



YES! You can 1031 into a Multifamily Syndication!

How to Scale your
Single Family Portfolio into Multifamily
Syndications using 1031s



ANNA MYERS



DUGAN KELLEY

WHAT WILL YOU LEARN TODAY?



Introductions



How do I 1031 into a Syndication, and What is a TIC?



What is a 1031 Exchange



What if I Need to Bring Debt too?



Easy Rules for 1031's



1031 into Value Add vs New Construction



Why are 1031's so Stressful?



What Happens on Exit & What is the Dollar Comparison if I do not 1031?

IMPORTANT DISCLAIMER

Please read

- We are not investment advisors, and this seminar is provided for educational purposes only.
- All investments involve different degrees of risk. You should be aware of your risk tolerance level and financial situations at all times.
- You are free to accept or reject all investment recommendations made by us. All services that we offer are subject to market risk and may result in loss to your investment.
- As you know, a recommendation is not a guarantee for the successful performance of an investment and we cannot guarantee against losses arising from market conditions.
- Do not invest your money on our recommendation alone. Consult a professional advisor.
- HOUSKEEPING – Recording? Questions?

MEET THE GROCAPITUS TEAM



Neal Bawa

CEO & Founder
Grocapitus

ABOUT NEAL

- ✓ Neal's companies have owned / managed a portfolio of over \$200 Million
- ✓ Over 2,000 units of Multifamily and Student housing, in 9 states
- ✓ Nationally known Multifamily mentor and speaker
- ✓ About 5,000 investors attend his Multifamily webinar series and hundreds attend Multifamily Boot camps

ABOUT ANNA

- ✓ Lead Underwriter for Grocapitus
- ✓ Operating Partner & Asset Manager on 1300+ units
- ✓ Teach Underwriting & Asset Management for MultifamilyU
- ✓ Presents on Multifamily regularly at meetups, webinars & conferences
- ✓ Together, Anna and Neal have raised over \$25M in the last 12 months



Anna Myers

Vice President
Grocapitus

Sample of Grocapitus Portfolio & Track Record



Art City

Art City Center is a beautiful new construction mixed use project in Springville, UT. The iconic mid-rise secure access residential facility has 102 units. The project was completed in April 2018 and the apts are at 100% occupancy.



Equinox on Prince

Purchased March 2019, our first property in Tucson, AZ is an older 114 unit property in a growth area with new medical centers and malls nearby. Under market rents and tired units provide true value add opportunity. We've boosted occupancy by 10% in our 1st month of ownership as we re-brand and renovate to create a modern apt community.



The Point on Flamingo

192-unit C class property in Las Vegas purchased in May 2017. Borders UNLV campus on two sides, and is now transformed into purpose built student housing. It is run as full-service, furnished housing, rented by the bed to individual students. First 100 students now in.

The GRID

217 units ground up construction next to transit and BNMC medical university campus in Buffalo, NY. Started Construction July 2019, for Q1 2021 Completion.



Chelsea Place

174-unit Class C property in East Atlanta, 95% occupied. Value Add project with under market rents, will undergo light rehab and rents pushed to market. Two miles from our other Atlanta property, so lots of efficiencies here.

Property purchased December 2018



Rails on Main

322-unit new construction purpose-built student housing project next to the university in Buffalo, NY. First raise of \$6.2MM used to buy land, demo, land remediation & rezoning. Project well timed as Buffalo economy surged in 2017. Starting construction 2018, for 2020 completion.



Lakewood Oaks

Our first project in Jacksonville FL is a 138-unit Class C (vintage 1974) in an emerging Class B area, acquired in Feb 2019. With under market rents, and no renovated units, this is a true value add. We will re-brand it, re-position it, then explore the possibilities to build 32 additional units.



Park Canyon

151-unit Class B Property in Dalton GA, Chattanooga Metro. Under market rents and 20 down units from a fire gives us opportunity to add significant value in this project.

Property purchased November 2018



Coyote Creek Apartments

116-unit new construction multifamily in St George UT, a city with 2% vacancy rate, and the property is zoned for vacation rentals as well. Construction starts Sept 2019, for completion Q1 2021

DUGAN P. KELLEY



KELLEY | CLARKE
PLLC
TRUSTED LEGAL ADVISORS



- Managing Shareholder Law Firm
Kelley | Clarke, PLLC
- Licensed in multiple states and active throughout the country
- Represents Real Estate Investors in all phases of deal
- Represented deals in excess of \$1 billion
- Syndication Counsel On Average over \$400 Million Per Year
- Litigated against banks, hard money lenders, and company fights in arbitration, State and Federal courts

WHAT IS A 1031 EXCHANGE?

- Section of the Internal Revenue Code §1031
- The tax code enables a taxpayer to sell investment property with little or no tax liability on any resulting gain – preserving the sale proceeds for the purchase of another property.
- **Wealth Building Loop Hole** to help real estate investors continue an investment without adverse tax consequences



1031 EXCHANGE STRATEGY



- Tax Deferred vs. Tax Free
- Exchange throughout your life
 - Keep your wealth in your family
 - Step up in basis at date of death
 - Capital gains go away at death
 - Depreciation recapture goes away
- No limit to how many times you can do 1031's!

