



VIII. History Files

A. The Pressure Cooker

“The Pressure Cooker”

by Ted Blank, S.E.C., EMS

When completing a 1031 Tax Deferred Exchange I am thoroughly convinced the toughest part of the process is the 45-day identification period of the replacement property.

Having worked as a broker in the real estate exchange market since 1980, most of the exchanges my clients have been involved in have been simultaneous exchanges, (e.g., one property used to buy another). In these cases, a 1031 intermediary is usually not used and the replacement property is acquired on the same day as the relinquished property is sold.

In late June of last year, I was fortunate enough to be involved in the sale of a \$2 million property. As the managing partner of the LLC that owned the asset, it was substantially my responsibility to complete the sale and find a replacement property.

Since we were dealing in the rather turbulent medical market, it was somewhat risky to identify the next property until the medical building was closed. Although I started looking for replacement property in May, the search did not seriously start until July 1.

When identifying replacement property there are two usable rules that you need to work within: You can identify any three properties of any value, or you can identify a number of properties up to 200% of the value of the relinquished property. Based upon my personal preferences to diversify risk, I chose to look at properties under \$2 million in price and in several markets outside Colorado.

In order to increase the chances of success, I did two things: (1) communicated closely with my intermediary regarding the rules and any flexibility the rules would allow, and (2) hired a friend and CCIM broker, Bob Brougham, to assist in the location, evaluation

and purchase of the replacement property.

Initially we searched three or four local and national networks for product that met the investment criteria I was seeking (12% return, plus upside appreciation). We screened 200-300 properties on a very preliminary basis and looked at more detailed information on 40 to 50 of the properties. In two weeks, we were making offers on properties. Thirty days into the process, we had offers accepted on four properties:

1. Industrial Manufacturing in Houston, \$975K
2. Office building in Corpus Christi, \$2 million
3. Office building in Wichita, \$650K
4. Leased restaurant in Denver, \$750K

I anticipated two or three more contracts would be accepted prior to the end of our 45 days. Most of our contracts carried a 30-day inspection period. During this time we completed as much due diligence as possible and made the final selection of property. Due to the short time frame and the industrial nature of the Houston property I felt it necessary to proceed with a Phase I & II Environmental assessment. Therefore, I invested \$6,000, plus legal fees, in a property I was not sure I would be identifying.

The 45 identification period was hectic, busy, exciting and stressful. It included trips to Wichita, Houston and Corpus Christi to inspect properties.

Well, the 45th day came and went. I identified three properties at noon on the final day. We eventually closed on two of them and



sold the contract on the third property to someone else who was also in the “Pressure Cooker.”

You can serve yourself and your clients best by being prepared for the pressure cooker. Some suggestions to minimize your stress:

1. Deal with brokers or principals you know you can close with—or have closed with in the past.
2. Hire additional qualified help in the early stages.
3. Use an experienced 1031 intermediary who is accessible.
4. Start looking for replacement property before your close on property to be relinquished.
5. Try to include language in the contract of the relinquished to extend closing if you are having trouble finding replacement property.
6. Regarding the relinquished property contract—try to get substantial non-refundable earnest money and quick contingency removals.
7. Identify only replacement property that you control through a binding contract.

Good luck as you help your clients sell their property and put them in the 45 day “Pressure Cooker.”

About The Author



Ted Blank of Denver, has been a licensed real estate broker specializing in exchanges for over 17 years.

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