LEGACY
INVESTMENTS
& REAL ESTATE

The 10 Biggest Mistakes 1031 Exchange Investors Make

A 1031 EXCHANGE CAN BE CONFUSING AND STRESSFUL, LEADING MANY 1031 EXCHANGE INVESTORS TO MAKE CRITICAL MISTAKES.

01 Not incorporating IRS 1031 exchange qualifying required language in both the contract to sell your relinquished property(ies) and the contract to purchase your replacement property(ies)

If this specific IRS-required language is not in both the contract to sell your relinquished property and the contract to purchase your replacement properties, the IRS could disallow your exchange eliminating your tax benefits entirely.

SOLUTION:
If you have already signed an agreement to sell your relinquished property and the language is not in the contract or you are unsure if the language in the contract is correct, you may still able to save the exchange if specific steps are taken. Legacy Investments & Real Estate can help you in this process. We are happy to discuss this with you and provide guidance on how to proceed.

02 Taking constructive receipt of the proceeds from the sale of your property

You cannot take constructive receipt of the funds from the sale of your relinquished property even if the funds go into and remain in an escrow account. A qualified intermediary (QI) must take constructive receipt of the funds from the sale of your relinquished property or the IRS can disallow the tax benefits of your exchange.

SOLUTION:
If you have not engaged a QI, please contact us and we will refer you to QI's who are experienced and maintain a large bond in favor of their clients.

03 Failure to understand the difference between return on capital and return of capital

Many investors buy a property because it has a higher cap rate or projected annual income than another property but fail to understand the increased risk to their invested capital a higher return could create.

SOLUTION:
When calculating return ON capital, both the annual income and the increase or decrease in value of the property upon disposition must be considered. Legacy will always help you make informed decisions about risk and return and provide a wide variety of institutional-quality replacement properties for your review.

04 Buying a less desirable property because the purchase price of the replacement property covers the full amount of the proceeds from the sale of the relinquished property

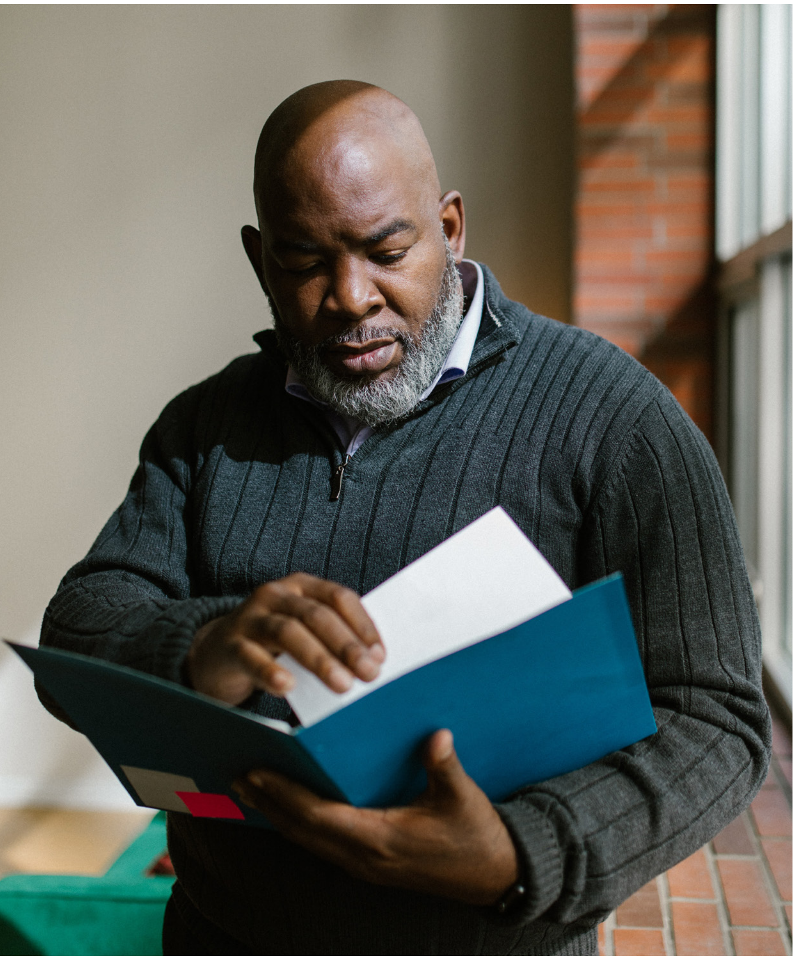
When the cost of the replacement property(ies) does not equal the proceeds from the sale of your relinquished property(ies), the difference is considered "boot." Boot is any cash left over after buying your replacement property. You must pay tax on any "boot." Like many in a 1031 exchange, you will find it is very difficult to find a replacement property with the exact price equal to or greater than the proceeds of the relinquished property. In this case, you may be tempted to acquire a less desirable property to avoid "boot." You may also find a desirable replacement property, but to purchase the property you may be required to put in more cash or take on debt, both of which may be undesirable to you.

