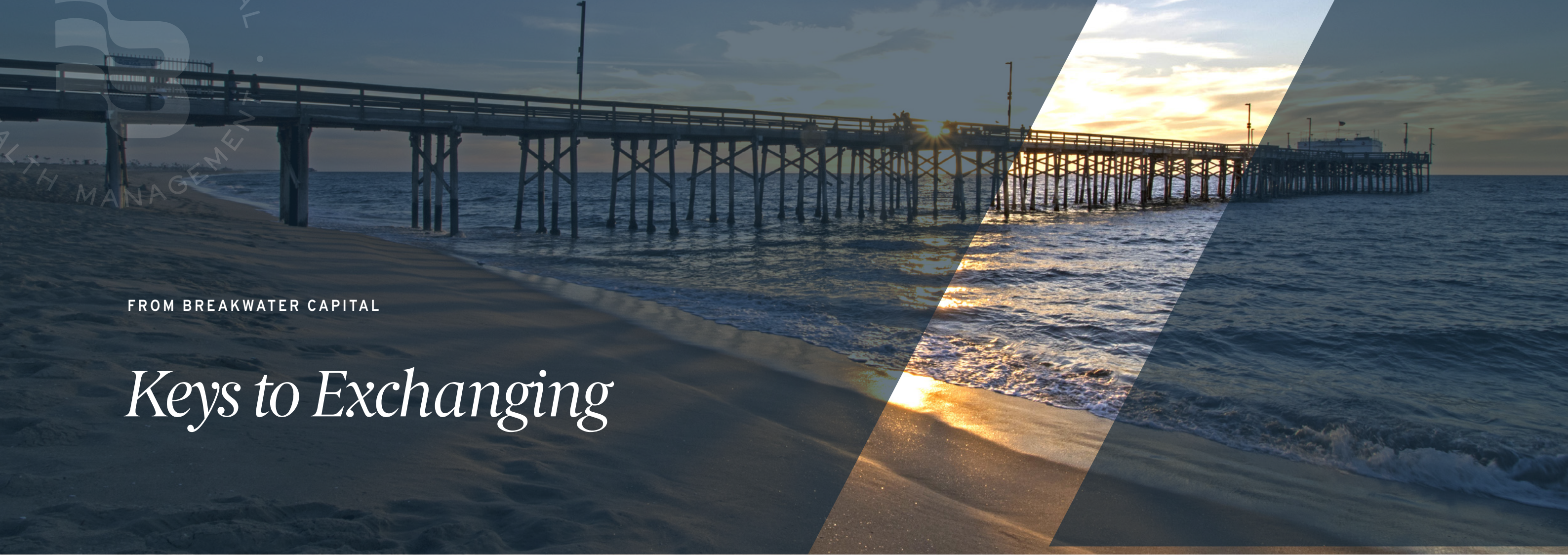
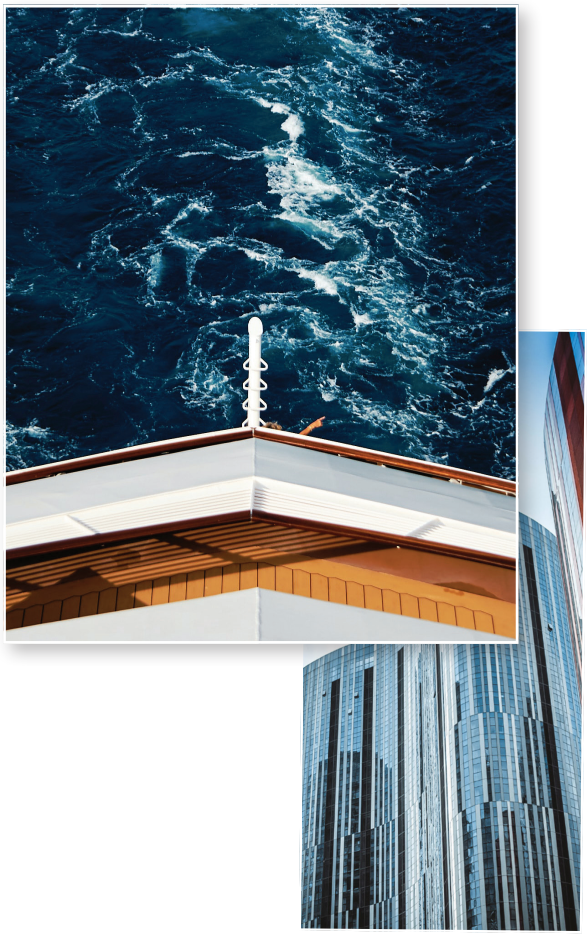


