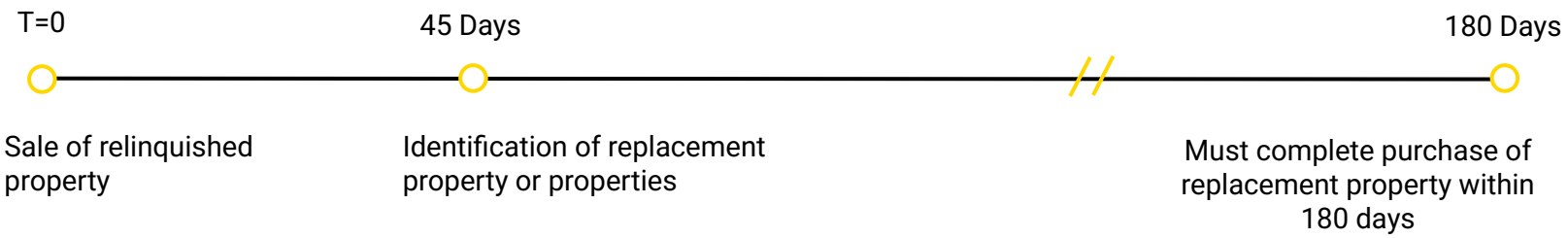
A 1031 exchange is the swap of one investment property for another investment property without paying tax. 1031 exchanges have been around in the US for more than 100 years.



TYPES OF 1031 EXCHANGES

Forward Exchange

In a Forward Exchange, an Investor sells first, then buys within 180 days.



Reverse Exchange

In a Reverse, the Investor buys first, then sells within 180 days.

Improvement Exchange – Forward or Reverse

In an Improvement Exchange, an Investor invests in the acquired property – which can include repairs, improvements and / or new construction – using exchange equity. Improvement 1031 Exchanges are used in conjunction with either a Forward Exchange or a Reverse Exchange structure.

NEARLY INFINITE EXCHANGE OPTIONS

II. DO I QUALIFY?

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DO I QUALIFY?

You must pass three tests to qualify for a 1031 exchange:

1. **“Who You Are”**: You can’t be a flipper or developer
2. **“What You Own”**: US real estate held for business or investment purposes
3. **“When You Bought It”**: >1 year ago, but intent matters the most

THE "WHO YOU ARE" TEST

If you get audited, the IRS will take a position based on your facts and circumstances. The biggest factor is a grey area known as "Intent".

IRS Factors	Investor	Flipper	Developer
Intent	Long-Term Investment	Short-Term Profit	Develop & Sell
Financial Statement Classification	Held for Investment	Inventory Held for Sale	Inventory Held for Sale
Duration of Ownership	>1 Year	Generally <1 Year	Generally <1 Year
Economics	Rental or Lease Income	Profit from Sale	Profit from Sale

III. SWAP ‘TILL YOU DROP

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DON'T SELL… EXCHANGE!

The true power of a 1031 exchange is the ability to meet your investment objectives without losing equity to taxation. With more money, you can buy larger, multiple, or more productive properties.

	EXCHANGE	NO EXCHANGE	DIFFERENCE
Equity	$500,000	$500,000	
Capital Gain Tax	$0	$65,000	
Equity to Reinvest	$500,000	$435,000	
Acquisition Value (Assume 20% Down)	$2,500,000	$2,175,000	$325,000

1031 is a cheat code that gets you more property, more diversification, more bonus depreciation, and more cash flow.

THE MAGIC OF 1031 COMPOUNDING

With more 1031 money, you'll compound returns faster, generating wealth that appears almost unbelievable to you today.

50% GAIN EACH TRANSACTION	1031S, COMPOUNDING TAX FREE	NO 1031S, TAXED EACH TIME AT 30%
Starting Equity	$100,000	$100,000
Transaction 1	$150,000	$135,000
Transaction 2	$225.000	$182,250
Transaction 3	$337,500	$246,038
Transaction 4	$506,250	$332,151
Transaction 5	$759,375	$448,403
Transaction 6	$1,139,063	$605,345
Transaction 7	$1,708,594	$817,215
Transaction 8	$2,562,891	$1,103,240
Transaction 9	$3,844,336	$1,489,375
Transaction 10	$5,766,504	$2,010,656
Transaction 11	$8,649,756	$2,714,385
Transaction 12	$12,974,634	$3,664,420
Transaction 13	$19,461,951	$4,946,967
Transaction 14	$29,192,926	$6,678,405
Transaction 15	$43,789,389	$9,015,847
Transaction 16	$65,684,084	$12,171,393
Transaction 17	$98,526,125	$16,431,381
Transaction 18	$147,789,188	$22,182,364
Transaction 19	$221,683,782	$29,946,192
Transaction 20	**$332,525,673**	**$40,427,359**