SOLUTION:
Fortunately, Legacy offers many potential solutions, like DSTs, that can save you the time and effort of obtaining and guaranteeing a loan, putting in more capital, or paying taxes on the boot.

05 Assuming you must apply for and guarantee a loan to replace any debt remaining from the sale of your relinquished property

Many of our clients believed that the only way to defer the taxes on debt remaining on the relinquished property was to apply for and guarantee a loan on the new (replacement) property(ies). Not only can this process be time consuming, but the loan can still be declined in the end—leaving the entire exchange in jeopardy. Even the lender themselves may not complete the process in a timely manner and cause you to lose out on a desirable replacement property.

SOLUTION:
Legacy has access to institutional-quality real estate investments with pre-approved debt already built into the investment. This means you do not have to apply for or guarantee a loan. With the loan already in place, there is no chance the lender will withdraw the commitment at the last minute and jeopardize the entire exchange.



06 Not having a strategy to identify enough alternative replacement properties should one or more of your identified properties not meet due diligence requirements or fall through for other reasons

Once the 45-day identification period passes, you cannot add more properties to your list of target properties.

SOLUTION:
Legacy employs several sophisticated strategies to potentially help reduce the risk that your exchange will fail because the properties you thought you would acquire turn out not to meet due diligence requirements or because a loan commitment fails to materialize on time. While these strategies are not a guarantee that a problem won't occur, they will help reduce the chances substantially.

07 Mistakenly thinking you have 180 days to close on your replacement property

What most people do not realize is that the 180-day rule does not always apply. Many 1031 Exchange participants, when planning the timing of the sale of their relinquished property, incorrectly assume they have 180 days to close on their replacement property. This is not always the case.

SOLUTION:
Don't simply assume you have 180 days to close on your replacement property. Legacy can help you address the multitude of important questions related to the timing around your exchange to ensure mistakes are avoided.

08 Not having enough liquidity

Not having enough liquidity can wreck havoc upon an otherwise successful 1031 Exchange process. If a property purchase empties the relinquished property's exchange fund, you could find yourself in a bad financial position. Unplanned variables like property vacancy can lead to income loss and ultimately to the inability to make a loan payment.

SOLUTION:
Because we have securities licenses as well as a real estate license, we are held to a higher standard of fiduciary responsibility than if we had a real estate license alone. This means we are required to do a thorough review to determine the suitability of all recommendations we make to you. To help ensure your financial safety and peace, we must be reasonably certain you have enough outside liquidity to meet your expenses should your real estate investment not perform as planned.