EASY RULES FOR 1031



1. All cash proceeds from the sale of the Relinquished Property must be reinvested in the Replacement Property (or pay tax on the difference)
2. The purchase price of the Replacement Property must be at least as much as the sales price of the Relinquished Property (or pay tax on the difference)
3. The purchaser of the Replacement Property must be the same as the seller of the Relinquished Property, or be a "Disregarded Entity"

EASY RULES FOR 1031

4. For safe harbor protection, exchange funds should be held by a Qualified Intermediary
 - a) 1031 Exchange company must be assigned to your sale BEFORE CLOSING on relinquished property
 - b) Funds from your sale are held by the QI, and then transferred into replacement property transaction
5. Have to purchase "Like Kind" real estate that is intended to be held for rental, investment or use in a business.



LIKE KIND PROPERTIES

- Single family
- Multi-family
- Commercial office
- Retail
- Industrial
- Vacant land
- Oil & gas interest
- Mineral interests
- Air and Water rights
- Delaware Statutory Trusts (DSTs)
- TIC property interest (TICs)



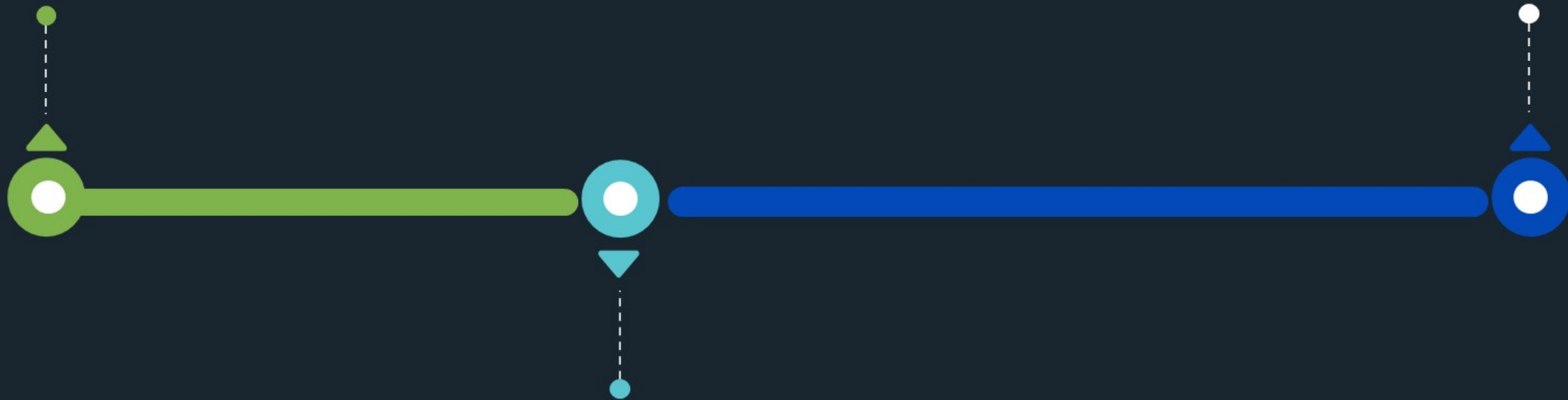
TIMELINE for 1031 EXCHANGE

DAY 1

the day after escrow
closes on
Relinquished Property

DAY 180

Deadline to purchase /
close on Replacement
Properties

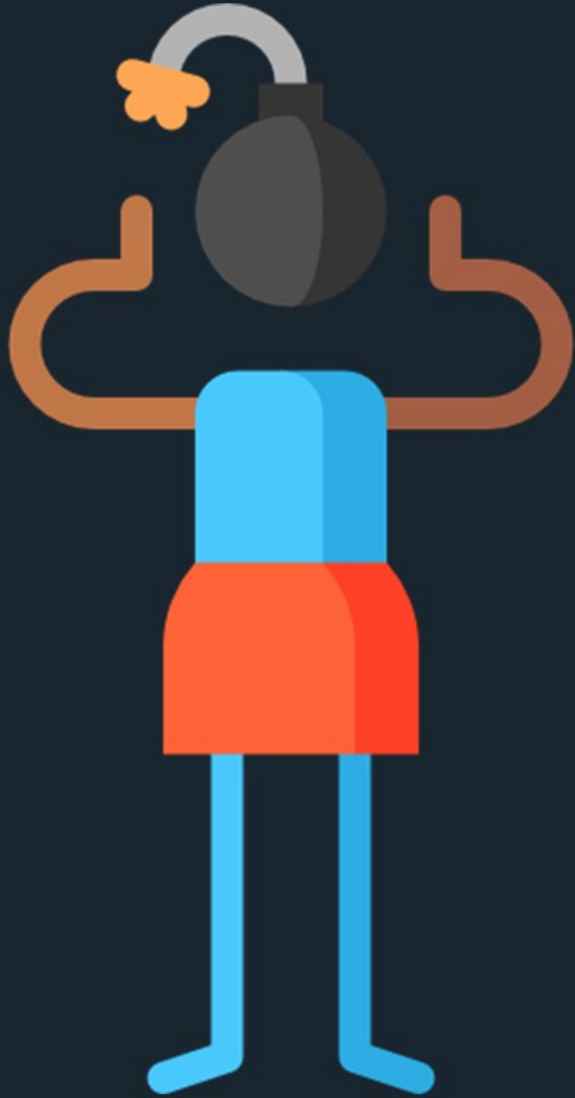


DAY 45

Deadline to identify
Replacement
Properties

The 1031 Exchange time frame begins the day after escrow closes on the **relinquished** property.
From this point, the **180 day** count down begins
(NO EXTENSIONS)

