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1031

What is a 1031 Exchange?

The term 1031 Exchange is defined under section 1031 of the IRS Code. To put it simply, this strategy allows an investor to “defer” paying capital gains taxes on an investment property when it is sold, as long as another “like-kind property” is purchased with the profit gained by the sale of the first property

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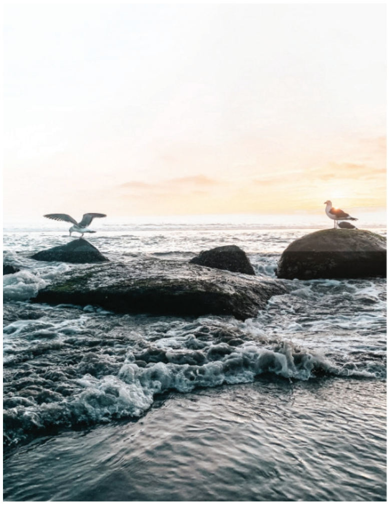
The IRS Outlines several rules that must be followed for a transaction to qualify for tax deferral through a 1031 exchange. Rules address which types of real estate can be utilized for an exchange and how proceeds from the sale of the relinquished property must be handled throughout the exchange, how and when replacement property must be identified, and required timelines for closing on the replacement property.



Three Essential Rules of a 1031 Exchange

01 The investment properties exchanged must be “like kind” meaning they are the same in nature and character.

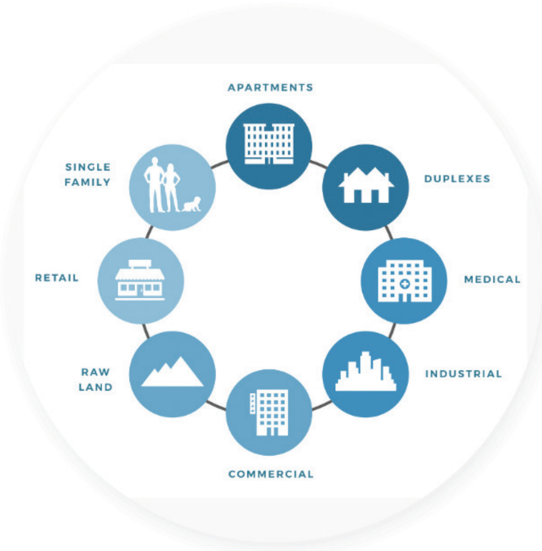
02 The value of the replacement property must be equal to or greater than the value of the relinquished property to obtain a full deferral.

03 The title of ownership on the replacement property must be the same as on the relinquished property.

Which Properties Qualify for a 1031 Exchange?

According to IRS Section 1031, both the relinquished and the replacement properties must be held for investment purposes, and they must be “like-kind” properties. Property held for investment purposes can include a multitude of real estate types, but most are rental properties or commercial real estate. Personal residences and vacation homes that are not utilized primarily as rentals do not qualify for a 1031 exchange. “Like-kind” simply refers to the fact that investment real estate must be exchanged for investment real estate.

In other words, investment real estate cannot be exchanged for stock, debt, or other investments in a 1031 exchange. Also, a 1031 exchange applies only to real estate located in the United States.



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BREAKWATER1031.COM
(310) 940-9430

9940 RESEARCH DR. SUITE 200
IRVINE, CA 92618

Replacement Property Identification Guideleines

The IRS outlines three ways that a replacement property can be identified

3 PROPERTY RULE

Allows an investor to identify up to three potential replacement properties and close on any or all of them to complete the exchange.

200% RULE

Allows any number of properties to be identified as long as their total value does not exceed twice the value of the relinquished property. As in the case of the 3-Property Rule, once identified, any or all of the potential replacement properties can be purchased to

95% RULE

Allows an investor to identify an unlimited number of properties, but the investor must purchase 95% of the aggregate fair market value of all of the properties identified.

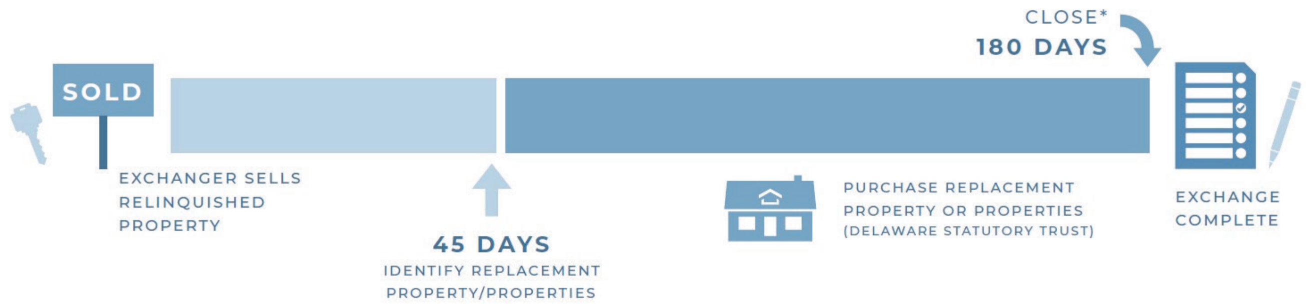
1031 Exchange Time Limit

The "Exchange Period". The most important deadlines for a 1031 exchange are the identification and closing dates. Weekends and holidays are included in the deadlines. Investors must adhere strictly to the timeline in order to complete a successful 1031 exchange.

If you complete the exchange successfully within that time, you will qualify to defer taxes on your capital gains for the investment. The first 45 days of the 1031 exchange are crucial, since you must complete thorough research and due diligence within the time window. To navigate the process efficiently, have a plan before you get started.

45-Day Rule: Within 45 days of the close of escrow for the relinquished property, an investor must identify any replacement property that will be purchased to complete the exchange.

180-Day Rule: Within 180 days of the close of escrow for the relinquished property, an investor must close on the purchase of the replacement property identified to complete the exchang



1

Exchanger sells property and proceeds are escrowed with a Qualified Intermediary

2

Qualified Intermediary transfers funds for purchase of replacement property

3

Intermediary completes the exchange by acquiring replacement property/properties

GENERAL DISCLOSURE

Not an offer to buy, nor a solicitation to sell securities. Information herein is provided for information purposes only, and should not be relied upon to make an investment decision.

All investing involves risk of loss of some or all principal invested. Past performance is not indicative of future results. Speak to your finance and/or tax professional prior to investing.

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1031 RISK DISCLOSURE

• There is no guarantee that any strategy will be successful or achieve investment objectives;

• Potential for property value loss – All real estate investments have the potential to lose value during the life of the investments;

• Change of tax status – The income stream and depreciation schedule for any investment property may affect the property owner's income bracket and/or tax status. An unfavorable tax ruling may cancel deferral of capital gains and result in immediate tax liabilities;

• Potential for foreclosure – All financed real estate investments have potential for foreclosure;

• Illiquidity – Because 1031 exchanges are commonly offered through private placement offerings and are illiquid securities. There is no secondary market for these investments.

• Reduction or Elimination of Monthly Cash Flow Distributions – Like any investment in real estate, if a property unexpectedly loses tenants or sustains substantial damage, there is potential for suspension of cash flow distributions; Impact of fees/expenses

• Costs associated with the transaction may impact investors' returns and may outweigh the tax benefits