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Reverse Exchanges

Exchanging taxpayers may be unable to sell relinquished property prior to acquiring replacement property or may have specific reasons to acquire replacement property prior to the sale of the relinquished property. It may additionally be the desire of an exchanger to construct improvements on a property prior to its acquisition. For these circumstances, the I.R.S. created a "safe harbor" with Rev. Proc. 2000-37 authorizing the execution of "reverse" and "improvement" exchanges.

Under this I.R.S. safe-harbor, exchangers are prohibited from taking actual title to the replacement property, prior to the sale of relinquished property. As a result, an "Exchange Accommodation Titleholder" (EAT) must step in the shoes of the exchanger. Careful attention must be paid by the exchanger to ensure that proper arrangements have been made prior to the sale. As with a delayed exchange, specific restrictions and time limitations must be followed, including the requirement of a qualified intermediary to facilitate the exchange between the respective property owners and the EAT.

Fees for reverse, build-to-suit and improvement exchanges are substantially greater than for delayed exchanges due to the fact that I.R.S. rules require that the EAT actually own the "parked" property. Certain transactional costs are inherent to the transaction and include transfer taxes, recording fees, mortgage taxes, lender charges, escrow and title fees, legal and accounting fees, insurance fees, and the costs of creating a special purpose entity (SPE) to hold the parked property. Fees charged by IPE 1031 will be negotiated and are based upon the level of complexity of a transaction.

Reverse and improvement exchanges involve complex considerations and require extensive advanced planning. As a result, exchangers contemplating this course of action must provide IPE 1031 with substantial lead time to structure the exchange.

Services provided by IPE 1031 are not legal services. No attorney-client relationship exists between IPE 1031, its officers or employees, and exchangers. Taxpayers considering an exchange transaction are strongly encouraged to consult with tax and/or legal counsel prior to undertaking a Section 1031 exchange transaction.