1031 EXCHANGES CAN BE STRESSFUL



- Hard to find properties in timeline that pencil out
- Market you live in may not have deals that will cashflow, and investing out of state can be tricky
- Working with banks to qualify for loans is not always easy
- Catch 22 for part time real estate investors :
 - Buying Value Add properties means lots of work (time & money) after purchase
 - Buying Turn Key means not much equity left in deal if any – in markets that may not be appreciating

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- Delaware Statutory Trusts (DSTs)
- TIC property interest (TICs)



TENANTS IN COMMON aka TIC

Ownership in which two or more people/entities own separate shares of the same real property. Each person holds an individual, undivided ownership interest!



- A TIC structure may be beneficial for someone who no longer wants to actively manage real estate and is looking for income and tax deferral benefits. It also allows the average person to have high credit rated tenants, as well as geographic diversification and usually the experience or a national real estate management company.
- Tenant in Common structure is considered “like-kind” to real estate as long as each owner is deemed to own an undivided interest of the entire portfolio.

Benefits of 1031 via TIC into a Syndication



- Increases your Buying Power
 - Ability to buy into much larger, scalable asset
- Passive Investment
 - Professional Property Managers and Asset managers
- Diversify into key markets in the US
 - You do not need to be an expert in that market
- Do not need to qualify for financing
 - Bonus street cred for future loans for Fannie/Freddie
- Dramatically Decreases Risk & Stress of 1031
 - Much easier to identify and acquire/close on a tenant-in-common investment property

