

Creating Multiple Streams of Income
Using 1031 Exchanges,
Tenant in Common Interests, and
Zero Cash Flow Properties

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Introduction

Within the last five years we have seen the Internet change the way businesses, both service- and product-driven alike, operate and compete.

Any business that has a low barrier to entry or enjoys large profit margins has witnessed new competitors enter and challenge what was considered the norm. And some industries such as travel agencies have nearly become extinct.

The Internet hasn't been the only cause of these changes; new competition has forced old-line retailers and service companies to totally rethink who and what they are and to enter new areas to increase profits. Some companies are treading on areas that are completely outside their norm. Costco, for example, has entered both the real estate and banking industry. H&R Block, having conquered the tax return industry, is now using its muscle to cross-sell new financial products to their current group of customers. Wal-Mart has decided that banking will be a new and exciting area for them to conquer.

Consolidation and mergers are another factor. The trends that we have been seeing in corporate America are pointing to the next decade as being even more competitive, particularly within the real estate and financial services industries.. As this plays out it will become increasingly necessary for professionals in these industries to seek additional opportunities and sources of income to combat the reduced profit margins and cannibalization of customers that the competition will bring. The trends for the smaller professionals within the real estate and financial services industry point to (a) becoming specialists who works within a specific market niche or (b) adding new profit centers that complement what they already have in a bundled services approach. Whichever approach *you* choose (if you do choose any), the opportunities presented here will allow you to position yourself for **three new income streams – 1031 Exchanges, Tenant in Common, and Zero Cash Flow**—that can seamlessly blend into any type of real estate or financial services that you currently offer. These opportunities can be used either as new tools for your marketing or as stand alone profit centers that can easily net you hundreds of thousands (and in some cases millions of dollars) in professional service fees and commissions.

Included in the second part of this booklet are free and inexpensive proven marketing strategies that you can either apply to your current business or as a technique to integrate these new profit centers into your current business or finally to be used with these new profit centers to create an entirely new business model around. Either way that you choose to use them, these strategies will work for both immediate and long-term results.

1031 Exchanges

100% Tax-Free!

1031 exchanges allow for the sale of any business or investment property, including raw land, without incurring any tax liability regardless of the size of the gain made on the sale.

That's correct! **You can show your clients how to sell their commercial property without paying any taxes!** And since almost every state in America allows for a 1031 exchange, your clients can now avoid paying taxes to both the federal government and state as well.

Tax free or tax deferral?

By right, we should say "tax deferral" because an exchange doesn't really let you escape taxes but just postpones the taxes due until you sell the property and take the cash from the sale.

But there are a number of techniques available which can provide a 1031 exchange to eliminate most or all of the taxes due from the sale forever. When we hear someone say an exchange is only a deferral and you eventually have to pay the taxes, we know that person has only a rudimentary knowledge about exchanges. This is an opportunity to win a new convert by explaining to them all the advantages –including the advanced ones that hardly anyone understands – that offer clients the opportunity to make the sale 100% tax free.

How 1031 exchanges have surged in popularity

According to a recent *Wall Street Journal* report dated August 15, 2006, 1031 exchanges are surging in popularity *even* in a declining real estate market. As a matter of fact, 1031 exchanges have been the only bright spot in the real estate industry as of late.

Why are 1031 exchanges so popular, and why in a declining market are they surging in popularity? The answer is very simple. Although today's tax rates are at their lowest in years, when both federal and state taxes are combined, it is very common to pay a full third of the selling price as taxes. Not only do you have to consider both state and federal capital gain taxes, but don't forget to add in other items like recapture and alternative minimum tax. With today's high real estate prices and rapid appreciation that we have seen over the last decade, we are talking very large amounts of money in taxes that everyday people can avoid by using a 1031 exchange.

In any declining market, such as the one we have right now, more people will be trying to sell their property, thereby increasing the properties available for sale and putting additional pressure on prices. A soft real estate market may require some sellers to lower their prices an additional 15% to generate any interest. And any opportunity to save

money by reducing expenses from the sale, especially income taxes, becomes more attractive and helps take the sting out of the lower prices.

There are many other factors contributing to the surge in 1031 exchanges. As you read through this report, you will see that the market has not even begun to be tapped. Demographic trends – aging baby boomers and growing number of immigrants owning real estate – will increase the popularity of 1031 exchanges, and when the real estate market finally recovers even more niches will exist for you to exploit.

Overview and history of the exchange industry

The US Treasury Department introduced the idea of exchanges (although not as we do them today) in 1921 when they created IRS code section 202(c), which was later renamed to section 1031.

Many of today's rules, including the introduction of the 45- and 180-day time requirements, were first introduced in 1984 when Congress adopted the Deficit Reduction Act. Eventually this paved the way for the final rulings and clarification of open exchange issues, which the Treasury Department completed and issued effective July 2, 1990. It was here that we had final clarification of the 45-calendar-day identification period and the 180-calendar-day exchange period. It also addressed some settled issues such as constructive receipt of proceeds from an exchange, creating what we now call the "safe harbor provisions" and made modifications to the exchange rules which disallowed partnership percentage of ownership interests from qualifying for a 1031 exchange.

It was the Tax Reform Act of 1986, though, that changed the real estate world forever and began what has been nothing less than an explosion in 1031 exchange transactions. The Tax Reform Act of 1986 eliminated what was considered by some to be preferential treatment of capital gains. In short, the Act removed the tax advantages of owning real estate, which generated losses by introducing the rules of passive loss limitations. Soon all the advantages of gains being taxed at a lower rate began to disappear, exposing sellers of real estate to tax rates and depreciation recapture at the highest rates, the same as ordinary income. 1031 exchanges remained the only tool still available at the time to escape these new higher rates.