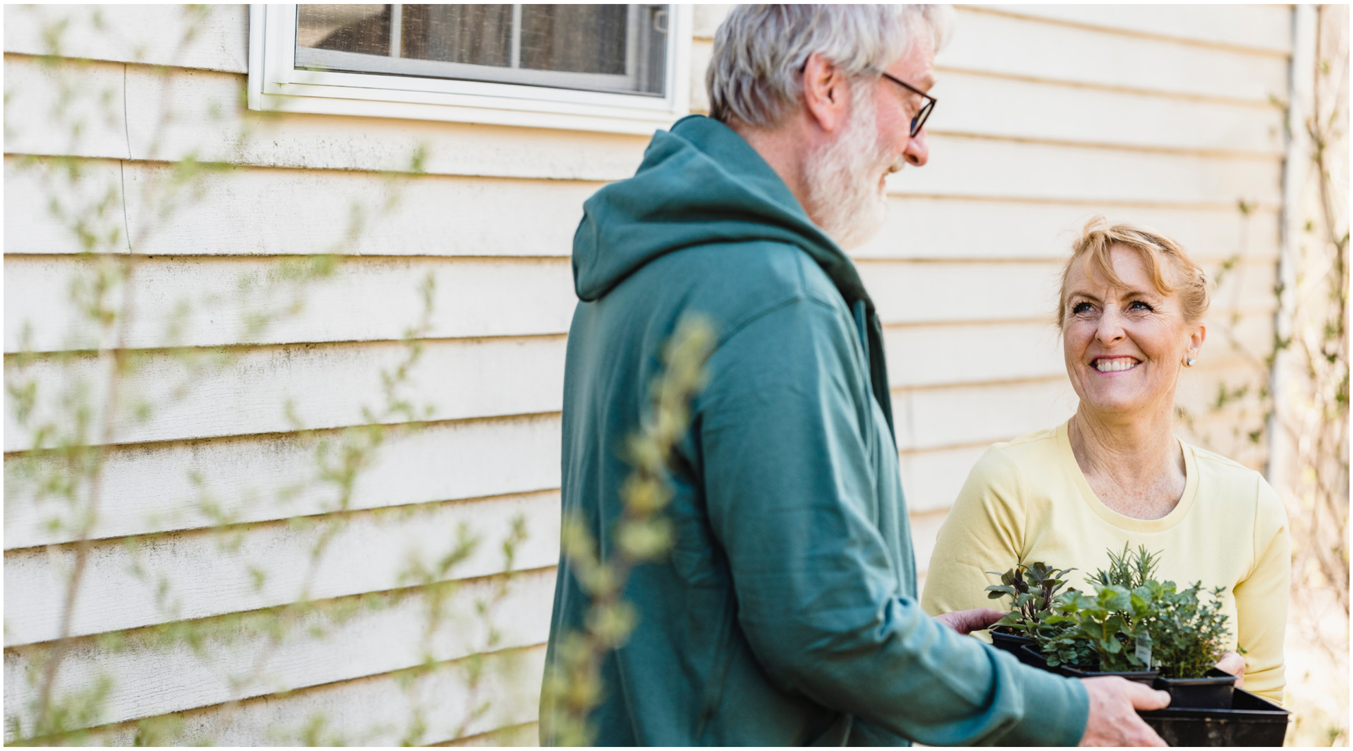
09 Not diversifying your 1031 Exchange proceeds

Single-tenant investments can seem quite alluring for potential investors. From the strength of the current tenant to the management-free nature and rent increase option periods, these properties can lure investors into utilizing the entire proceeds from the sale of their relinquished property or even taking out a loan to acquire this "quality" asset.

Ultimately, these assets are not as safe or high-quality as they may first appear. Left at the mercy of a single tenant, investors can only hope their tenant company doesn't go bankrupt, experience a merger or acquisition, or simply decide not to renew their rental agreement. Even if the company remains a tenant, they could still disagree with planned rental increases and negatively affect anticipated income or property resale value.

SOLUTION:

All investments have risk. Real estate is no exception for all the reasons outlined above. However, you can potentially mitigate these risks through diversification. You would be ill-advised to invest all your money into one or two stocks. We feel the same way about investing your 1031 Exchange proceeds in one piece of real estate. While there are no guarantees and you could lose money, by diversifying your proceeds you potentially reduce the risks to your capital and your income stream.