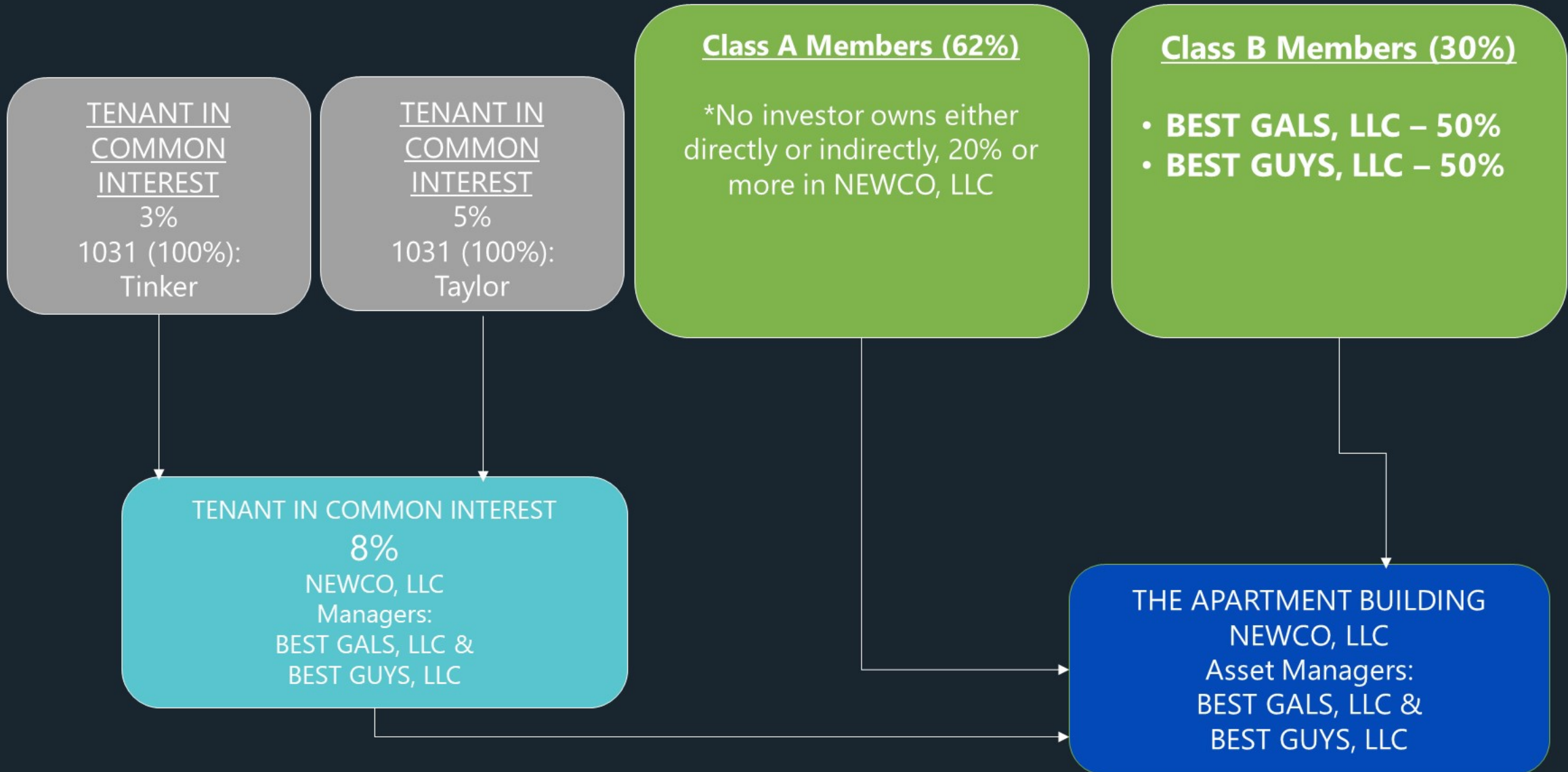
SYNDICATION STRUCTURE WITH TIC



TYPICAL STRUCTURE OF OWNERSHIP

70%

30%



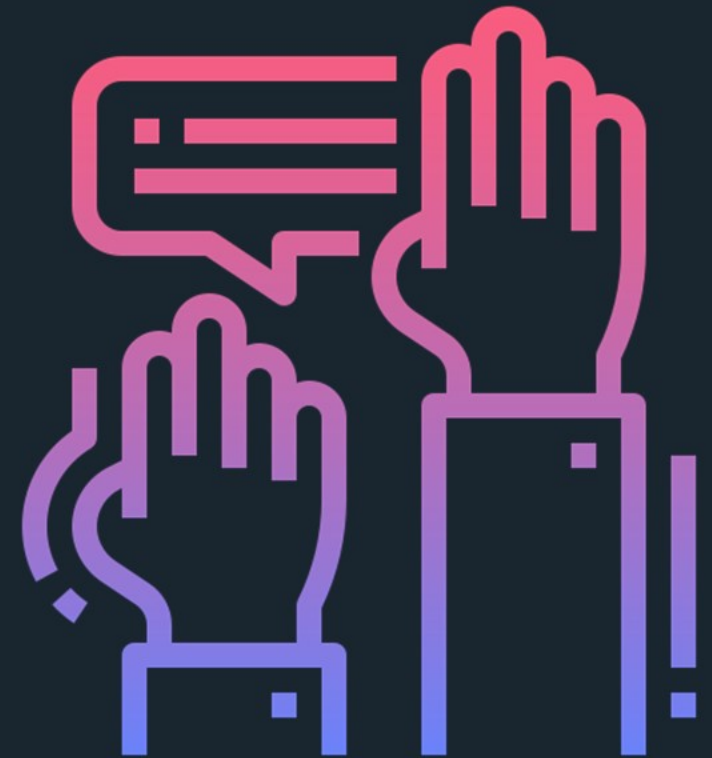


TIC AGREEMENT

- You are CO-OWNERS, Not Partners
- Each co-owner must hold title to the property as a tenant-in-common.
- Ownership with the TIC Parties will be governed by a TIC Agreement
 - TIC agreement generally mirrors the Operating Agreement for the LLC
 - Co-owners are generally treated as passive investors, with the Sponsors of the project managing the day to day operations

How do voting rights work?

Voting rights in this type of structure are spelled out according to the terms of the TIC Co-Ownership Agreement. In most cases, a TIC owner would only vote on a few items such as hiring of a new asset manager, approval of the annual operating budget, a decision to finance or refinance, funding of deficiencies, or transfer of the TIC Owner's interests.



What if I need to bring Debt with me to fulfill my 1031 Requirements?

- The lenders that we work with for 1031 Eligible Projects Will accommodate your debt, in some cases “bifurcating” the loan so that a piece of the loan is carved out in your name to satisfy your 1031 requirements with the IRS. This varies by lender.
- Your actual share of the project however is based on the EQUITY you bring to the project, not your equity + debt.



What if I need to bring Debt with me to fulfill my 1031 Requirements?

- Lender will need to Underwrite you, and will thus need to run credit, have you fill out a personal financial statement and see your previous taxes for 2 to 3 years
- In general you will not have to qualify for the debt, so those that have difficulty in obtaining financing due to income will be able to acquire an interest in a syndicated tenant-in-common property
 - Disqualifiers: Bankruptcy or some sort of on-going Litigation
- You will need to sign on the loan. The debt is generally non-recourse to the investor, and you get street cred from Fannie Mae or Freddie Mac for your future projects on the Agency side.



Even those that are not bringing debt MAY need to be underwritten by the Lender...





What Paperwork is required to 1031 into a "Value Add" Multifamily?

- Will be added to the Purchase and Sales Agreement (PSA) and to the Org Chart for the property as Co-owners
- Name will be on the lending Docs, and will need to sign on the loan (Typically Non-recourse)
- Additional Docs to Sign Include:
 - Tenant in Common Agreement
 - Limited Power of Attorney giving authority for day to day operations to General Partners



What Costs are involved to 1031 into "Value Add" Multifamily?

- The Lender will often charge an underwriting fee for additional time to underwrite the co-owner. \$500 has been quoted
- The accounting team for the property sometimes charges an additional fee to prepare tax returns for the co-owner

What Paperwork is required to 1031 into New Construction Project?