The Department of the Treasury is still constantly reviewing and making slight modifications to section 1031. But it is now well entrenched and as it grows in both acceptance and understanding, it will continue to grow as a strategy to increase cash flows, shelter income, and become a tool for retirement planning. As new products that complement exchanges, such as tenant in common interests and zero cash flow properties, are introduced and coupled with advanced tax strategies such as cost segregation analysis, we will see the use of exchanges move from what is considered a specialty to become part of an everyday sale of investment real estate.

Exchanges are exploding!

Exchanges are hotter than ever and continue to grow in popularity. According to the latest numbers released, 400,000 exchanges took place in the 2004 tax year, including individuals, partnerships, trusts and corporations who as taxpayers are all allowed to execute a 1031 exchange. Conservatively, the industry is projected to continue to grow at a rate of 5% per year over the next 10 years even in years of a down real estate market.

All this is a result of more sellers of real estate learning about 1031 exchanges and those that do know about them discovering the even richer advantages that exchanging can offer them. Three of the largest trends expected to fuel the growth of exchanges are:

- Baby boomers starting to enter their retirement years
- The increase of real estate ownership within the first generation immigrant market, and
- The migration of middle-income America from the northern states to the southern and western states.

At first glance, these statistics look very good . Exchanges seem to be well known and used commonly *within the real estate industry*. However, a recent study of the New England area between 2003-2004 produced startlingly different results than what early evidence lead us to believe.

A sampling of 182 owners of smaller investment real estate in Massachusetts and parts of southern New Hampshire and Northern Rhode Island revealed the following:

- 24% had performed an 1031 exchange
- 22% had heard of an exchange but didn't fully understand them
- 54% had never heard of a 1031 exchange
- 22% percent of those who do an exchange, do another one within three years

How can it be that 54% of a market that is supposedly growing had not heard about an exchange? Who is it then that is causing the market to grow? The answer to these questions became obvious as the study revealed even more:

- The average age for an owner of investment property is 56 years old.
- The average number of investment properties owned was three.
- 19% of the respondents were not born in the United States and had a primary language other than English

The most startling discovery of all though was that 48% of the owners sampled had no professional financial team. They had no regular accountant, attorney, or financial planner to assist them or explain to them what an exchange was and the advantages that it offered them.

Most of them used a franchise tax return preparer or did their own taxes. Many didn't feel that their returns were complicated enough or their financial position warranted any expert advice.

The growth in exchanges at that time was being driven by the larger property owners and more sophisticated clients who had access to a team of professionals to help guide them and explain to them the benefits of exchanging.

When this report was revealed it became very clear that proper education of the public about the advantages that exchanging offers real estate investors, **the market could probably grow by an *additional* 1 to 2% every year over the next decade.**

Opportunity knocks!

The lack of knowledge that people have about exchanges should not be seen as a disadvantage. As a matter of fact, it is proof positive that the 1031 exchange market is ready to explode with growth, assuming that we educate people at a grass roots level. An aggressive marketer should consider this market share up for grabs and ready for the taking.

What about Tenant in Common and Zero Cash Flow Properties?

The growth rate of 1031 exchanges is very good and is projected to continue at what most people would consider an extremely healthy growth rate, allowing many opportunities for companies to expand and grow even with additional competition.

But above and beyond that, two types of replacement properties – Tenant in Common and Zero Cash Flow –offer even greater opportunities in conjunction with 1031s.

Tenant in Common Properties

In 2002, the Internal Revenue Service issued a revenue ruling setting forth a set of requirements that allow certain types of properties to be co-owned with others and qualify as a like-kind replacement property within a 1031 exchange.

These properties, known as Tenant in Common properties or TICs, allow many smaller individual investors to purchase institutional quality real estate such as grocery-store-anchored shopping centers, large multi-family apartment complexes, and office parks and warehouses.

The market for Tenant in Common properties however is nothing short of phenomenal. Since the IRS has allowed Tenant in Common TIC properties to participate in an exchange, they have grown from 0 to over a \$4,000,000,000 – that's a four billion dollar industry in 4 short years. TICs are expected to continue this rocketing growth for the next 10 years and reach over \$20,000,000,000 (twenty billion dollars) a year.

Because TICs are real property, they also qualify for an exchange when it comes time to liquidate and sell them. The TIC resale industry can even double their current total dollar amount in the future because they are still not known by many exchangers and are unheard of by almost all real estate agents, accountants, financial planners, and attorneys. The market growth of TICs as replacement properties in exchanges is mind boggling. Think how easy it would be to sell someone on this new form of real estate ownership by telling them, "Let me show you how to double or triple your real estate rental cash flow from what you now have and maybe even make it tax free".

TICs usually offer cash-on-cash returns that are considerable higher –*sometimes three times higher* – than investors receive from smaller investment properties because of the way commercial properties are purchased with the concept of cash flow when large appreciation or speculation is not a top priority.

Another advantage of TIC properties is that they can come with debt. Not any debt, but *non-recourse* debt, which means your client doesn't even have to personally guarantee the loan. Your clients can now control possibly millions of dollars of top commercial real estate with minimum down payments and in some cases with nothing more than a credit

score of 600 or more. The ability to leverage more property because of the mortgages that TICs offer can also give them the opportunity to generate massive amounts of depreciation, thus sheltering all the TIC rental income and making it all or virtually all tax free. Because of the quality of the properties that TICs offer, they usually have high rated companies as tenants, allowing for a more stable and predictable stream of rental income.

Finally TIC properties are usually located in the top growth areas of the US to allow for appreciation and have professional management in place so your client doesn't even have to manage the property or make day-to-day decisions. They just collect a check and forget they own it.

