

### Three (3) Property Identification Rule

The three (3) property identification rule limits the total (aggregate) number of like-kind replacement properties that you can identify to three (3) potential like-kind replacement properties. The vast majority of Investors today use this three (3) property identification rule.

You could acquire all three of the identified like-kind replacement properties as part of your 1031 exchange, but most Investors only acquire one of the three identified properties. The second and third identified properties are merely identified as back-up like-kind replacement properties in case you can not acquire the first property.

You will skip the three (3) property identification rule and use the 200% of Fair Market Value Rule if you are trying to diversify your investment portfolio and wish to identify more than three (3) like-kind replacement properties.

### 200% of Fair Market Value Identification Rule

You can identify more than three (3) like-kind replacement properties as long as the total (aggregate) fair market value of all the identified like-kind replacement properties does not exceed 200% of the total (aggregate) net sales value of your relinquished property(ies) sold in your 1031 exchange. The limitation is only on the total (aggregate) identified value. There is no limitation on the total number of like-kind replacement properties.

For example, if you sold relinquished property(ies) in the amount of \$2,000,000 you would be able to identify as many like-kind replacement properties as you want as long as the total (aggregate) value of the identified like-kind replacement properties does not exceed \$4,000,000 (200% of \$2,000,000).

### 95% Identification Exception

Its good to have choices, but be careful with this exception. It is an exceptionally useful tool under the right circumstances, but can present some tricky problems.

You may need to identify significantly more like-kind replacement properties than the first two identification rules permit. There is no limit as to the total (aggregate) number or value of identified like-kind replacement properties permitted under the 95% exception as long as you actually acquire and close on 95% of the value identified.

However, if you do not acquire and close on at least 95% of the value of the identified like-kind replacement properties the entire 1031 exchange transaction will be disallowed.