

RBC Wealth Management

1031 Real Estate Exchange Program

WHAT IS A 1031 EXCHANGE?

A 1031 exchange is a tax-deferred transaction authorized by Internal Revenue Code 1031 that allows you to sell one property and acquire another “like-kind” property, tax free, using the proceeds from the sale of the first property. In a typical property sale, the owner pays taxes on the gain earned in the sale. In a properly executed 1031 exchange, the gain is carried forward, or deferred, into the new “replacement” property.

The “like-kind” definition for real estate is very broad — any real estate is considered like-kind with any other real estate held as an investment. For example, raw land would be like-kind with an office building or an apartment property. Property that is sold or acquired must be “qualified” and cannot be a primary residence or second/vacation home. Most other investment property qualifies.

There are different types of 1031 property exchanges. In some cases, you can acquire a property in its entirety as the sole owner. In others, under a Tenants-In-Common (TIC) structure, you acquire a percentage interest in a property with other investors.

WHAT ARE THE ADVANTAGES OF A 1031 EXCHANGE?

One of the primary advantages of completing a 1031 exchange is the ability to defer taxes on the sale of a property and reinvest 100% of the proceeds. With combined Federal and State tax rates as high as 25%, the tax deferral can offer an important benefit. There is no limit to the number of times you can complete a 1031 exchange. In addition, you can employ 1031 exchange transactions to satisfy a variety of

investment objectives. You can transfer property between geographical locations, maintain cash flow, or exchange into a property that produces higher income. Finally, if you manage the property you intend to sell, you may benefit from the professional property management services that these vehicles offer.

WHAT ARE THE RISKS IN COMPLETING A 1031 EXCHANGE?

As with any investment, there are risks associated with 1031 exchanges which you should fully understand before you invest:

- 1031 exchanges represent direct investment in real estate and are subject to all risks of owning, operating, and disposing of real estate.
- Results from investing in real estate vary through economic times.
- The cost to complete a 1031 exchange may exceed the cost to purchase a property in its entirety by a single owner. This is because of the additional expenses incurred in dividing the interest in the property among co-owners and marketing it in the form of a private security offering.
- Your investment is illiquid. There is no established secondary market for the resale of these real estate interests.
- You must follow a rigid timeline for your investment to qualify as tax-deferred. If you fail to meet the required schedule, you may owe taxes on the sale of the property.
- The fees associated with a 1031 exchange can be high. You should ensure that you understand all of the costs you may incur.



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RBC Wealth Management 1031 Real Estate Exchange Program, continued

WHAT ARE THE RULES OF 1031 EXCHANGES?

- You cannot directly receive the proceeds from the sale of your property; the funds must be held by a designated third party called a Qualified Intermediary.
- You have 45 days from the date of the initial sale to identify potential replacement property or properties. The identification of the potential properties must be in writing, be specific, and include the street address or the appropriate legal description.
- You have 180 days to acquire one or more of the identified properties.
- The replacement property you acquire must equal or exceed the value of the property that you sold. Partial exchanges are possible. Clients may diversify their investments while incurring some tax.

HOW DOES OUR 1031 EXCHANGE PROGRAM WORK?

RBC Wealth Management has developed a referral program for 1031 exchanges with OMNI Brokerage Inc., a national broker dealer that specializes in these real estate transactions. The 1031 program is being administered through OMNI's branch office 1031 & TIC Investments located in Minneapolis. 1031 & TIC Investments is the primary contact and responsible for managing our 1031 program.

To learn more about 1031 exchanges, contact your RBC Wealth Management® Financial Advisor. He or she will explain the basics of these transactions and, if you are interested, can introduce you to an

OMNI/1031 & TIC Investments, LLC specialist who has the experience and training to handle the transaction on your behalf. Your RBC Wealth Management Financial Advisor will earn a referral fee when he refers you to OMNI/1031 & TIC Investments, LLC, if you complete a transaction through OMNI/1031 & TIC Investments, LLC.

WHO IS OMNI BROKERAGE, INC/1031 & TIC INVESTMENTS, LLC?

OMNI is a nationwide brokerage firm that has helped clients find investment properties and complete 1031 exchanges since 1995. OMNI's/1031 & TIC Investments, LLC staff of professionals researches the properties they represent, and they have the experience required to manage the transaction on your behalf to help avoid an unintended taxable event. OMNI/1031 & TIC Investments, LLC can also recommend a Qualified Intermediary to assist you with the transaction.

RBC Wealth Management does not act as a real estate exchange broker and is not affiliated with OMNI. For advice relating to your real estate options, you should consult with OMNI, or other specialty firm. RBC Wealth Management does not provide tax advice. You should consult your own tax advisor and/or attorney before taking any action. It is important for you to carefully read all of the material presented to you, including the offering memorandum for the property, before you invest.

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