Zero Cash Flow Properties

Zero cash flow properties on the other hand are a still small but growing market of approximately \$300,000,000 per year. The reason they are small is that no one but a few experts in the world of exchanging, taxes, and commercial real estate truly understand them. As soon as a client and their accountants have the advantages of zero cash flow properties explained to them, they are sold!

The market for zero cash flow properties will begin to explode as more aging baby boomers start to retire and take advantage of these unique investments, beginning in 2011. Zero cash flow deals are extremely flexible and allow someone with as little as 15% down to purchase a property such as a single-tenant CVS or Walgreen's store. These properties are always pre-rented, have corporate guaranteed leases of 30 or more years, and come with special financing attached to them. The financing has a fast amortization, so that within 5 years of purchase your client may (if they want) refinance it for more money out than they initially put down to acquire it. The flexibility of the financing often allows investors to use the property as part of their retirement plan for themselves, or they could cash out today and then leave a future cash cow property to their children or grandchildren. After these types of property's mortgages are paid off which usually occurs in 25 years, the properties can generate anywhere from \$10,000 to \$50,000 per month in net rental income. These properties also come with triple net leases and the tenants pay for all the maintenance and any increase in expenses. Most of the leases that come with these properties are also bondable meaning that even if the tenant stops paying the rent, the bond that is purchased to guarantee the loan from an insurance company will step in and pay the rent and all expenses. The flexibility and power that these properties offer especially when coupled with an exchange can leave even the most demanding investor wanting to learn more.

Questions, questions, questions

If you've read this far, we know you probably have a ton of questions, and we'll try to answer some of them.

Where are the professionals?

Why is it that so many smaller clients, even those with a professional to advise them, still do not know about a 1031 exchange?

There are still many real estate and financial service professionals who do not fully understand the benefits of exchanges and do not even mention it to them as a viable option. Mentioning it to their client will only raise questions, and not wanting to appear ignorant, they take the path of least resistance and just say nothing.

It's also possible that the client was advised about an exchange but given erroneous information. Many times we have heard that a seller was told by their accountant, attorney, financial advisor, or even a friend that they could do an exchange. The problem however was that the client was given wrong information. For example, many people including professionals, think that the concept of like kind means if you sell a 2-family duplex you *have* to buy another 2-family duplex as the replacement property. Many people have told us that they are surprised when we tell them that they can buy a future retirement home or even a home for their children through an exchange when their advisor said that it was impossible. The amount of misinformation given out by professionals today can easily explain their relative unpopularity.

What about the real estate agents who list a house for sale – why don't they tell their clients about a 1031 exchange? After all, shouldn't they be one of the first to recognize a candidate for an exchange? That's true, but real estate is one of the most competitive industries around, and agents work very hard for every dollar they earn in commissions. After investing hours and days to sell the house, the last thing they want to do is throw a monkey wrench into the deal by confusing the seller with this information and causing him to possibly postpone selling (or even not selling at all). I am not going to judge if this is morally right or wrong, but it is how the industry sometimes works. There is something else that needs to be said in defense of real estate agents. Today, many people are trying to sell their house on their own to avoid or reduce the commission on their property. We noticed that a full 28% of our clients who execute a 1031 exchange sell their property without a real estate agent, or they use an MLS listing service only. The more people who do this, the less chance for a real estate agent to advise them about exchanges.

As a side note, we have seen many companies spring up overnight that offer for-sale-by-owner (FSBO) services. We decided to call one of the largest of these companies that services the New England market and ask them what type of advice they gave the people who listed their property for sale. They offered basic information about making sure the house was clean and ideas to stage it and needing smoke and fire alarms etc. No mention of 1031 exchanges anywhere. We called back and asked them if they knew what a 1031 exchange was and they said no. We then asked them how many pieces of real estate have been listed that could be considered investment property. They said that there were currently over 2,000 pieces of property listed and marked as investment property in their database. I wonder how many of those sellers are going to do an exchange?

If this market is so good why isn't everyone going after it?

The irony of the exchange industry is that people assume that it's a very difficult industry to enter and get a foothold into, and that it requires years of special training and has difficult licensing requirements.

First of all it doesn't require any of these things! After a few years in business performing exchanges you eventually develop a loyal following of clients who trust you and use you over and over again. Remember we said that many clients perform an exchange every three years? Eventually you will have enough repeat business, and then you can grow just with referrals. Many of the smaller firms want to stay small and some have decided to branch into additional profit centers while adhering to the statement of less is more and service your clients to death.

Who knows about this stuff?

Many people claim to know about exchanges, and in all probability they do know *some* information. But most people really know only about the mechanics of an exchange and some of the basic advantages that they can offer an exchanger. They lack the depth of knowledge and understanding to explain many of the complex strategies that involve tenant in common interest, zero cash flow properties, and cost segregation analysis, which offer the biggest advantages of exchanges.

Just echoing back the rules of an exchange does not mean you understand or know exchanges. If you call an exchange company, I doubt that the person who answers the phone (and probably the one that you will have to deal with to complete the exchange) will know enough about advanced strategies to even suggest the options you should consider

Note: Exchange companies do not give tax or investment advice. However, they can offer ideas or suggest other alternatives and then have the exchanger call his/her own tax or financial advisor to confirm.

So what are the true advantages of an exchange?

Below are some examples of actual successful exchanges that anyone with the proper training and knowledge can execute. Yet very few professionals can even begin to attempt these types of exchanges because they not only lack the knowledge but many of them don't know that these are possible within an exchange.

