1031 Exchange: FAQ

What is a 1031 Tax Exchange?

A 1031 tax-deferred exchange is an approved technique for selling property that has been used for investment or in a trade or business when purchasing another like-kind property of greater or equal value without having to pay capital gains taxes.

Why 1031?

- **Keep your money working for you.**
  Rather than pay unnecessary taxes, use the money to purchase more investment property.

- **Compound your wealth.**
  Maximize returns by moving equity to the most advantageous investments available.

- **Eliminate troublesome properties.**
  In order to avoid extensive management and maintenance problems, sell older properties in exchange for new less management intensive properties.

- **Diversify your investments.**
  Exchange out of one relinquished property into multiple replacement properties to expand your portfolio into different geographic areas or business segments.

Is it "cashing out"?

No. The government's goal in deferring taxes on exchanges is to encourage investors to continue to buy and sell property.
The justification? If an individual is NOT cashing out, why should the IRS tax them on the "theoretical gain" in an exchange from one like-kind property to another?

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How can I learn more?

Whether you are considering a Straight Forward Exchange, Reverse Exchange, Build-To-Suit Construction Exchange or Personal Property Exchange, choose the right partner.

Jeffrey R. Peterson is President of Commercial Partners Exchange Company. His company is a facilitator of all types of exchanges. Mr. Peterson received his B.A. degree from the University of Minnesota and his J.D. from the University of Minnesota Law School. He is a member of the Minnesota State Bar Association. Mr. Peterson is a former adjunct professor at William Mitchell College of Law, where he taught federal income tax. He travels throughout the United States as a speaker and continuing legal education presenter for various business and professional organizations on numerous issues related to 1031 exchanges and tax deferral strategies.

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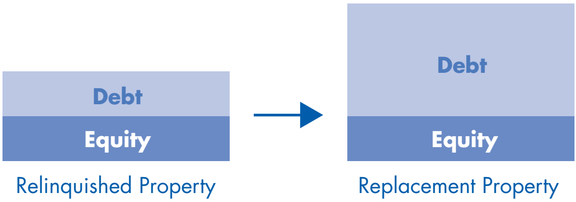
1031 Exchange: Basics



Balancing Value, Equity and Debt

Typically, an Exchangor will acquire replacement property that is "up or equal" in Value (price) and will roll over all of the Equity (net proceeds) from the relinquished property into the replacement property.

Further, to the extent that the Exchangor was relieved of liabilities and debt, such as mortgages on the relinquished property, the debt relief must be offset by (1) new liabilities or mortgages taken on the conjunction with the purchase of the replacement property, OR (2) by investing additional cash in the replacement property equal to the amount of liabilities and debts that were discharged.

A QI's Role

A Qualified Intermediary (QI) is a critical component in the success of a transaction:

- Provide a safe harbor structure to exchange transactions according to the Treasury Regulations.
- Hold proceeds from the sale of relinquished properties.
- Isolate the receipt of any taxable proceeds.
- Utilize the proceeds to purchase like-kind replacement properties.
- Prepare the required exchange documents and instructions.

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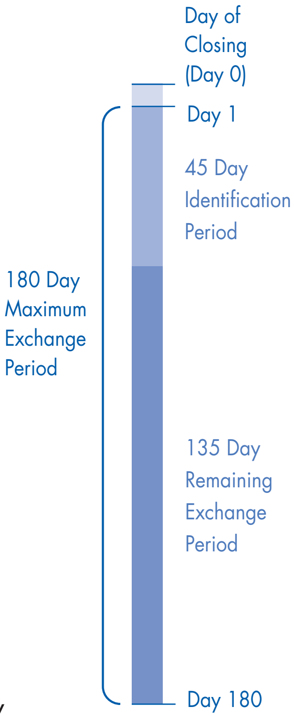
1031 Exchange: Timing

Identification Period (45 Days)

Exchangor must identify a limited number of potential replacement properties on or before the 45th day after the transfer of the relinquished property.

Exchange Period (180 Days)

Exchangor must receive the replacement property within the earlier of 180 days from the date the relinquished property is transferred OR the filing date, including extensions, of their income tax return filed for the year the sale of the relinquished property occurred.



What is a Qualified Purpose for a Property?

Property must be held by the Exchangor for either productive use in a trade, business or for investment purposes. Property held for use as a personal residence or primarily for sale, such as inventory, may not qualify.

What is "like-kind" U.S. Property?

All U.S. real property is generally "like-kind" with other U.S. real property. Eligible properties can include commercial and residential property (excluding your primary residence), farms, apartment buildings, warehouses, vacant land, etc.

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