10 Not using a specialist to advise and represent you in the acquisition of your replacement properties

You have a great deal of money at stake in this process. Using a specialist is one of the best safeguards you can employ to help ensure your exchange goes smoothly. The marketplace for commercial real estate changes daily. If your representative is not following the changes in pricing as well as property and geographic trends daily, you are at a disadvantage. As a result, you may well overpay for a property, invest in a property with less favorable long-term prospects, or invest in a property that has a higher risk profile than you think. Indeed, there are many new offerings coming out every day that are subpar in our opinion.

Our entire practice is devoted exclusively to finding replacement properties for clients in a 1031 Exchange. Many of these clients are selling agricultural properties and investing in commercial real estate for the first time. Many are selling management-intensive properties and looking for management-free properties.

As exchange professionals, we do not list or lease real estate. Listing and leasing are very different activities and require very different daily activities, networks, and skills. In addition, many registered representatives or investment advisor representatives sell stocks and bonds, limited partnerships, oil and gas, annuities, or life insurance, for example. However, from our experience, not many specialize in the acquisition of 1031 Exchange replacement properties. You can't be everything to everyone and be an expert in any one area. There is simply too much to know and keep up with.

SOLUTION:

Consider working with Legacy Investments & Real Estate. We never have a conflict of interest with our clients because we do not represent sellers. In addition, we have more than 30 years of experience in commercial real estate on both the lending and the acquisition side. We have completed more than 200 real estate transactions in these roles. Underwriting real estate deals is part art and part science and experience matters. We developed a proprietary due diligence process based on these years of experience. We are happy to share our due diligence process with you and/or your advisors on request.

The process of evaluating and closing on replacement properties on a timely basis requires full attention and understanding. We follow a detailed and critical process to help reduce the risk that something could go wrong.

How can you potentially avoid these costly mistakes?

Before working with Legacy Investments & Real Estate, our clients felt overwhelmed with the investment options and steps that must be taken to successfully complete a 1031 Exchange. **A phone conversation to answer your most urgent questions is the next step.**

Legacy can't guarantee that you could not lose money, but we believe sticking with proven sponsors, our rigorous due diligence process, diversification, ensuring investments meet your suitability and liquidity requirements, combined with our 30+ years of experience, will help increase the likelihood you will be pleased you chose us for your exchange.

We'll start by getting the answers to two very important questions. With these answers, we can determine if we're a good fit for you and vice versa. We look forward to helping you through a successful 1031 Exchange.

Contact us today for professional, tailored guidance on your passive real estate investment needs:

legacyire.com (916) 908-1031

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Because investor situations and objectives vary this information is not intended to indicate suitability or a recommendation for any individual investor.

This is for informational purposes only, does not constitute individual investment advice, and should not be relied upon as tax or legal advice. Please consult the appropriate professional regarding your individual circumstance.

Potential cash flows/returns/appreciation are not guaranteed and could be lower than anticipated.

Diversification does not guarantee a profit or protect against a loss in a declining market. It is a method used to help manage investment risk.

There are material risks associated with investing in DST properties and real estate securities including liquidity, tenant vacancies, general market conditions and competition, lack of operating history, interest rate risks, the risk of new supply coming to market and softening rental rates, general risks of owning/operating commercial and multifamily properties, short term leases associated with multi-family properties, financing risks, potential adverse tax consequences, general economic risks, development risks, long hold periods, and potential loss of the entire investment principal.

DST 1031 properties are only available to accredited investors (typically defined as having a $1 million net worth excluding primary residence or $200,000 income individually/$300,000 jointly of the last two years; or have an active Series 7, Series 82, or Series 65). Individuals holding a Series 66 do not fall under this definition) and accredited entities only. If you are unsure if you are an accredited investor and/or an accredited entity, please verify with your CPA and Attorney.

Securities offered through Concorde Investment Services, LLC (CIS), member FINRA/SIPC. Legacy Investments & Real Estate is independent of CIS.

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