If you plan an exchange well enough in advance (and you should), the exchanger can walk away with the bulk of their equity in hand as cash, 100% tax free. Plus they can still generate positive cash flow with select replacement properties with tenants that include CVS, Bed Bath & Beyond, and other Fortune-rated companies.

According to the Investment Council, an investment property owner's average return on equity is 2.7%. Using solid triple net leases and tenant in common interest replacement

properties, exchangers can triple their cash flow very easily. We have many exchangers who have gone from \$800.00 per month income to well over \$2,000 in positive cash flow.

Using a step-up in purchase and depreciable basis, it is possible for many exchangers to generate both federal and state tax-free rental income. We helped one client go from \$1,800 per month in taxable cash flow to \$2,700. 00 monthly, using some of our advanced exchange strategies, and everything except \$300 per month was tax free.

Currently, the biggest trend in exchanges is the purchase of a future retirement home as a replacement property. More and more baby boomers are using this strategy. They initially buy it as an investment property, planning to later move into it year round and make it their new primary residence. They can then sell their old primary residence and pocket the \$500,000 tax-free gain exclusion for the sale of a primary residence. Then after owning and living in the home purchased through the exchange they can make that their new primary residence and it now qualifies for the \$500,000 capital gain exclusion again. Who said an exchange couldn't be tax-free?

Using a zero cash flow property we can show exchangers how to create land banks for long-term retirement planning or how to walk away from an exchange with all their cash and still pay no taxes.

Many older exchangers are looking for ways to continue to own real estate yet avoid the management headaches. We can show them how to purchase pieces of large shopping centers or single-tenant properties that have Fortune-rated tenants and professional management in place. Then they get a check every month and can forget that they own the building. The best part is the check is usually for more than they received when they did the management themselves.

Some people are looking to diversify into what we consider institutional quality properties for safety, and also into different geographic locations of the US to follow the latest migration patterns and invest in the areas projected for long term growth. Using advanced exchange strategies, we can show them how to successfully diversify their portfolio into better properties *and* into the fastest growing geographic regions of the US.

We have had many clients who wanted the guarantee of a check without any headaches. It is possible to acquire bondable leased properties so even if the tenant goes bankrupt, the insurance company will continue to pay the rent because of the bond. We have also explained to clients how to acquire properties with state and federal government agencies as tenants to assure them that the checks would continue to come.

Many exchangers are shocked to learn that some exchange strategies allow them to eliminate or reduce potential inheritance taxes by shifting their assets and residency to inheritance tax-free states. But again it is possible with exchanges.

And finally, you can show your clients how to exchange into a home for their children to live in.

The world of exchanging and the advantages it offers are soon going to become part of an everyday sale of real estate. Anyone that doesn't understand these techniques and the advantages they offer will soon find themselves crushed by their competition. But more importantly, they will be missing out on one of the greatest opportunities in the world of real estate and finance. All you need is the training!

Can I take advantage of this now?

Using exchanges to increase income without the proper knowledge or training can be difficult. As soon as someone asks you for some examples and strategies it will become immediately obvious that you lack the proper training. As many more real estate investors discover exchanges, they will want to work with professionals who understand them and can show them all the available strategies, not someone who just knows the mechanics of an exchange. **The most important thing to remember about exchanges is that a large portion of the market still remains untapped and someone with solid knowledge can exploit this market.**

How can I make money?

Exchanging offers many areas of opportunity for making money.

An exchange requires the use of a Qualified Intermediary (QI) to facilitate the exchange. That person may also be, but doesn't have to be, the real estate agent for the sale, an agent for the purchase of the replacement properties, or the mortgage broker for the purchase of the replacement properties.

Exchanging offers the real estate agent the ability to earn multiple commissions because of the replacement property rule. Every time a property is sold through an exchange, there has to be a purchase of one or more replacement properties, so a real estate agent can sell the property to start the exchange and then assist with the purchase of the replacement properties.

If a mortgage is required for the purchase of the replacement property, add in a mortgage commission. You can participate in any of these roles to make money; and through a simple technique, you can be *all* of the above *including* the Qualified Intermediary who facilitates the exchange. That's right, I am sure many of you have read or heard that the person that performs the exchange cannot be the exchanger's real estate agent, attorney, accountant etc. or even the exchanger. Well, contrary to popular belief *they are wrong*. It is possible for someone to perform an exchange for his or her client without the exchange being disqualified (the IRS even has examples in section 1031 of the code showing and explaining how to do it). There are even ways for an investor to perform his or her own exchange and pay zero fees.

Moreover, you do not need any special degree or license to become a Qualified Intermediary and perform exchanges, you just need to know how to do it and do it so that it meets the IRS's requirements and not be disallowed. We explain all of this in our training to make sure the exchange is done correctly, whether for your own clients or for yourself, so that it will not fail. We also include extensive training and discussion and actual exchanges using the advanced techniques and strategies with Tenant in Common interests, zero cash flow properties, refinance and roll techniques, and cost segregation analysis. We have seen many people, including spouses, who team up with one performing one part of the exchange and the other performing the other part. So you can make money by performing the exchange, selling the property, finding replacement properties, and even offering the mortgages on the replacement properties.

You can also sell Tenant in Common interests or zero cash flow properties and earn additional commissions.

We have also seen many companies offering exchange services, replacement property services, mortgage services even tax and financial planning services and they are all perfectly legal within code section 1031 if set up and done properly.

How much can I make?

We cannot say how much you can make but we do know the following facts about exchanges and the exchange industry. Many times we see exchange companies saying that you have to hire them to perform the exchange or that it is illegal to perform an exchange for yourself or for your own client.

They are in fact correct, but what they do *not* tell you is that it is still possible to perform an exchange for your own client or that the client can even do it themselves using a simple special process. They say these things because they do not want you to learn how to facilitate an exchange yourself and become new competition for them and stop being a referral source for them.