FROM BREAKWATER CAPITAL

Keys to Exchanging

The tax deferred exchange of your property completed pursuant to Internal Revenue Code Section 1031 doesn't have to be difficult. However, when dealing with the transfer of multiple properties and their associated transactional logistics, understanding the 1031 process and having access to a trusted exchanging expert represents the best strategy for a painless and successful exchange. To be sure, there are a few key 'rules of the road' and some select pitfalls which experienced Exchangers always avoid. What are they?

Elsewhere, in this case, refers to alternative investments. Alternative investments, once deemed "too risky" for individual investors to participate, are becoming more mainstream. Today, individual investors are following the lead of institutional and high-net-worth investors who have invested in alternatives for decades. Individual investors are finding that alternatives provide the potential for tremendous value - from diversification to greater stability, growth potential and more.



The Properties You Expect To Exchange Must Be Like-Kind

The Internal Revenue Service requires that the property you sell, as well as the property you buy must be like-kind. And, like kind means one of two things. Either property held for investment, or property held for income. And definitely not your personal residence.

You Must Utilize The Services Of A Qualified Intermediary

The IRS requires that your exchange be completed with the assistance of a Qualified Intermediary or Facilitator. Also, this should be a well-established firm like FYNTEX, so you know your exchange documentation will be correct and that your exchange funds will be safe between the time you buy and the time you sell.

You Have A Total Of 180 Days To Complete Your Exchange

You must complete your sale and purchase within a total of 180 days or whenever your tax return is due. The tax return qualifier means that if you start your exchange late in the year, you might have to file for an extension in order to receive your full 180 days.

BREAKWATER CAPITAL

BREAKWATER-CAP.COM
(310) 940-9430

9940 RESEARCH DR. SUITE 200
IRVINE, CA 92618

You Must Identify Candidate Replacement Properties Within The First 45 Days

Now while you have a total of 180 days to complete your exchange, and the IRS requires that you identify some candidate or target Replacement Properties within the first 45 days of your exchange period. Usually this identification is made to your Qualified Intermediary by completing a form which is kept in your exchange file.

There Are Different Types Of Exchanges, Depending Upon Your Circumstances

While a majority of tax deferred exchanges are delayed or deferred exchanges, there are other types of exchanges which may better suit your situation. For instance, if your circumstances require that you must buy before you sell, you should consider a reverse exchange. Likewise, if your Replacement Property needs some improvement or full on construction to meet your need, you can complete an improvement or construction exchange. And lastly, if your construction exchange must exceed the 180 day Safe Harbor timing requirement, you should inquire about a Non Safe Harbor exchange. And a quick caveat, if you are considering something other than a deferred exchange, only use an experienced Facilitator like FYNTEX.