THE END GAME

SWAP

IV. PLANNING TO WIN

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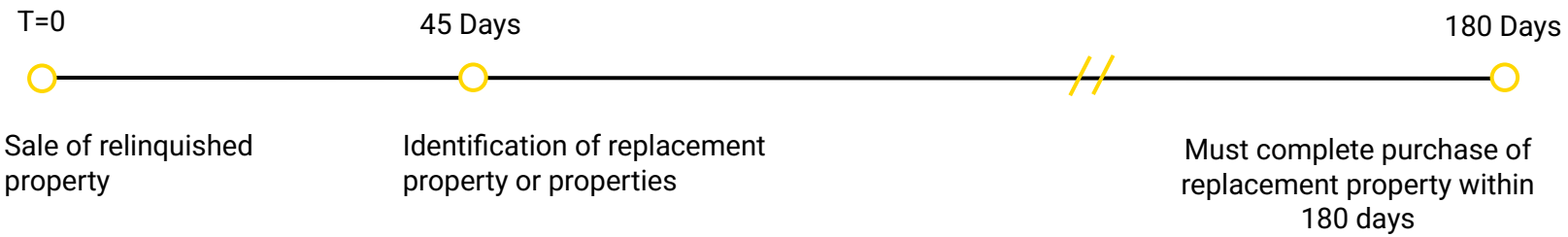
THE CHALLENGES OF 1031s

There are two big objections to 1031 exchanges:

1. “It feels like I have a gun to my head as far as the timelines are concerned.”
2. “1031s cause you to overpay for your properties.”

THE CLOCK IS ALWAYS TICKING

The main challenge with 1031 exchanges is the limited amount of time you have to find and close on a replacement property.



PLANNING TO WIN

There is no excuse for not having enough time if you line things up properly. Before the 45-day clock even starts to tick, you can:

1. Have your broker shortlist 10 properties for you
2. Identify your replacement property or properties
3. Enter into an option contract to buy your replacement property
4. Put your target property or properties under contract (assuming you are not going “hard”)
5. Do a Reverse Exchange

NOTHING COMES EASY

TELL NO ONE

WISDOM FROM OUR EXPERIENCE

Our advice to Clients:

1. Plan ahead, smartly
2. Have a process to identify opportunities
3. Never let the tax tail wag the dog

HERE TO HELP

Whatever you need on 1031s, just ask:

1. Want the best 1031 Calculator?
2. Want to read the Bible on 1031s?
3. Have questions on a specific exchange?
4. Ready to get started?

FREE Consultation with a 1031 Exchange Expert!

Ted@1031Specialists.com

(631) GET-1031

V. ABOUT US

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OVERVIEW

- **Who / What:** Smart, high-trust team (ex-Goldman Sachs / ex-Ernst & Young) building a tech-forward Qualified Intermediary firm.
- **Why Us?:** We get hired mostly because people trust us and like us, in that order.
- **Approach:** We take a consultative, Client-first approach. Our goal is to provide the smoothest, most informative 1031 experience a Client has ever had.
- **Low / No Client Risk:** If for whatever reason a Client exchange fails or they opt-out before the second leg closes, the Client will get their fee back.