The average cost of an exchange, when all the fees are added, is approximately \$2,500. I REPEAT, the average cost of an exchange is \$2,500. How can this be, you say, when you hear that they cost as little as \$750.00? Well as you read the information below remember that you can easily validate it by simply calling random exchange companies.

Exchange companies make money a number of ways. First there is the exchange fee for creating the exchange documents, which averages about \$600 for both a sell and buy. Some exchange companies charge fees for wire transfers, as much as \$100.00 per wire. Many exchange companies also charge for same-day processing if the exchange is a last-minute deal without a five or seven day advance notice. The hidden profit within an exchange, one that the exchange companies do not want you to know about, is that *they make on average \$1,700 on interest income from the exchange funds when held in escrow*. It is the interest income on the exchange funds that generates the bulk of the exchange company's income.

We know many exchange companies that say you earn interest on the exchange funds while held in escrow. This is true, but ask them what the rate is, and you will see it is usually in the ½ to 2% range. However, they are receiving anywhere between 3.5 to 5% interest from the bank, so they earn 2 to 4% on the funds held in escrow as additional income.

Imagine escrowing the proceeds from a sale of \$250,000 for 180 days, the maximum length of time it takes to complete an exchange:

$\$250,000 * 3\% \text{ interest income per year} = \$7,500 \text{ per year, half the interest for 180 days} = \$3,750 \text{ in total interest for 180 days.}$

Assuming that half of the interest stays with the exchange company as additional profit, they collect $(\$3,750 * .5)$ or \$1,875 as additional income on top of the fees that they charge for the exchange documents.

Doing one exchange per week can easily make a Qualified Intermediary in excess of \$100,000 per year from exchange fees and interest alone!

We know some exchange companies that after three months in business are doing one to two exchanges a month as a small addition to their regular business. Basically, exchange companies have created a long-term cash cow that they milk for the interest income. But I must confess there are a few Qualified Intermediaries who *do* give the bulk of the interest to the exchangers, and some who give it all.

One of the largest exchange companies though, advertises specials with low fees for an exchange. They basically are giving the exchange away for almost free and making the real money on the interest income.

We also know of a number of exchange companies that work closely with realtors and offer large referral fees to the agents just so they can make the interest. Some exchange companies may even do the exchange for free if the exchanger purchases a replacement property from one of their replacement property divisions.

Selling replacement properties is also a fantastic income opportunity. The average price of a replacement property including a tenant in common and zero cash flow property is \$400,000. This yields an average commission of approximately \$12,000. Many zero cash flow properties cost in excess of \$2,000,000 and yield commissions of as ***much as \$20,000 to \$60,000+ for one deal.*** These types of properties now account for 15% of all replacement properties used in an exchange, and are growing in popularity and will probably account for 35% within the next ten years.

We know of many agents who once earned a modest income from real estate commissions but now make close to or in excess of a 7-figure income. And we know of many, new to the industry, who are riding the wave of Tenant in Common and zero cash flow properties and are making a nice income now and will make much more, possibly millions over the next decade.

Because a full 30% of all exchangers do not use a real estate agent, many look to their exchange professional to recommend replacement property brokers for tenant in common and zero cash flow properties, and some even ask about mortgages (which is another area that could generate profits). The exchangers trust the exchange company that is holding their funds and will look to them as being the most knowledgeable of all the professionals involved in the sale and seek their recommendation. As we have said, we have seen many exchange companies diversify to meet their clients' needs by offering mortgages, properties, and insurance, and also act as the exchange intermediary.

Repeat business is pretty much assured within the exchange industry. 22% of all exchangers will perform another exchange within three years of the previous one. Who ever they do business with first is usually the one that they will call next time. As soon as you have one hundred repeat exchangers, you can be assured of at least 20 exchanges every year. With an average fee of \$2,500, you have just built a residual income of at least \$50,000 per year, even more if they use your other companies for mortgages and replacement properties. As soon as you are doing one exchange per week which takes approximately 6 hours to complete you can easily ***make in excess of \$100,000 per year.***

What are the best-kept 1031 exchange marketing secrets?

Regardless of whether you are a real estate agent who wants to list and sell property, someone who wants to open their own exchange business, or just specialize in selling replacement properties, there are a number of proven marketing secrets. Some are minimal cost, and many others are virtually free. We see so many people targeting the first time home buyer market but almost everyone leaves the investment market alone. We have determined that many professionals feel that they lack the proper skill sets needed to target this group, thinking that they are the demanding sort and are working with professionals already. Exchange services, advanced replacement property concepts, and cost segregation analysis offer a specialty that offers anyone the ability to attract this highly coveted group as potential clients.

Why consider specializing in exchanges?

Open any newspaper or magazine and look at the advertising that most professionals are doing. Each industry ad looks and reads just like the next with all of them containing the same type of content.

Let's look at some standard type of ads for different industries that you will see:

- Mortgage broker ads
"First time home buyers our specialty", "good credit", "bad credit".
- Real estate agent ads
"Let us put you in your new home", "we specialize in first time home buyers"
- Accountants
"We prepare taxes", "April 15th is coming quick, better file your taxes".

Not only are these ads boring, they all use the same content and appear in the same papers and magazines with nothing that differentiates one ad from another, or make it more appealing. The customer is still left asking the question, “Why should I call you?”

Today you need some way to be noticed and to give someone a reason to call you. Targeting a niche market is the easiest way to create momentum and attract new customers, which then offers you the opportunity to build long-term relationships and referrals.