There Are Specific Rules For Identifying The Property You Expect To Acquire

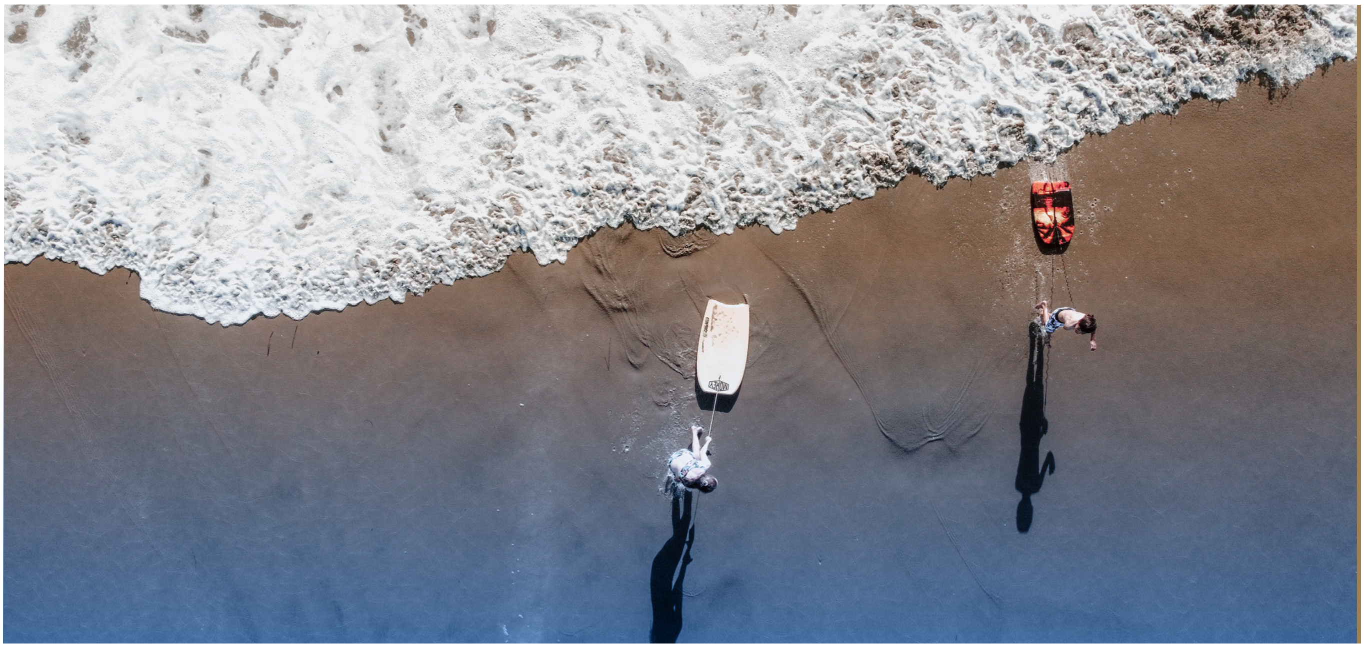
The IRS requires the use of two rules or one exception for identifying potential Replacement Properties. The first is the three property rule, meaning you may identify up to three properties of any value. The second rule is the two hundred percent rule, meaning you may identify more than three properties provided all the properties you identify do not exceed two hundred percent of the value of the property you sold. And the one exception is known as the ninety-five percent exception. Essentially, you may identify more than three properties and more than two hundred percent of total identified property value, provided you acquire at least ninety-five percent of everything you identified.

There Are Three Things You Must Do To Have A 100% Tax Deferred Exchange

If you want a completely tax deferred transaction you must do these three things. First, buy Replacement Property which is equal or greater than the net selling price of what you sold. Two, move all your equity from the old property into the new property. And three, replace your debt.

Avoid These Two Critical 1031 Pitfalls

What are the two biggest 1031 pitfalls which experienced Exchangers always avoid? Here they are. First, make sure your exchange funds are safe. The tax deferred exchange industry is largely unregulated. This means that when your exchange proceeds are on deposit with your Qualified Intermediary, your exchange funds technically belong to them. That is why you should always insist upon a well established QI like FYNTEX and a Qualified Escrow Account for your hard-earned exchange funds. It is the only way to ensure that your funds will always be safe. Bonding doesn't do that, nor does deposit insurance. FYNTEX uses QEAs for every exchange, and the cost of the trust account is included in your exchange fee. Second pitfall? Start looking for Replacement Property as soon as possible. Your 45-day identification period moves very quickly so you may want to start looking for property even before your old property has closed.



Buy Replacement Property As The Same Entity In Which You Sold

It is always better if you buy and vest your Replacement Property in the same name and entity as which you sold your Relinquished Property. To do otherwise by changing entities in the middle of your exchange could cause your exchange to fail for lack of meeting the held for investment or held for income requirement of IRC Section 1031.

