

From One Big Headache to Four Passive Income Streams

Investor Profile:

High-income earner, business owner and investor, moderately experienced, seeking passive income and diversification. Taxable income \$300k. First 1031 exchange.

Before the Exchange

- **Property:** 40-unit apartment building in Missouri (owned since 2006)
- **Value:** ~\$3.65M
- **Loan Balance:** ~\$1.36M
- **Annual Cash Flow:** Positive, but low performance relative to the effort required
- **Equity Tied Up:** ~\$2.2M

The Problem

The property was producing modest returns for the amount of time, management, and oversight required. Too much equity tied up in one asset in one location.

The 1031 Exchange

- **Sale Price:** ~\$3.65M
- **Selling Costs:** ~\$83K
- **Loan Payoff:** ~\$1.36M
- **Net Proceeds:** ~\$2M cash to reinvest
- **New Investments:**
 - 4 syndicated multifamily assets in different states
 - Total FMV acquired: ~\$3.7M (cash \$2M + loans \$1.7M)
 - All closed within the exchange window

Tax Impact

- **Capital Gain Deferred:** ~\$780K
- **Depreciation Recapture Deferred:** ~\$326K
- **Estimated Immediate Tax Savings:**
 - Recapture @ 24% Fed + 9.3% CA: ~\$111K saved now
 - Capital gains @ 15-20% Fed + 9.3% CA: ~\$246K saved now
 - Total 2024 tax avoided: ~\$358K

All gains deferred into the new properties – no tax paid in 2024.

After the Exchange

- **Diversification:** From 1 property in Missouri → 4 properties in multiple states
- **Cash Flow:** Increased through passive syndication income
- **Management:** No active landlord duties – fully managed investments
- **Future Planning:** Can continue 1031 exchanges on each investment, potentially passing to heirs with a step-up in basis (eliminating the deferred gain entirely).

Bottom Line:

This investor turned one underperforming, high-effort property into four diversified, income-producing assets – while deferring over **\$1.1M in taxable gains** and saving **~\$358K in immediate taxes**.

Need help? Let's lock this down today.
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