OUR NORTH STAR

Our Clients are our North Star. Our goal is to deliver the smoothest, most informative 1031 experience a Client has ever had. We are guided by two simple, Buffett-like rules:

Rule 1

Always support a Client's goals

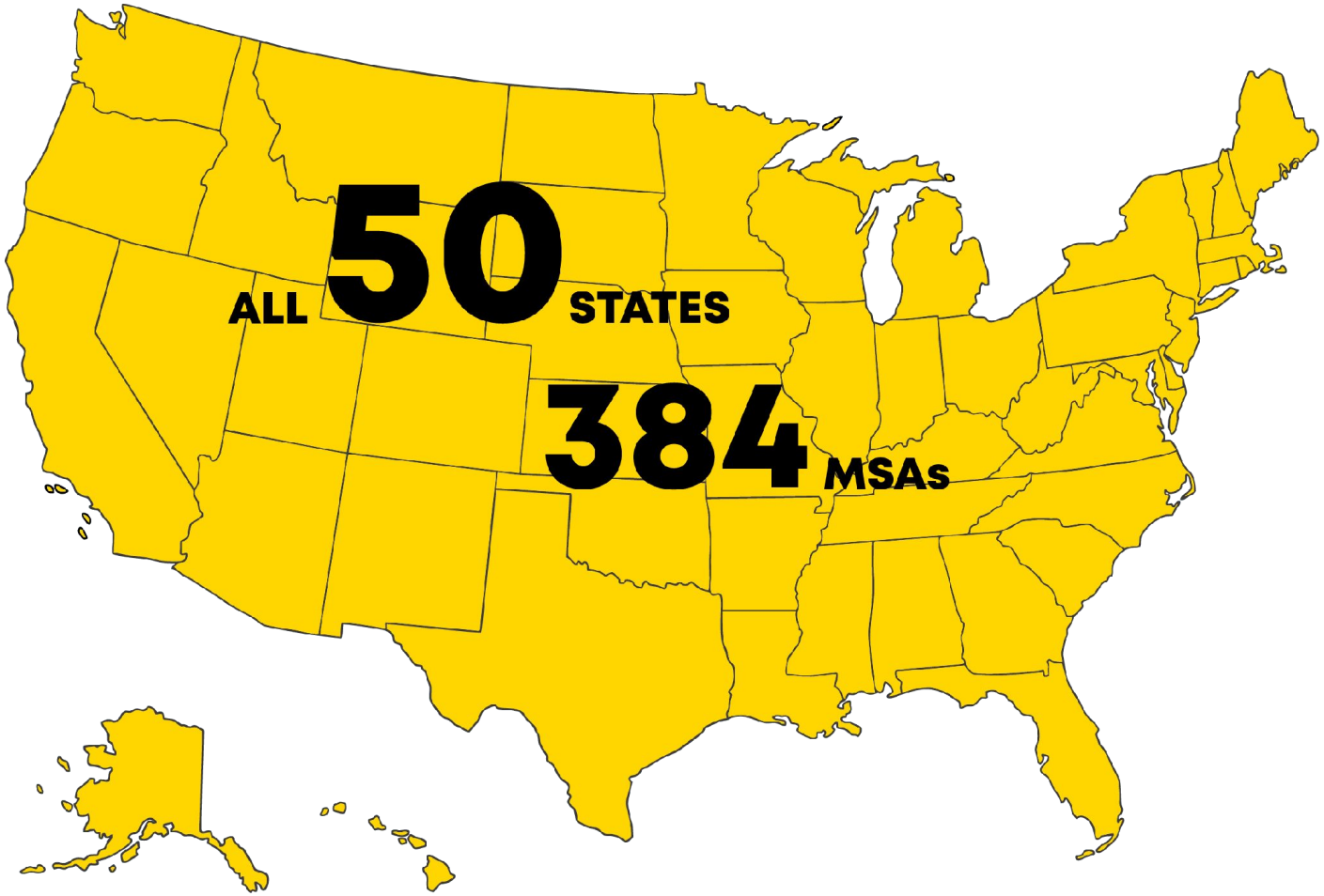
Rule 2

Never forget Rule #1

In every exchange, we take a consultative approach centered on supporting a Client's goals. Our tenured, entrepreneurial team has expertise that spans all aspects of 1031 exchanges and a mandate to be creative, responsive and 100% focused on Rule #1.

DOMAIN EXPERTISE IN EVERY SINGLE STATE

Clients hire us because we can facilitate 1031 exchange transactions no matter how complex and no matter where in the country a client is buying and selling property.



CLIENT FEES

We charge a simple, straightforward fee depending on the type of exchange a Client is doing. Our Standard Exchange services are offered with a money-back guarantee – if a Client decides not to go through with their exchange for any reason, they'll get their $1,195 back.

