

CONTENTS

INTRODUCTION		xvii
	Financial Independence Is Just around the Corner	xvii
	There's Magic in Real Estate	xviii
CHAPTER 1	How to Use This Book to Maximize Your Real Estate Investment Profits	1
	Pretax Investment Value	3
	Brad's Transaction	3
	Boot Paid or Received	6
	Eight Causes of Boot	7
	Tax Basis	10
	Net Operating Income	14
	Charlene's Deal	15
	Amortization	19
	Interest-Only Payments with Final Payoff at Future Date	20
	Zero Principal with Discounted Interest Paid	20
	Reverse Mortgage	21
	Equal Payments of Principal and Interest Combined	22
	Other Features	23
	Balloon Mortgage	24
	Estate Taxes	24
	Planning and Zoning	25
	Comfort Zone	26
CHAPTER 2	The Real Estate Insider's Bag of Loopholes	27
	Easy Access to Information	28
	Toxic Sources of Pollution	28

CONTENTS

Finding the Owner of a Specific Property	29
Other Property Owned in a Specific Name	33
Ownership History of a Specific Property	33
Determining the Legal Description of the Property	33
Discovering the Sales History for the Entire Neighborhood	34
All Property Listed by Local Realtors	35
Tax Appraisals	37
Size and Shape of a Property	38
Zoning	39
Allowed Use	45
Other Important Factors	46
Why the United States Is Such a Great Place for Real Estate Investments	48
Great Investment Environment	48
Capital Gains Tax Treatment	50
Residential Gain Exclusion	51
Installment Sale Treatment	53
IRC 1031—Tax-Free Rollover of Investment Capital	56
CHAPTER 3	
How to Put the IRS on Your Side for a Change	57
Introduction to IRC 1031	58
Like-Kind Properties	63
The 1031 Clock	65
Jake’s Exchange	65
Replacement Property	68
The Three-Property Rule	68
The 200 Percent Rule	69
Benefits and Burdens	69
Assumption of Liabilities	70

Contents

Havers and Takers	71
How Tax Laws Are Interpreted	72
How You Can Become an Insider to Real Estate Exchanging	72
Where the Insiders Hang Out	74
Rediscover the Oldest Game in Town— Barter and Exchange	75
CHAPTER 4	
The Nitty Gritty of IRS Tax Loopholes	77
Parties to the Exchange	78
The First Player	78
The Second Player	81
The Third Player	81
The Fourth Player	81
Special Caution to the First Player	82
Starker Exchange	82
Reverse Exchange	83
Frank's Reverse Exchange	83
Intent to Exchange	84
Kevin's Exchange	85
Eight Things That Can Hold Up a Closing	86
Safe Harbors	87
Why Not All Tax-Free Exchanges Are Free of Tax	87
Election Is Made Not to Use Section 1031 Rules	87
There Is Net Mortgage Relief	88
A Portion of the Exchange Is Cash or Nonqualifying Real or Personal Property	90
Application of State Law That Conflicts with IRC Section 1031	92
Absolute Dread and Fear of IRS	92

CONTENTS

CHAPTER 5	How a 1031 Exchange Will Put Money into Your Pocket	93
	The Exchange Web	94
	Slide Debt to Other Property	94
	Charlie's Sliding Mortgage	95
	Legs	97
	The Exchange Presentation	99
	Owner's Value of Property	100
	Total Debt on Property	100
	Owner's Equity in Property	101
	Motivation to Sell or Exchange	101
	Area and Category of Properties Desired	101
	Positives and Negatives of Property	102
	Financial Data (If an Income- Producing Property)	102
	Photos of Property	103
	General Demographic Information	103
	Maps and Other Data	103
	Offers to Exchange	104
	Dan's Mini-Offer	104
	Balance Exchange Equities	108
	Cash	108
	Mortgages	108
	Note	109
	Other Property	109
	Personal Property	109
	Other Values	110
	Two Examples of Equity Balances	110
	Use an Exchange as a Buyer's Tool	113
	George's Assets	113
	Ten Steps Available to George	113
	Use an Exchange as a Seller's Tool	117
	Be a Proactive Seller	117
	Expand Your Available Inventory	118