- TIC Co-owners most often brought on to purchase the LAND*
- Real Estate Purchase Contract (REPC)
- Trust Deed
- Promissory Note (if bringing debt to project)
- Tenant in Common Agreement
- Limited Power of Attorney

* Other than Land purchase which is a physical thing, new construction falls under a BUILDERS 1031 and these exchanges are still subject to the 180-day time rule, meaning all improvements and construction must be finished by the time the transaction is complete.



What Costs are involved to 1031 into New Construction Project?

- Involves working with Title Company who will require purchase of Title Insurance and typical closing costs related to completing the transaction.
 - Example : \$190,000 1031 costs roughly \$1800 to title company and was wrapped into the closing costs
- Lender may charge to underwrite each co-owner - \$500 has been quoted
- The accounting team for the property sometimes charges an additional fee to prepare tax returns for the co-owner



Why are there costs to come into the Syndication through a TIC?

When you are coming in via a 1031 into a TIC structure, it is a real estate transaction. There are costs related to the transaction that are the responsibility of the Co-owner, not the Syndication.

Note that any other "like kind" real estate transaction used to satisfy the 1031 would likely also incur costs for the transaction.



\$\$\$ - LET'S TALK DOLLARS...

BUT First....

**#1 Moving
Destination**

**#2 Metro
for
Economic
Growth
Potential**

**#1 Most
Affordable
Big City**

194 Unit Value-Add Multifamily

WEATHERLY WALK ~ Fayetteville GA

 **1031 Exchange**

 **QRP, Solo 401k, SD-IRA**



Best Reasons to love Atlanta!



#1

Best state for
doing
Business

Georgia's business climate has been ranked #1 in the nation for the 6th consecutive year. And, for the 5th consecutive year has been ranked #1 for Area Development 2019

#1

Best
Economic
Growth
Potential

Atlanta is #1 for Best Economic Growth Potential among large metro areas *Business Facilities 2019*

#4

Largest
Increase in
Population

Metro Area for Largest Increase in Population, 2017-2018 (75,702) Metro Atlanta Chamber analysis of *U.S. Census Bureau, Population Division*, - April 2019

#1

Best
Destination
to move to

National award (for the ninth consecutive year) Source: *Penske - 2019*

#1

Best Cities
for Startups

*U.S. City for Startups That Is Not New York or San Francisco. Source: *FitSmallBusiness.com, Francisco*, May 21, 2018

#3

Tech Talent
Pool

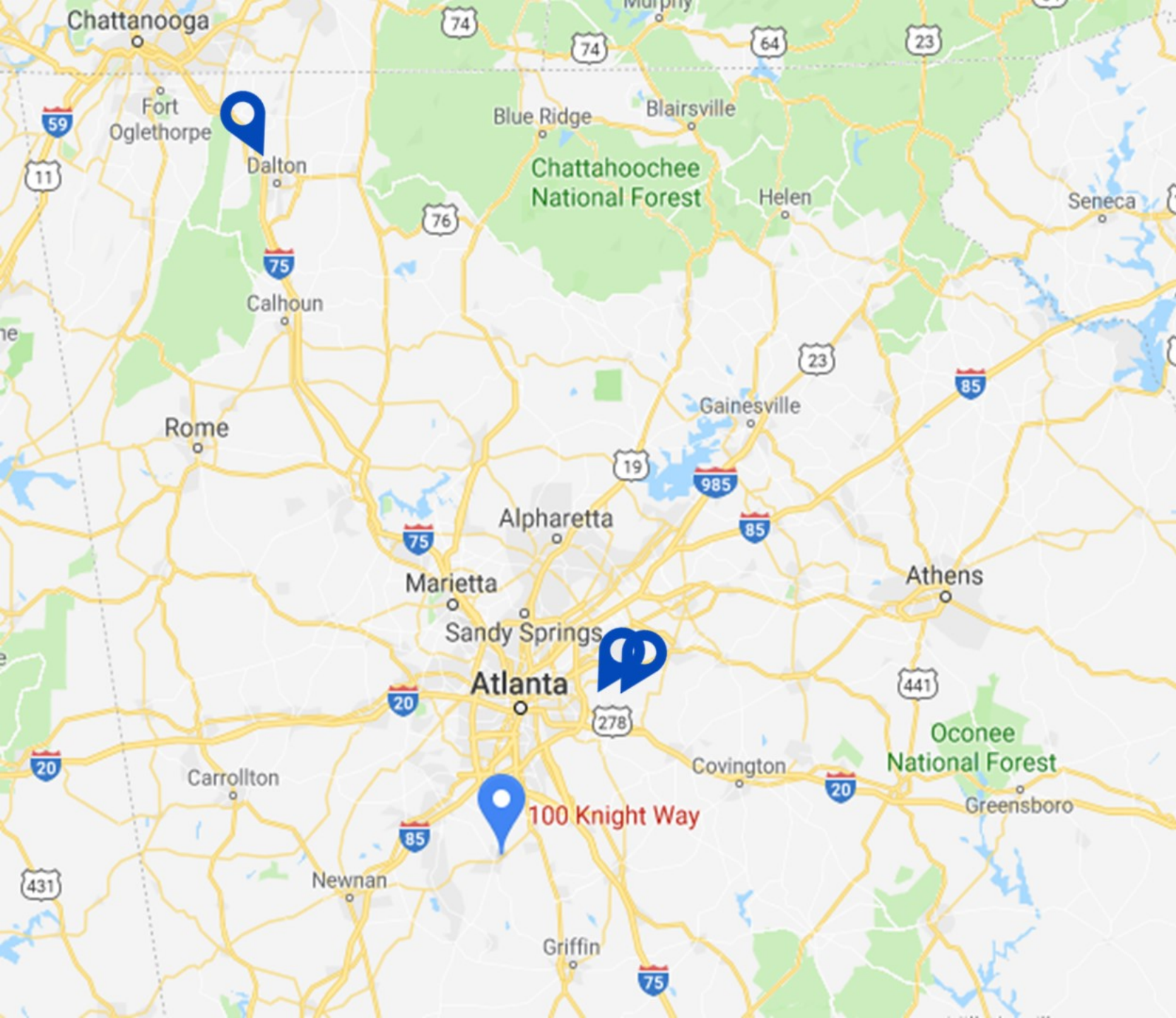
Market for Tech Talent Labor Pool Growth Rate (34.7% increase of tech talent employed.