Any real estate agent will tell you how hard it is to acquire listings and clients: the Internet, increased competition, and rise of the discount and rebate brokerage firms. And all financial service industries will some day soon face the same competition that the real estate industry has seen. It will soon become necessary for all professionals to learn how to not only attract new clients but retain them as well.

Building your business

There are many ways to go after business as an exchange professional, and here are some of the things that have worked for us.

1031 Exchanges can be the perfect opportunity to attract a different type of clientele than many of you have probably worked with in the past and offer you the opportunity to work within a truly growing niche market: owners of investment real estate. Calling on these types of clients can prove very difficult to say the least. They have many real estate agents and professionals cold-calling them all the time. The easiest way to get their attention is to approach them without being seen as a threat or acting like a typical sales person just looking to get their business.

Real estate investors are also more knowledgeable than the average client and want to work with professionals that they perceive as having ideas and knowledge in a particular field. You need to offer them something that separates you from the pack, and information about 1031 exchanges and their advantages is the perfect tool. Many in this group may have heard about 1031 exchanges before. But I can assure you that when you know all the opportunities of an exchange, and you present it to them properly, you will win their business. Because so many owners of investment property haven’t even heard about exchanging, exchanges now become a powerful tool to gain easy market share.

Below are proven ideas for the marketing of 1031 exchanges to attract clients for all types of professional including someone offering exchange services, mortgages, accountants, attorneys, financial planners, insurance agents and real estate agents.

Seminars

We cannot speak too highly of seminars. They are the *ultimate* marketing tool that, if used properly, creates the perfect platform to showcase your expertise and develop an immediate rapport with potential clients.

People attend seminars to learn more about a specific subject that is of interest to them. And because so few people understand the opportunities that exchanging can offer them and the fact that no one enjoys paying taxes, we discovered that seminars about 1031 exchanges and investment properties in general are an easy way to fill a room with anywhere from 6 to 50 people. Because we were one of the few firms that offered these types of seminars to the public at this grassroots level, we were the company that the customers developed the rapport with and this made selling the services of our firm very easy.

Now imagine a room of fifty potential clients each of whom might give you a listing to sell. But that's just the beginning – they may also ask you to assist them with their new purchase *and* to perform an exchange for them. Each client could represent over \$40,000 in commissions and exchange fees to you, much more if they purchase any of the more advanced type of replacement properties. How do they learn about the more advanced opportunities? From the seminars that you teach!

When you host a seminar, bring extra handouts and information that attendees can give to their friends. Always ask them to sign up for a mailing list for future announcements about other upcoming seminars and remind them to bring a friend if they come again. Occasionally we have other experts who offer services that did not compete with us to be guest speakers at many of our seminars and speak on topics such as mold or flood insurance so that our seminars are different every time. We also asked these speakers to tell all their own clients about the seminar by placing signs and brochures at their place of business, announce it on their web site, or do direct mailings to help cross market our services to their customers as well.

Once you feel comfortable speaking and have honed your skills on a subject, you can then become a guest speaker at places such as a real estate investment clubs that can offer the opportunity to speak in front of hundreds of members. Whenever we're a guest speaker, we hold a free drawing for a door prize such as a cordless drill or a \$50.00 gift certificate to Lowe's or Home Depot using. We discovered a free prize is an easy way to increase attendance and that the hosts enjoy offering free giveaways to their members.

There is another type of seminar that you can offer: a professional seminar geared to a specific market. These seminars are designed more like continuing education classes with a limited subject matter of a much larger topic. We have held a number of these seminars and had great success with them. Two examples are:

- A seminar for accountants on IRS filing requirements for an exchange using IRS form 8824, and how to compute the depreciable basis for a exchanged property.
- A seminar for real estate agents and mortgage brokers on how to use 1031 exchanges to generate multiple commissions and as a tool for niche marketing, giving them the potential to make an additional \$100,000 every year.

Cold-calling FSBO's

With the development of the do-not-call registry, it can be very difficult to cold call someone who is selling their home by themselves.

A number of successful marketing techniques, all utilizing 1031 exchanges, have been developed by a broker with whom we work, that opens the door to these sellers in a very non-threatening way. Each of these techniques allows him to make contact with the seller by offering free information to them and never once suggesting that they give him the listing. He begins by finding an ad for what he knows is an investment property. He uses a special piece of software called a reverse phone number lookup and gets the name and address of the seller. He then sends them:

- A booklet he wrote, telling all about all the benefits of a 1031 exchange, how they can sell it 100% tax free, and all the possible types of replacement properties that they can purchase, and even mentions some of the advanced strategies.
- Information about selling property without a real estate agent.
- An offer of some free help in selling their property, at no cost to them. And, if they're interested in selling via an exchange, he offers to assist them in finding them the replacement property.
- An invitation to attend one of his free exchange seminars, along with a flyer listing future dates and locations. He knows that over 80% of all for-sale-by-owners fail and that most of them end up using a full-service real estate professional.

By offering them free help, free information, and an invitation to a free seminar about some advanced topics, he has already put himself above any other real estate agent who may have sent the seller something as well.

He realizes that the properties that are considered investment properties are significantly higher in price than a regular home and because of that, he doesn't have to deal with as many clients to make significantly more money. He also knows that people who own investment property also know people that own investment property, and referrals from this niche market can be huge. Lastly, many of his customers own more than one piece of investment property and will continue to use him in the future.

Cold-calling on investors

Any one who continues to farm an area using direct mailings knows that over the long haul they will eventually see results. Many professionals know this as well and send what we consider blind mailings to owners of real estate. Rather than sending them to everyone and just wasting money and time, we advocate a target market approach. Send your mailings that allow you to work a specific niche – find the owners of investment properties and send them 1031 information explaining how it can help them and invite them to call for a free booklet, attend a free seminar, or obtain some other informational

package. This will allow you to market an expertise that very few people have and separates you from your competition. When they request your booklet, you now know that they will read it, and you have a perfect opportunity to keep your name in front of them.

