

COMPLIMENTS OF:



THE POWER OF EXCHANGE

Valuable Information for Real Estate Professionals and their Clients

REVERSE EXCHANGE VARIATIONS:

“COMPARISON OF THE TWO DIFFERENT PARKING ARRANGEMENT FORMATS”

BENEFITS OF A REVERSE EXCHANGE

The need for a §1031 reverse exchange arises when circumstances require that the replacement property be acquired before closing on the relinquished property. Often Exchangers may need to perform a reverse exchange in a “sellers market” where recently listed properties are quickly under contract with a buyer. Revenue Procedure 2000-37 provides guidelines for the Exchanger to perform a “parking arrangement” exchange within 180 calendar days from the Exchange Accommodation Titleholder’s (EAT) purchase of the replacement property.

“REPLACEMENT PROPERTY PARKED”

The EAT acquires title to the replacement property with funds the Exchanger causes to be loaned to the EAT. Within 180 days, the Exchanger sells the relinquished property through the “delayed exchange” format and the EAT transfers the replacement property to the Exchanger.

Positives of the “Replacement Property Parked”

- Full exchange equity need not be present.
- A deferred exchange may follow this format.
- Allows for multiple relinquished properties.

Negatives of the “Replacement Property Parked”

- Lender may have issues lending to the EAT.
- High costs - potential double transfer taxes and title insurance fees.

“RELINQUISHED PROPERTY PARKED”

The Exchanger conveys the relinquished property to the EAT and then the Exchanger acquires the replacement property under a “simultaneous exchange” format. During the 180 days, the EAT remains on title to the relinquished property until it is sold to a purchaser.

Positives of the “Relinquished Property Parked”

- Loan and purchase of replacement property easier since the loan is directly to the Exchanger.
- Possibly less expensive on transfer tax for relinquished property.

Negatives of the “Relinquished Property Parked”

- Equity and debt should match to avoid “boot.”
- Transfer to EAT may increase county property tax basis.
- Lender issues on relinquished property (due on sale clause and prepayment penalties).



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