Reverse Exchange	Standard Exchange	Improvement Exchange
Buy a replacement property first, sell your existing property second.	The most common type of exchange: Sell your existing property first, buy a replacement property second.	Improve or develop your replacement property with exchange equity.
$7,995	$1,195	$9,995

Money back guarantee applies to Standard Exchanges only

AN INSTITUTIONALLY RESPECTED FOUNDING TEAM

Jon Hilley grew up in Jupiter, FL and graduated with highest honors from the University of Florida. After graduation, Jon worked at Goldman Sachs for three years as a financial analyst before joining Brightpoint Capital, H.I.G. Capital's long / short value hedge fund with $700MM in AUM.

For the past 10 years, Jon has been privately investing and serving in an Executive capacity in various ventures. Jon co-founded 1031 Specialists with the goal of creating a QI platform that is tech-forward, achieves wide-scale recognition, and is envied for its exceptional client service.

Jeff Bemis was raised in Newport Beach, California and attended the University of Southern California. After graduating from USC as a member of multiple honor societies, Jeff worked for Ernst & Young as a CPA before turning his career toward finance and attaining his CFA designation. Jeff then worked as a consultant to small and middle market private equity firms specializing in real estate and services-based businesses.

In 2006, Jeff joined Rimrock Capital Management, a California-based absolute return hedge fund with $4 billion dollars under management. He led the less liquid and alternative capital strategies at Rimrock during his 15 years as a portfolio manager, which included billions of dollars of investment in commercial real estate transactions.

BEST-IN-CLASS OPERATING TEAM

Megan Destito grew up in Marietta, Georgia and graduated from the University of New Hampshire. After graduation, Megan moved to southern California and began working for a Santa Barbara law firm that formed the first national Qualified Intermediary service inside First American Title.

For the past 20 years, Megan has successfully owned and operated 1031 exchange companies in and around the Santa Barbara area. With her wealth of experience in complex real estate transactions across the country, she is considered a leading expert in the world of 1031 exchanges.

Ted Stefan has 15 years of experience as a 1031 exchange professional, having started in the industry as an Exchange Officer at First American and later as VP of Business Development with IPX1031. Mr. Stefan has extensive knowledge of Forward, Reverse, and Improvement/Build to Suit 1031 Exchanges. His focus on client service and education fits perfectly with the 1031 Specialists' ethos.

Ted lives in St. Augustine, FL and gives back through his work with Today's Special, an organization that provides jobs for people on the developmental disability spectrum.

THE INDUSTRY'S TOP VOICE – MR1031

https://twitter.com/1031Specialists

VI. FAQs

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FREQUENTLY ASKED QUESTIONS

Can I sign a Purchase & Sale Agreement, then start exploring a 1031 exchange?

Yes. The date a PSA is signed – for either your relinquished property or replacement property – isn't relevant to your 1031 eligibility. What matters is the date your first transaction closes. Provided you haven't closed, you still have time to explore a 1031 exchange.

If I want to identify more than three replacement properties during my 45-day identification period, what are the additional requirements I must follow?

If you wish to identify more than three replacement properties, you can. However, identifying four or more properties means your exchange must also pass one of these two additional tests:

1. The 200% Rule: the combined fair market value of all your identified replacement properties cannot exceed 200% of the value of your relinquished property.

2. The 95% Rule: you can exceed the 200% rule but you must acquire >=95% of the fair market value of the properties you identify.

FREQUENTLY ASKED QUESTIONS

If I hold a property in a corporate entity, can I still qualify for a 1031 exchange?

Yes. Any taxpayer, whether an individual, married couple or entity, can successfully complete a 1031 exchange. Qualifying entities include C-Corporations, S-Corporations, General Partnerships, Limited Partnerships, Limited Liability Companies, Trusts, and any other taxpaying entity that owns qualifying property.

What happens if I don't complete my 1031 exchange in time?

If you don't meet the key 45 and 180-day deadlines required by the IRS, your exchange fails and you will be taxed on any gains from the sale of your property. You can still buy and sell property, you just won't get the benefit of tax deferral on the transaction. It'll be like your 1031 exchange never existed.

Will a 1031 exchange put me at risk of an IRS audit?

1031 tax-deferred exchanges are a 100% approved method of buying and selling investment property – these rules have existed in the US for more than 100 years. In our experience, as long as a recognized, qualified firm follows U.S. Tax Code, Title 26, Section 1031, and documents everything properly, there is no additional risk of an audit.