An accountant we know who offers exchange services, markets these services to the public by sending mailings to promote his seminars. As soon as a listing appears in the MLS that appears to be a multi-family property, he knows it qualifies for an exchange and he sends them a free booklet about exchanging and invites them to call him for a free consultation. He also gets the mailing addresses of owners of multi-family buildings, such as two- and three-family properties that are not on the market and invites them to attend his free seminars. Included in his seminars is not only basic exchange information but also advanced exchange strategies, and he uses his tax expertise as a tool to promote some of these advanced techniques such as cost segregation analysis with a step up in cost to generate tax free income.

Give away the exchange

Something that a number of real estate agents use as an incentive for a potential exchanger is to offer to pay the exchange fees for them, provided they use the exchange company that they recommend. The real estate agent can have set up special pricing for referrals which makes it affordable to pay for it (or the exchange company, as you will learn later on, could in fact be owned by the real estate agent, or a friend, relative or even a spouse). This can create close internal cross-selling techniques.

Real estate investment clubs

Forming your own real estate investment clubs offers you the opportunity to build your own market share. Using simple advertising and handouts, it is easy to start a local real estate club and there are many resources on the internet to help you and some will even let you advertise free of charge on their main web site. The formation of a club gives you the opportunity to meet both successful investors as well as individuals who want to become successful investors. As the founder of a club, members assume you are extremely knowledgeable about the subject matter and they will look to you for advice and referrals. You can form the club by yourself or bring in other professionals with other specialties to help you, but you still control the direction of the club and determine its guest speakers and maintain the content of the newsletters.

We have a local real estate agent who started a real estate investment club as a way to meet owners and future owners of investment real estate. He hosts one and sometimes two monthly meetings. Invited guest speakers offer advice on such topics as how to be a good landlord and handle problems, how to increase cash flow, buying real estate with no money down, 1031 exchanges, and tax and accounting issues for landlords just to name a few. He has attracted many beginners but has also built a following with some established investors. He knows that he will be asked to help many of them when it comes time to sell but he has already developed a presence in the market as a buyer's agent specializing in investment properties. More of the older members have already

spoken to him about some of the advanced exchange strategies that will enable them to exit from the day-to-day management headaches of owning real estate.

Free giveaways

We discovered that the best way to present your expertise to the public and attract new customers is to write a book. It doesn't have to be a best seller or even sold for money. The book could be what we call a booklet which is a smaller 20 to 50 page informational publication...like this one. You can then give the booklet out to professionals who compliment your business and to the general public. Give a copy to everyone you meet, include it as a free download on your website, and always mention it in your advertising. Encourage your fellow professionals to also give to *their* clients.

Using our giveaway booklet to both educate the public and showcase our expertise, it became our premier marketing tool. Even to this day, people call us and say, "I read your book about 3 or 4 years ago and now I want to perform an exchange." We discovered that people keep these for a long time and even give them to their friends to read, which can increase your customer base substantially.

Trade shows

Trade shows offer specialists an easy way to reach their potential target customer market. Although trade shows can be highly competitive, offering something that no one else offers, either as a direct product or as an attraction, can bring tremendous success. If you go to a trade show, you will see any number of professionals in the same industry. Most are just sitting there in their booths with their company sign and twiddling their thumbs. Again I have to ask myself, Why should I use you?" We have attended home shows and offered exchange services and had people waiting in lines to speak to us. People talked to us about exchanges and everything else in the world of real estate, including taxes, the real estate market in general both local and other states, mortgages, zero cash flow properties and TICs.

And what made them all take notice of us? Just a simple 5x5' sign that reads:

Let us show you how to use the best kept secret in real estate to:
Sell your investment real estate 100% tax free!
Double or triple your cash flow
Generate tax free rental income
Purchase the retirement home of your dreams
Eliminate tenant headaches
All this and more anywhere in the US!
Ask for a free copy of our recent book

Newspaper articles

Local newspapers are always looking for articles and local interest stories to print. Newspapers do not like to print free ads but do not mind making free announcements about new businesses or clubs, publishing free seminar information, or printing free informational articles as a general interest story.

Knowing this, you'll find that local newspapers present a perfect opportunity to announce the formation of your real estate investment club or your free real estate exchange seminars, and many newspapers will even publish your meetings and dates, times, and places that they are held. Newspapers also accept and will print articles of general information. A well-written article showing how exchanges can help people save thousands and prepare for retirement is definitely something they will want. And be sure to mention in your article the free booklet you're offering.

Radio

Radio is often the most underused of all advertising media, yet it's the best opportunity to reach potential customers. With so many advertising choices it is virtually impossible to hit a large broad market easily. Radio has emerged as the perfect medium to use.

Radio talk stations, both local and regional in scope, are always looking for guests with something of interest to offer and will invite you to come on free of charge. You however have to call them to let them know that you are available to speak; they will not call you.

Speaking on the radio for even 10 to 15 minutes on a specific topic immediately lends credibility to your name and brands you as an expert on that subject. If you offer to give something away to the listeners masked as a free educational packet, the radio now lets you give your name and telephone number to these listeners, who already think of you as an expert.

You can also announce free seminars during your interview and it can also become great place to offer a special deal or discount to listeners who act within a fixed time frame. Occasionally the radio may ask for some money in the form of advertising, which itself is very inexpensive. If they do, turn it into an asset by telling all your clients to listen to the show in advance and then create ads to play on the show announcing your visit as if it were a huge event.