Contents

	Entice a Buyer to Consider Your Property	118
	Replace a Big Problem with a Small One	119
	Move Closer to the Desired Goal	119
CHAPTER 6	Advanced Elements of the Tax-Free Exchange	121
	Date the 1031 Clock Should Start	123
	Constructive Receipt	125
	FIRPTA	125
	State Laws versus Federal Laws	126
	Foreign Property	127
	Effect of a 1031 Exchange on	
	Your Tax Shelter	128
	Example of Depreciation	129
	Value of the Shelter	130
	Compare a 1031 Exchange to a Sale	131
	Setting the Ground Rules	131
	Examining Jacob and Eva's Transaction	134
CHAPTER 7	How to Make a One-on-One Exchange	141
	Value versus Marketability	142
	Dual Values	146
	Justifying Value	146
	Tax Appraisal Value	150
	Lender's Appraisal	150
	Common Area Maintenance (CAM)	151
	The Five Steps to Making an Exchange	152
	1. Establish Your Goals	152
	2. Understand Interim Goals	152
	3. Form Target Goals	153
	4. First 16 Weeks of Your Goal	
	Formation Process	154
	5. Understanding the Common Elements	
	of All Goals	155
	Where to Find Potential Exchanges	155

CONTENTS

	Motivated Sellers	156
	Owners of Free and Clear Properties	157
	Owners of Problem Properties	158
	Owners with Problem Partners	158
	Sellers with Difficult-to-Sell Real Estate	159
	High-Profit Sellers	159
	Exchange Clubs	160
	Local Realtors	160
	Buyers without Sufficient Cash to Buy Your Property	161
CHAPTER 8	How Real Estate Exchanges Work	163
	Importance of Timely and Effective Due Diligence	164
	Cold Turkey Due Diligence	164
	What Comes First, the Chicken or the Egg?	164
	Importance of Timing	165
	When Do You Go Hard?	165
	Outside the Comfort Box	166
	Greener Grass Syndrome	167
	Expanding Your Horizons and Options with Exchanges	167
	Eight Things You Have That You Can Exchange	168
	Eight Motivations of Exchanges	174
	Tax-Free Benefits	174
	Added Revenue from Lost Time	175
	Preforeclosure Exchange	175
	Down and Then Out Exchange	176
	Opening Closed Doors	177
	Face-Saving Steps	178
	“Why Not” Exchange	179
	Spring-Cleaning Exchange	180
	Enter the World of Barter	181

Contents

	The Good, the Bad, and the Ugly of Barter Clubs	181
CHAPTER 9	Thirteen Creative Techniques Applied to Exchanges	185
	Creative Financing	186
	Tenant-in-Common Interests	187
	Thirteen Creative Techniques for Exchanges	188
	Accommodation Exchange	189
	Paper Exchange	192
	Pyramid Exchange	193
	Double Exchange	195
	Future Exchange	198
	Mixed Bag Exchange	201
	Sweat Equity Exchange	205
	“No Sweat Off My Brow” Exchange	206
	Prepaid Rent Exchange	208
	Leaseback Exchange	210
	Personal Property Exchange	212
	Commission Exchange	213
	Tenant-in-Common Exchange	215
CHAPTER 10	Booby Traps That Await You in Exchanges	221
	Your Investment Team	222
	A Good Lawyer	222
	An Accountant	223
	Title Insurance Company	223
	Inspection Teams	223
	Section 1031 Facilitator	224
	Real Estate Agents	225
	Maps Galore	225
	Important Elements You Must	
	Double-Check Prior to Closing	226
	It’s Wonderful How Difficult It Really Is	227

CONTENTS

	Nine Booby Traps to Look Out For in	
	Making Exchanges	227
	Failure to Report	228
	Violation of FIRPTA	228
	Greener Grass Syndrome	229
	Overpriced Property	230
	Mortgages and Leases of Convenience	231
	The Phantom	233
	Accountants and Lawyers—	
	Yours and Theirs	235
	Sloppy Contracts	237
	Nonstandard Standard-Looking	
	Contract Forms	239
CHAPTER II	Closing Section 1031 Exchanges:	
	The Qualified Intermediary's Point of View	241
	Acknowledgment of Contribution for	
	This Section	241
	Introduction	242
	The Qualified Intermediary	243
	Disqualified Parties	244
	Using Principals as the Intermediary	245
	Baird Exchange—The Seller as	
	the Accommodator	245
	Alderson Exchange—The Buyer	
	as the Accommodator	245
	Alderson or Baird Exchanges	247
	The Professional Intermediary	248
	When to Use an Intermediary	248
	Simultaneous Exchanges	248
	Delayed Exchanges	249
	Responsibilities of Intermediary	251
	Exchange Agreement	251
	Assignment Agreement	254
	Exchange Closing Instructions	254

Contents

	Step by Step—How Does This Look?	254
	How to Work with Your Closers	256
	Finding the Right Closer	258
	How to Select an Intermediary	259
CHAPTER 12	Putting It Together for Successful Transactions	263
	Summary	263
	WYSIWYG	264
	Deal Out the Negative	268
	How Positive Thoughts Are Connected to Real Estate Investing	268
	The Electrical Energy of Success	268
	MASTER LIST OF TERMS AND CONCEPTS YOU NEED TO KNOW	271
	INDEX	275