Source: *CBRE, "Scoring Tech Talent in North America 2018"*

#1

Busiest
Airport

World's Busiest Airport (21st consecutive years) and most efficient airport in North America for the 16th consecutive year - 2019



3 Apartment Communities in Wider Atlanta Metro

LITHONIA, GA

Chelsea Place -157 units
Windward Forest- 216 units

DALTON, GA

Park Canyon -151 units

WEATHERLY WALK

100 Knight Way,
Fayetteville Georgia

194 Units

7

PIEDMONT HOSPITALS

PINEWOOD STUDIOS



8

6

Michaels

5

Walgreens

4

2



LOWE'S

1

FAYETTE PAVILION

GLYNN STREET

DOWNTOWN FAYETTEVILLE

E. LANIER AVENUE

WEATHERLY WALK



Weatherly Walk residents enjoy close proximity to boutique retail and local restaurants

Pinewood Studios is a 15 minute drive. Produced over 500 movies and has over 300 businesses operating on site

Piedmont Fayette Hospital has received the Healthgrades America 50 Best Hospitals Award for 5 consecutive Years!

The Property's Vital Stats

Price, Occupancy, Unit Count, Age

**PREVIOUS
UPGRADES**

\$3M

In past 4 years

OCCUPANCY

92.3%

**MEDIAN
HOUSEHOLD
INCOME**

49k

SCHOOLS

10 out of 10
compared to GA,
9 out of 10
compared to US

RENTS

~\$250
Below Market

PRICE

\$123K / door

+ Capital Improvements
of \$7k / door

AGE & UNITS

Units **194**
Built **1988**



Grocapitus Efficiency Center

UltraPowerful Secret Sauce



Fill up the Property

Mega Marketing

Current run rate of nearly 20,000 tenant leads a year

Mega Leasing

Current run rate of 3500 tenant appointments a year

Keep the Property filled

Delinquency Management

Calls, texts, voiceshots to reduce delinquency and accelerate evictions

Renewal Management

Ensure that best practices of tenant renewal are being followed

Reputation Management

After maintenance calls, tenants are called to request reviews

Community Building

Newsletters, taco Tuesdays, pizza Fridays, tenant highlights



Projected Returns in %

Our **cash flow** and return projections over **5 years**

Year 1	Year 2	Year 3	Year 4	Year 5
8%	8%	9.3%	8.4%	8.6%

+

Projected Returns on Sale
49.5%

=

Total 5 Yr Projected Returns
18% annualized

1.9x
Equity Multiple

15.6%
Internal Rate of Return

1.9x
Equity
Multiple

18%
Average
Annualized
Return

15.6%
IRR

194 Unit Value-Add Multifamily

WEATHERLY WALK ~ Fayetteville GA

✓ 1031 Exchange

✓ QRP, Solo 401k, SD-IRA

Go to www.grocapitus.com/weatherly to sign up for webinars



Interested in Apartment Investing?

Come enjoy an incredible learning experience



Neal Bawa: "I help people become financially free with real estate by teaching them how to invest in apartment buildings"



MultifamilyU

www.multifamilyU.com



Interested in Apartment Investing?

An incredible learning experience

FACT

Multifamily Real Estate Investing Has Proven To Be One Of The Best Asset Classes For Long-Term Wealth Accumulation



MultifamilyU

www.multifamilyU.com



Interested in Apartment Investing?

An incredible learning experience

We teach the last honest Apartment Boot Camp in America.

And it makes you 3 unique promises.



www.multifamilyU.com



A unique learning experience

Seize the Opportunity

Promise

The only Apartment boot camp in the U.S. that makes & keeps these promises to you:

Promise 1: The training is eye opening, specific and tangible, meant to be used right away.

Thank you again for an amazing learning experience in the MF Boot Camp. My husband and I really appreciated how many specific tools you shared that we haven't seen elsewhere. Tools we can begin putting into practice right way, such as what to look for in determining which markets have the greatest potential for growth and cash flow, how to then drill down to specific neighborhoods within those markets, and how to build a team that can help support and run our out-of-state holdings. This is invaluable information for new investors like ourselves, but I imagine even a seasoned veteran would have picked up some great tips.