Here is an example of a radio ad that we've used successfully. The ad ran twice a day for a week before we appeared on the program, to build credibility and attract more listeners.

Want to learn how to sell your real estate 100% tax-free? The Money Show is pleased to have as its special guest the 1031 Exchange Group, one of New England's premier exchange companies. Listen as they explain the advantages that a 1031 exchange can offer. Double or triple your rental cash flow, generate tax-free income, purchase the retirement home of your dreams, and eliminate tenant headaches. All this and more are available through a 1031 exchange. Listen live this Thursday and call in with questions. They will also be giving away free books on 1031 exchanges. That's the 1031 Exchange Group, this Thursday from 9:00 to 11:00.

With the ad running like an announcement, it created a buzz for us and probably doubled the number of listeners we would have otherwise had. The ad consistently branded us as an expert and validated our expertise on exchanging.

Cross-marketing

Working with other professionals and their clients is the latest trend in marketing. We see many mortgage brokers teaming with real estate agents to offer first-time home buyer seminars. These can be extremely successful and an opportunity to grow market share for all involved. Every professional has a database of names that we call a "warm market"; people who already know you and theoretically trust you. When a number of different professional industries combine their clients, the success of producing a mailing offering free information or announcing seminars can be all but assured. Each professional can now attract the others' clients because it can be treated as an endorsement that these other professional are good to do business with. It also strengthens your relationship with your current client base.

Magazine articles

Recently, a number of magazines have started publishing articles that explain to professionals about the concept of branding themselves using niche marketing as the

medium. They have also been talking to professionals about the need to create additional profit centers with new products or services. Below are a number of articles, which you will find interesting, that offer insight into branding, cross-selling, new profit centers, niche marketing, and –more importantly – future trends that will shape the industry you are in. The website addresses given are where the original articles are stored. Type each website address into your web browser to view the article in its entirety:

Realtor Magazine tells how realtors are capitalizing on the 1031 exchanges to capture lifelong clients. A salesperson with Keller Williams Realty in Plano TX says that **"1031 exchanges have allowed me to open my business to a whole new client base,"** and over 30 percent of his business now comes from 1031 exchanges. Also, a principal broker with Blue Heron Realty, Cambra & Associates Inc. in Springfield, VA estimates that she **"has generated over \$50 million in 1031 exchange business during the 14 years [I've] been using them."**

<http://www.realtor.org/rmomag.NSF/pages/feat2feb05?OpenDocument>

The August 15, 2006 edition of ***The Wall Street Journal Online*** reports that **1031 Exchanges are surging even in the midst of the current real estate decline.**
http://www.realestatejournal.com/indinvestor/20060815bernard.html?mod=RSS_Real_Estate_Journal&rejrss=frontpage

RealtyTimes.com relates how real estate agents are doing 1031s to make more money. **"Do you want to make more money this year,"** writes Betty Kincaid, **"Let me tell you about the best-kept secret in real estate - the 1031 tax-deferred exchange."**
http://realtytimes.com/rtapages/20000605_exchange.htm

Financial-Planning.com According to Seth Pearson, 1031 exchanges are becoming an important part of real estate planning and estate planning. **"Consulting on highly appreciated real estate will soon become a new and highly significant part of many financial advisers' practices."**
<http://www.financial-planning.com/pubs/fp/20040801021.html>

Commercial Investment Real Estate Magazine reveals how Tenant in Common opportunities can facilitate transfer of wealth. Howard Kass writes that, **"From an estate planning perspective, TIC investors' heirs benefit from multiple tax advantages upon inheriting such property."**
http://www.ciremagazine.com/article.php?article_id=888

Real Estate Center, in an article entitled "Tic Fever", says that **"This red-hot investment vehicle, known as a tenancy-in-common or TIC, ...has become particularly attractive to real estate investors in search of properties qualifying for a 1031 tax-deferred exchange."**
<http://recenter.tamu.edu/tgrande/vol12-3/1735.html>

Bloomberg Wealth Manager Magazine describes how an exchange saved a client thousands of dollars and tripled their cash flow.

<http://www.1031exg.com/WealthManager.html>

National Real Estate Investor 's Joe Goss reports that "**Virtually non-existent only a few years ago, the tenant-in-common structure has become the hottest investment vehicle in real estate...TICs raised \$1.8 billion in equity last year and are expected to raise over \$4 billion this year.**"

http://nreionline.com/mag/real_estate_riding_tic_wave/index.html

Read how, *Financial Plan* describes how a 1031 / TIC Exchange saves a client over \$500,000 in taxes and eliminated tenant management headaches.

<http://www.1031exg.com/FinancialPlan.html>

On the following page is a flyer that we use to announce our exchange seminars and free booklet offers:

**Let the experts at 1031 Exchange Group LLC
show you how to sell your investment real estate
100% tax free using
*the best kept secret in real estate.***

**Attend one of seminars and we can personally show you how others
have been using a 1031 tax free exchange to create, diversify, preserve
and protect their real estate wealth.**

- ◆ **Use an exchange to double or triple your monthly cash flow**
- ◆ **Generate tax free rental income**
- ◆ **Purchase the retirement home of your dreams**
- ◆ **Diversify your real estate portfolio**
- ◆ **Purchase higher quality real estate**
- ◆ **Eliminate management headaches**
- ◆ **Purchase a vacation home**
- ◆ **Cash out your equity and create a land bank**

All this and more anywhere in the United States!

Call us for a free copy of our book

**“1031 Exchanges, a Tax Haven for Preserving Real Estate
Wealth”**

Or visit us on the web for a free download at

www.1031exg.com

Dates and places of seminars and phone numbers are missing.

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