The Unknown Secret to 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 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.

By following a few simple rules, investors can make their investment properties grow beyond their wildest dreams. Not to mention seeing a dramatic increase in their cash flow.

Put Your Equity to Work
Traditionally, investors look at return on investment (ROI). They fail to consider their return on equity (ROE). Instead of letting this untapped wealth sit there, harness it so it is working for you. Even if you own two or three properties, over time, equity has increased. Put the equity to work.

1031 Exchange Explained

Let's recap. A 1031 Exchange is swapping one property for a replacement 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.

Let's look at two scenarios.

Scenario #1
Return on Investment (ROI)

This is the traditional approach. Investors have always concentrated on ROI when analyzing their investment portfolio.

EXAMPLE:
$150,000 property
$30,000 down (20%)
$4,800 net income/year ($400.00 per month)
$4,800/$30,000 = 16% ROI

Not a bad investment, so you chug along. You may even buy five more, but it will require more money down.

Return on Equity

Now you're putting your equity into work. No additional cash is needed. You'll be able to buy more property and increase cash flow.

Scenario #2
Return on Equity (ROE)

EXAMPLE:
Sell $!50,000 property
Put $60,000 equity to work on another property.
Monthly payment is greatly reduced.
By taking advantage of your equity, your cash flow increases.

NOTE: As they say, *"what's good for the goose is also good for the gander. A* formal analysis was performed on two of my properties in preparation for this article. Was I surprised! I had no idea of the hidden potential in my portfolio. I found a tremendous opportunity awaiting, which would severely impact my nest egg potential for retirement. The results blew my mind.

Untapped Potential for Growth.

- Unit 1: $180,000
  Payoff $39,000
- Net: $141,000
  Real estate commission $9,000 (5%)
  Equity after commission: $132,000

- Unit 2: $180,000
  Payoff $96,400
  Net: $83,600
  Real estate commission $9,000 (5%)
  Equity after commission: $74,600

Both units rent for $1,200 monthly, with approximately $200 net total profit or $400 total. I know. Not that great. That's why I'll do a 1031 and move up in property with a much better cash flow.

Nevertheless. Here's where it gets interesting.
Total Equity: **$132,000 + $74,600 = $206,600**

When I thought this was the end of the road, my retirement nest egg was not impressive. After careful examination, I was surprised.

With some adjustment, this would allow me to purchase an apartment complex for $1,000,000 with 20% down/$200,000, or buy one $$200,000 house for cash. No finance charges. This is one way to avoid paying 6%+ in finance charges. Not bad! Who would have thought?

ALWAYS CONSULT WITH YOU TAX CONSULTANT

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SPECIAL BONUS SECTION

Do’s and Don’ts when Buying Properties

- Check out the average rental rates for other units.
- Determine vacancy rates for surrounding units.
- Get a copy of last year’s HOA expenses.
- HOA rules.
- 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.
- 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. 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.

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.

PS. Thinking about selling? I have investors standing by ready to make an offer above market value. Call me TODAY! Let’s talk.

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