FREQUENTLY ASKED QUESTIONS

When do I report the exchange to the IRS?

Exchanges are reported to the IRS for the tax year in which the first relinquished property is transferred, even if the replacement property(ies) are transferred in the following tax year. For example, if you close on your relinquished property in December and settle on your replacement property in May of the following year, you will file an extension by mid-April and then file IRS Form 8824 once your replacement property is received.

If I did a cost segregation study and benefitted from bonus depreciation on the property I'm selling, can I still do a 1031 exchange?

Yes, you can do both a 1031 exchange and cost segregation / bonus depreciation on the same property. It is imperative that you seek tax counsel to understand the tax implications given your unique circumstances.

Does my Airbnb property qualify for a 1031 exchange?

Yes, subject to certain criteria, short-term rentals qualify under 1031 tax-deferred exchange rules.

FREQUENTLY ASKED QUESTIONS

How do I maximize my tax deferral in a 1031 exchange?

To maximize your tax deferral, you will have to purchase property of equal or greater value than the net selling price of your relinquished property. You will also have to reinvest the full amount of cash received from the sale of your relinquished property. If you do these two things – buy a replacement property of equal or greater value and reinvest all your cash proceeds – you will maximize your 1031 tax deferral.

Does the replacement property have to cost more than the relinquished property?

No. You can purchase a replacement property for less than your relinquished property and still receive some 1031 tax benefits. Your tax deferral is proportional to the amount of equity you are exchanging. If you seek full tax deferral, you will have to purchase property of equal or greater value than the net selling price of your relinquished property.

FREQUENTLY ASKED QUESTIONS

What is the role of a Qualified Intermediary?

A Qualified Intermediary has three primary duties:

1. To provide consultation on your 1031 exchange.
2. To secure your funds during the duration of the exchange.
3. To prepare the necessary exchange documentation and coordinate with your closing agents to properly transfer the relinquished and replacement properties according to U.S. Treasury Regulations.

Can I be my own Qualified Intermediary?

No, your Qualified Intermediary must be an independent third party, not a related party or agent. CPAs, attorneys, investment bankers, and real estate agents / brokers generally fall under the 'agent' category, excluding them from acting as your Qualified Intermediary. Additionally, any business or individual who is affiliated with an agent also cannot act as your Qualified Intermediary.

FREQUENTLY ASKED QUESTIONS

When do I need to hire a Qualified Intermediary?

If you do not have a Qualified Intermediary in place before the close of your first transaction, the opportunity to do a 1031 exchange is lost.

When should I reach out to 1031 Specialists about my exchange?

Ideally, you will engage us during the evaluation stage of your first transaction, just prior to signing your Purchase & Sale agreement. If you've already signed your PSA, no worries – we can still help make your 1031 exchange happen.

Why does a Qualified Intermediary control my sale proceeds?

A key requirement of a successful 1031 exchange is that the investor selling the property must avoid constructive receipt of the proceeds from the sale. If you have the ability to access, control or receive, or could have received, the proceeds from your sale, the IRS will disqualify your 1031 exchange.

DISCLAIMER

This information is for illustrative purposes only.

The information provided herein may include certain statements, assumptions, estimates and projections. It may also contain errors and shouldn't be relied upon. Such statements, assumptions, estimates, and projections reflect various assumptions by 1031 Specialists concerning results that are inherently subject to significant economic and other uncertainties and contingencies and have been included solely for illustrative purposes. No representations, express or implied, are made as to the accuracy or completeness of such statements, assumptions, estimates or projections or with respect to any other materials herein. 1031 Specialists disclaims any obligation to update this document.

1031 Specialists' role is limited to acting as qualified intermediary within the meaning of Regulations Section 1.1031. In this regard, 1031 Specialists are not providing tax, legal, investment, or due diligence services. We expressly do not file documents with the IRS, including, but not limited to, Form 1099s, Form 8824s, or Extensions. The taxpayer / Exchanger must direct all investment transactions and choose the investment(s) for the exchange. Nothing contained herein shall be construed as investment, legal, tax or financial advice or as a guarantee, endorsement, or certification of any investments, legal effect or tax consequences of the transfer, conveyance and exchange of the Relinquished Property and / or the Replacement Property. Please seek the counsel of a qualified attorney, investment advisor and / or accountant.