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But What Will I Buy, If I do a 1031 Exchange?

Expanding your rental portfolio is the name of the game. The combination of leverage and the 1031 exchange mechanism allows us to be very successful if done swiftly. For the how and why of doing a 1031 exchange, please request my previous article focusing on just that.

Much of the trepidation to execute a 1031 exchange is based on fear of the unknown. If you've owned Property "A" for a long time, invested money and effort, there is very likely some emotional attachment too.

I hear all the time that Owner would 1031 Exchange Property "A" as soon as they find the perfect Property "B". Who wouldn't move into a better Property "B" sitting on the shelf, waiting for you to sell Property "A"? Logistically, it very rarely works out that way. And, philosophically, the entrepreneurial spirit of Real Estate Investing doesn't really allow for it either.

You can certainly "model" your 1031 Exchange against recently Sold or In Escrow transactions, but normally you don't see your actual Property "B" until you are into the process of selling Property "A". Why? – What's available today will be long gone by the time you step into the batter's box. A 1031 Exchange Buyer is the top pedigree Buyer in the world...once you get into escrow to sell Property "A". Before that, you are just a face in the crowd. Think about when you sell Property "A". Would you tie your property up with a Buyer who is just starting his listing process, wait for him to complete his sale, and then *possibly* buy your property? Of course, you wouldn't.

But, while this fear and trepidation of finding the right Property "B" is natural, it's the perfect example of "Nothing to fear but fear itself".

In my entire career and that of colleagues I've interviewed, I haven't found a single example of someone not completing a satisfactory 1031 Exchange when they were dedicated to doing so because they couldn't find a suitable Property "B". I repeat, I've never seen it happen.



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Now, I've had people *casually* enter the exchange process to kick tires and hope a unicorn passed by and subsequently pull out, or perhaps they simply changed their mind, but never when the "Exchanger" was dedicated to the process – studying deals, writing offers liberally and possessing a realistic mind set for the outcome.

The strength of a 1031 exchange Buyer comes once Property "A" is in escrow and more so once contingencies are removed and the sale closes. Now, you are the prettiest girl at the dance and every Broker from here to Timbuktu will break down your door to show you potential Property "B's". It's like having one of those beautiful neon lights in Las Vegas on your roof flashing **1031 EXCHANGE BUYER HERE!**

Many of the opportunities you see will not be officially listed so if you are fixed on inserting your favorite Agent to represent you, the best opportunity may be missed. To help my clients, I offer complimentary screening of Property "B's" when I sell their property. Even if I'm not participating in that side of the transaction, I want to see you get the best possible property and I'll help you vet them all. I also send an email to the best Brokers and all Owners in the area announcing you as a 1031 Exchange Buyer. My email list is well over 1,200 people.

Now, get ready to write a lot of offers. Write an offer on anything that remotely makes sense and you could see owning. It's become way easy to machine gun offers using DocuSign. No more writer's cramp. And you can literally consummate an offer on your phone while on the beach in Cancun. Start banging out offers as soon as you get into escrow on Property "A"

Technically, you have a 45-day period to identify up to 3 potential Property "B's" and close the exchange in 180 total days. The 180-day period is set in stone based on the closing statements of the transactions. The 45-day identification period is not and isn't a time frame to bother yourself with. Realistically, you should have over 160 days to shop for your Property "B" – about 45 days while you are in



escrow on Property “A” and 120 days after you close. You need to leave 60 days for the escrow on Property “B” if you are securing new financing. Extra time can also be achieved through inserting extensions of time to close escrow on Property “A”. In a 60-90-day period, you should have a handful of discussions going on some Property “B’s”. It’s not against the law to tie up 2 or 3 properties and screen them simultaneously for your best fit. Sure, it may get hectic for a few weeks but in the end, it will be well worth it to move forward with choices and finally close your favorite.

1031 Exchange Up leg Hunting Dos and Don’ts

Do:

- Keep an open mind to deals, maybe even explore different product types
- Be open to working with different Agents. I’ll help you vet opportunities to not waste time
- Get in your car and go look at as many opportunities as you can
- Write many offers
- Tie up multiple properties

Don’t:

- Rely on one Agent to find Property “B”
- Hold on to unrealistic expectations – If the market is at a 4.5% cap rate for what you want, accept that it’s a 4.5% cap
- Hesitate to write offers on something that may fit once you get more intel.

Please call me to discuss this process in more detail.

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