

## The Unknown Secret

# Getting the Most from a 1031 Exchange

*Congratulations* on your decision to own investment property. It's one of the most intelligent decisions you'll make! Millions of investors never pay taxes on the sale of their investment properties.

**But many fail to utilize the full potential of 1031 Exchanges. They are sitting on a gold mine and don't even know it.**

### Put Your Equity to Work

This is the best way to grow your portfolio. Investors can make their investment properties grow beyond their wildest dreams. In addition, the result is a dramatic increase in cash flow. They

never dreamed that there was a way to have the ability to retire earlier than planned.

Traditionally, investors look at return on investment (ROI). They fail to consider their return on equity (ROE). Instead of letting this untapped wealth just sit there, let your equity work for you.

## 1031 Exchange

Let's recap for a moment. A 1031 Exchange is swapping one property for a replacement (like-kind) property of equal or greater value. .

### Rules-of-the-Road

- What is *Like-Kind Property*? It is property held for investment or business use. It can be a single-family house, duplex, triplex, or apartment complex. *i.e., real estate for real estate*. You cannot exchange your home for an income property.
- The property must be of equal or greater value.
- There is a timeline involved. The replacement property must be identified within 45 days of selling the other property.
- You must close within 180 days of the sale of the old property.
- You must use an intermediary to help with the transaction.

### Return on Investment (ROI)

This is the traditional approach used by investors who have always concentrated on ROI when analyzing their portfolio. This is the conventional yardstick for measuring property.

#### EXAMPLE:

\$180,000 property that you own

\$36,000 down (20%)

\$400/month income x 12 = \$4,800 net income/year

$\$4,800/\$36,000 = 13.3\%$  ROI

Not a bad investment, so you chug along. You may even buy five more. Now look at ROE. You'll be able to buy more properties putting your equity to work.

### Return on Equity (ROE)



**EXAMPLE:** Selling current property

\$180,000 property

\$10,800 sales commission (6%)

\$35,000 payoff

\$134,200 equity

\$190,000 new property

\$134,200 down

\$55,800 finance at 7.25%

\$380/month payment (+tax, insurance, HOA)

\$4,560/year

\$1,200/month potential rent

\$14,400/year potential rent

\$14,400 - \$4,560 payment = \$9,840 net

By using ROE your investment went from \$4,800/ year to \$9,840/year. By taking advantage of your equity, your cash flow doubles.

**###**

## **SPECIAL BONUS SECTION**

### **Do's and Don'ts when Buying Properties**

- Check out the average rental rates for nearby units.
- Determine vacancy rates for surrounding units.
- Get a copy of last year's HOA bylaws and expenses.
- Determine upcoming HOA maintenance costs, such as pool maintenance and common areas.
- Who is responsible for the yard maintenance of individual units?
- The condition of neighboring units and the age of roofs will need to be addressed by owners.
- Does the county maintain roads, or is it the responsibility of the HOA?

### **Monthly Expenses**

- Management: Allow 10% management fee. It's never a good idea to be an absentee landlord. If you do manage your property, talk with your accountant. You may be able to deduct a management fee from your taxes.
- Allow for maintenance and repair expenses: Set aside 10% monthly.
- Vacancy Rate: Every 2 to 3 years, expect to lose a month's rent while finding a new tenant.
- Replacement costs: Determine the age of the roof, refrigerator, water heater, and AC/heating unit. These are high-ticket items. Life expectancy depends on several factors.

Here's a general rule of thumb:

- Roof expectancy: 20 to 25 years
- Refrigerator: 18 to 22 years
- Water heater: 20 years

- AC/Heating unit: 25 years

**BE AWARE: Never agree to repair or replace the washer/dryer or Icemaker. These can be costly items to repair or replace.**

**TIP: Shop for a home warranty that covers heat/AC; hot water heater; and plumbing which are major repair expenses. Costs is minimal.**

**TIP: Always check with your insurance company to see what roof coverage entails. Many companies limit roof repairs or do not cover roof repairs at all.**

Ultimately, always consult your property manager and accountant for suggestions on improving your portfolio.

Feel free to contact me with suggestions, bad advice, or your general experience. Your input is always appreciated. Comments will be posted on this white paper. The contents of this article may be shared with friends or relatives. Call TODAY and let's talk about your investment strategy.

Be sure to ask me about special real estate commission rates for 1031 Exchanges.

Contact me if you're thinking of selling or buying. I have investors standing by.

Charles Dutch | Re/Max True Advantage  
706-922-9292 | 706-799-0234 (cell)  
[cdutch@remaxc.net](mailto:cdutch@remaxc.net)  
MyBadHouse.com