Still Within Your 45-Day Identification Period? You Can Revoke A Previous Identification And Re-Identify New Replacement Property

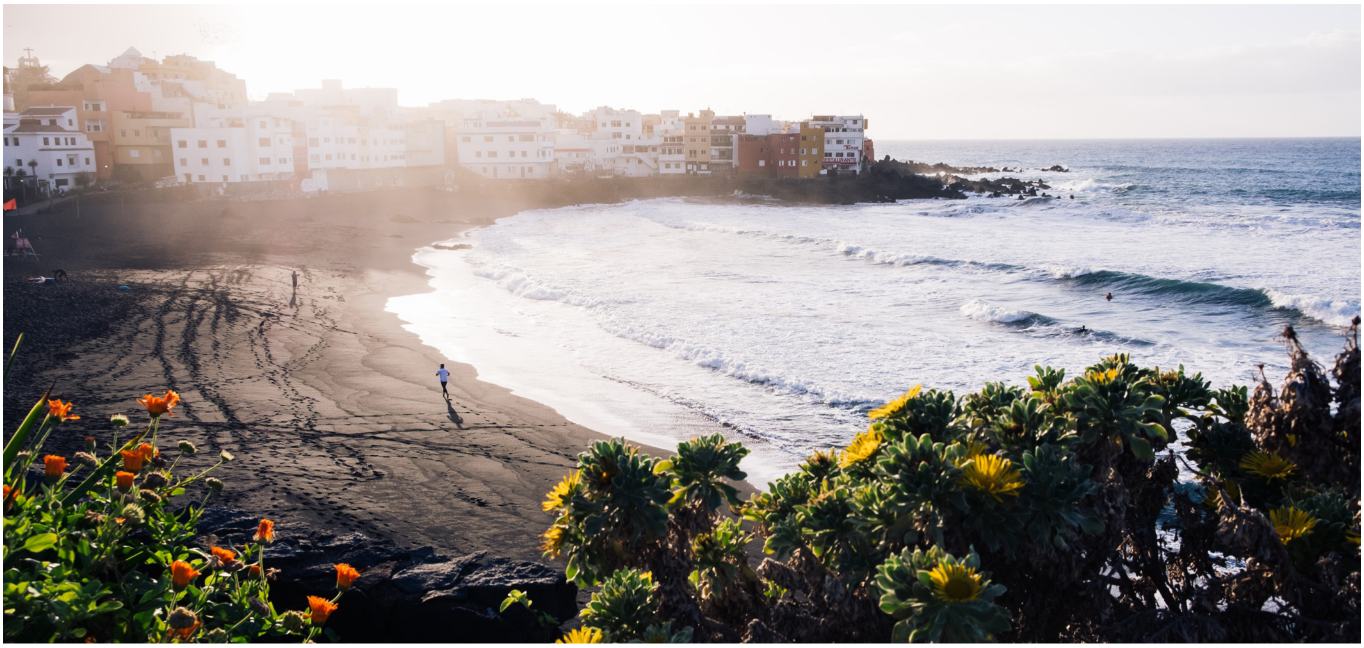
If you are still within your 45-day identification period, it is possible to revoke a previous identification and re-identify new Replacement Property in your exchange. Simply complete your new identification and add revocation language at the top of your form.

Getting Access To Tax Free Cash Can Be Tricky ...

If you need access to tax-free cash, borrow against your Relinquished Property well in advance of your 1031 exchange or borrow against your new Replacement Property after you've successfully acquired and closed it. This is possible because borrowing does not necessarily trigger a taxable event. However, if you attempt to borrow too closely to the start of your exchange, an argument could be created that your borrowing effort was a part of a stepped transaction and therefore not eligible for deferred gain treatment under IRC Section 1031.

When Replacement Properties Are Difficult To Identify, Consider A Dst Or An Investment Grade Property Alternative

In active markets where it is difficult to locate and identify Replacement Property, it might be helpful to consider identifying an institutional Delaware Statutory Trust investment as your Replacement Property backup strategy. These are typically larger, professionally managed investment grade portfolios which include individual property interests which are available to accredited investors through Broker-Dealers. If you have an interest in exploring what properties are available currently, contact us. We can give you the names of some Broker-Dealers who can answer your DST questions.



BREAKWATER-CAP.COM
(310) 940-9430

9940 RESEARCH DR. SUITE 200
IRVINE, CA 92618