- Anya Sagee



MultifamilyU

www.multifamilyU.com



A unique learning experience

Seize the Opportunity

Promise

**Promise 2: Pitch free –
no upsell, coaching,
mentoring, tapes etc.
Just 100% sales free,
content rich training.**

The Multifamily Boot Camp was 100% sales free training on how to buy apartments. Lots of content, resource and tips you can use right away. No sales pitch. All training. I've attended several weekend bootcamps before and although all offer great information, half the time you're there, they're trying to sell you something – their next event or coaching or whatever else. The Multifamily Boot Camp was 100% sales free training on how to buy apartments.



- Joy Viray



MultifamilyU

www.multifamilyU.com



A unique learning experience

Seize the Opportunity

Promise

Promise 3: filled with shortcuts, secrets and strategies that you have never seen before, with a clear roadmap to success

Neal's ingenious ideas on how to use VA's and mega-marketing strategies to attract tenants was truly an eye opening experience for me.

The boot-camp provided me with a clear and precise road map to identify specific locations to invest in. Neal's presentation coupled with labs (small group sessions) provided hands-on experience for all the attendees.

I can state unequivocally that this boot camp was by far one of the best that I've attended. I was able to immediately implement the strategies that I learnt.

- *Esosa Egonmwan*



MultifamilyU

www.multifamilyU.com



What you will learn

Hundreds of students have been blown away by the quality and depth of the boot camp

Multifamily and Syndication Fundamentals

The fundamentals of apartment investing, and the 4 critical phases of a multifamily project you must master.



The Best and Worst Metros

Metro selection like you have never seen it before. This knowledge is essential for buying the right product at the right time.



The secret sauce to MultiFamily investing

Investing in the right neighborhood is even more important than picking the best city. Students rave about the process we teach for this crucial step.



How to evaluate Properties

The art and science of underwriting, and how to avoid common but deadly pitfalls that can cost hundreds of thousands of dollars.



How to find brokers and Properties

Learn multiple ways to find brokers and properties, including what to say and how to answer difficult questions.



Get the right Prop Mgr.

Finding, evaluating, and managing property managers... one of the most important skills for successful multifamily investing.



How to raise private money

Absolutely POWER PACKED
step by step 1-hour
workshop



Amazing Bonuses

1. HD recordings of all sessions for a year
2. A powerful Facebook student-only group gives you access to partners, investors, deals and sponsors
3. A Digital student resource kit with dozens of resources – demand projections, due diligence lists, checklists, templates, worksheets, lists of brokers and so much more
4. Data reports for your Metro
5. A no-pitch private coaching session with Neal
6. Mystery bonuses – short videos posted by Neal frequently to the Facebook group
7. Mega-marketing Webinar recording
8. Virtual Assistants Webinar recording



Are you ready to become a successful Apartment Investor?

Get ready for an incredible learning experience

SO TAKE ACTION:

**Attend the Bootcamp LIVE:
Friday Dec 6th through Sunday Dec 8th 2019:**

Three Full Days in Los Angeles
At the Sheraton Gateway Hotel near LAX

Go to www.multifamilyU.com for **Super Early Bird Pricing** and **Save \$1000!**

All live sessions are recorded and available for playback

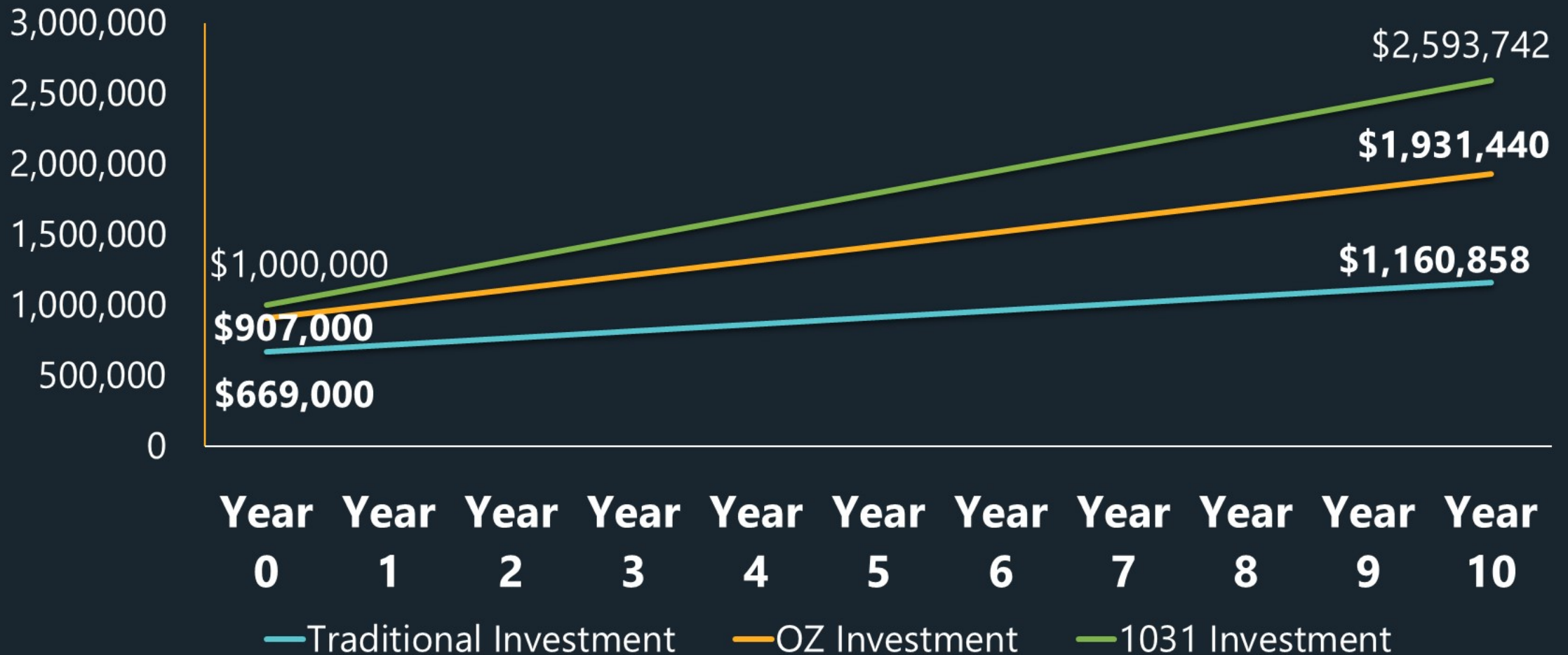


www.multifamilyU.com



\$\$\$ - LET'S TALK DOLLARS

Assume you have a \$1M Gain from Selling a Rental Property, and you invest it into a 10 year project. Let's Compare Strategies...



Assumes Investor lives in California which is a state that does not currently correlate with Federal Opportunity Zone Regulations

How Do I Declare / Identify on the 45 Day Paperwork?

Identifying a TIC portfolio is different than identifying a single property.

When you are identifying TIC structures as a possible replacement QI Exchange Companies require the following information:

- Name of the TIC portfolio (if any)
- Address within the TIC portfolio
- Total investment in the TIC (Equity plus any debt the client is assuming)
- Beneficial percentage interest in the TIC



How Do I Declare / Identify on the 45 Day Paperwork for VALUE ADD Projects?

- List the address
- Fair market value of: \$X which equates to ownership in the overall project of Z%

Where:

X = Total amount to meet 1031 obligation
(Equity + Debt if any)

Y = 70/30 is the Ownership Split for this Syndication

Z = Equity/\$10,00,000 (this is total equity in of \$7,000,000 divided by .70 to get correct denominator for this project as 70% going to investors, and 30% going to sponsors)

Remember : Only your EQUITY counts towards your ownership, but your total for IRS purposes is included on the 45 day Paperwork...

If we use the example of Tracy who sold their relinquished property for \$500,000 which was \$200,000 in EQUITY and \$300,000 in DEBT, their numbers would be:

$$X = \$500,000$$

$$Z = \$200,000 / \$10,000,000 = .02 = 2\%$$

And based on our example Tracy would fill in for the Fair Market Value Question:

\$500,000 which equates to an equivalent ownership in the overall project of 2%

What Happens on Exit?

When the Syndication Property is sold, You as the TIC co-owner can 1031 into a different project from the list of eligible like-kind exchanges.

Because you are a co-owner – you are holding title in your name or your entities name, so on exit you “Relinquish” the % ownership in the Multifamily Syndication, and “Replace”

What if you decide not to 1031 into another property?

Then you will pay taxes on the capital gains for the investment you just exited from, as well as the deferred taxes from the previous property that you 1031'd.

If instead you continue to 1031 until you pass the property to your heirs, the property steps up in basis upon your passing – and your heirs will owe no taxes. All of the Deferred Taxes go away.



1031 Exit Scenario on \$200,000 invested

Our **cash flow** and return projections over **5 years**

Year 1	Year 2	Year 3	Year 4	Year 5
\$16,074	\$16,000	\$18,510	\$16,708	\$17,172



Projected capital gains on sale:
\$99,122 + \$200k invested

Total 5-year Projected
returns (including original
investment)

Amount to 1031
forward would be:

\$299,122

PLUS your share of the
DEBT given value of asset
at sale and your % share
of that loan (on paper)

1031 Exit Scenario on \$200,000 invested with a Refi

Our **cash flow** and return projections over **10 years**



REFINANCE +
pays back all capital in
and then some

+

\$235,830

Projected capital gains on sale:
\$235,830

=

\$609,574

Total 10-year
Projected returns

Amount to 1031
forward would be:

\$235,830

PLUS your share of the
DEBT given value of asset
at sale and your % share
of that loan (on paper)

What happens at the refinance? Is this non taxable income? What happens at sale?



I am not a CPA, and you should obviously confirm this with your own CPA, but my understanding is that a refinance is not a taxable event. This means that if you receive a distribution from the entity that was due to additional cash out the entity received from the refinance, that money is generally not taxable to you.

If you had a future sale in which you did not do a 1031 exchange for your TIC investment then that would be taxable based on your share of the sales price minus your share of the adjusted tax basis in the property.