



# Reverse Exchange & Improvement Exchange Highlights

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**Investment Property Exchange Services, Inc.**

a Fidelity National Financial Company FORTUNE 500

## **Reverse & Improvement 1031 Exchanges**

Reverse Exchanges and Improvement Exchanges provide greater flexibility in timing the acquisition and disposition of investment real property in a like-kind exchange. Both are much more complex than Delayed/Forward Exchanges and require expertise in structuring, additional work, careful planning and execution.

### **What is a Reverse Exchange?**

If you find a new Replacement Property that you would like to acquire before you sell your current property, you can utilize a Reverse Exchange (buy first, sell second). Since the Exchanger cannot own both properties at the same time, a parking arrangement can be structured to enable an accommodator (Exchange Accommodation Titleholder "EAT"), like IPX1031, to acquire and hold one of the properties until the Relinquished Property can be sold to a third party.

### **What is an Improvement Exchange?**

If you would like to build on or make improvements to a Replacement Property, you can use the exchange proceeds by structuring an Improvement Exchange, also known as a Build-to-Suit Exchange or a Construction Exchange. Since exchange funds cannot be used to improve property the Exchanger already owns, a parking arrangement can be structured to enable an accommodator (EAT), like IPX1031, to take title to the Replacement Property. The exchange funds are loaned to the EAT, who pays the vendors directly. At the end of the exchange period the Exchanger acquires the Replacement Property, whose value has been increased by the improvements.

## Why More Complicated?

Both Reverse and Improvement Exchanges require an Exchange Accommodation Titleholder (EAT) to hold title to either the Exchanger's old Relinquished Property or new Replacement Property pending the completion of the exchange. If an Exchanger wants to use exchange funds to improve Replacement Property as part of a 1031 Exchange, the Exchanger can enter into an Improvement or Build-to-Suit Exchange whereby the EAT takes title to the new Replacement Property while improvements are being constructed so that the EAT can transfer the Replacement Property to the Exchanger at the higher improved value.

## IPX1031 & Your Reverse

To ensure a smooth and successful parking transaction, IPX1031, acting as the EAT, coordinates the entire exchange process with the Exchanger's tax and legal counsel, lender, environmental consultant, title company and settlement officer. IPX1031 utilizes the best and most up-to-date exchange structures and business practices available to help you achieve your desired result. IPX1031 also utilizes separate limited liability companies (LLCs) for each exchanger so that all properties are segregated and never comingled with other properties the EAT holds. The protection afforded by utilizing this type of entity ensures that the Exchanger's property will be safe while IPX1031 holds title and completes the exchange.

## Key Steps To Begin Your Reverse Exchange

- 1 As early in the process as possible, engage IPX1031 to act as an Exchange Accommodation Titleholder (EAT) to facilitate your Reverse Exchange.
- 2 Include an "Exchange Cooperation Clause" as an addendum to the purchase and sale agreements on both the Relinquished Property and the Replacement Property.
- 3 Contact your tax and/or legal advisor as early in the Reverse Exchange process as possible to determine the advisability of completing a Reverse Exchange.
- 4 Contact IPX1031 as soon as possible after entering into the purchase and sale agreements for both the Relinquished and Replacement Properties and advise IPX1031 of the anticipated closing dates of each transaction.
- 5 If the EAT is taking title to the Replacement Property and there is a third party lender providing financing, the lender must be informed as soon as possible that you will be completing a Reverse Exchange.

**Do not close on either the Relinquished or the Replacement Property without first contacting IPX1031 to ensure that all of the required exchange documents are in place.**

## Important Considerations

### COST

Reverse Exchanges are more expensive than Delayed/Forward Exchanges because they are more complex and require additional time and effort to set up and administer. IPX1031's fee which includes EAT set-up, will be determined on the size and complexity of the exchange. Separately, the Exchanger is responsible for all transaction costs, which could include transfer fees, mortgage taxes, recording fees, lender charges, escrow/title fees, and legal fees, etc.

### PLANNING

IPX1031 recommends two weeks prior notice to review the details of the Reverse Exchange and to prepare and structure the applicable exchange documents.

### CLOSING

Do not close on any property without discussing the transaction with IPX1031. A Reverse Exchange must be set up and structured prior to property closing.

### LIQUIDITY & LENDERS

If loans are necessary, lender requirements or lender unfamiliarity with reverse transactions may impact your exchange.

### TIMING & RULES

Most rules that apply to Delayed/Forward Exchanges apply to Reverse Exchanges, including the 45 day identification period and 180 day period to complete the exchange.

### NON-SAFE HARBOR EXCHANGES

Most transactions are structured pursuant to a "safe harbor" outlined by the IRS, which permits the accommodator to hold the parked property for a maximum of 180 days. That may not be enough time, especially where the improvements will take longer to complete, or where the Relinquished Property takes longer to sell. If more time is needed, ask IPX1031 about a "Non-Safe Harbor" Exchange.

## IPX1031 - The Best Choice for Your 1031

Due to the inherent complexity of Reverse and Improvement Exchanges, it pays to entrust your valuable assets with the experts at IPX1031. Although Revenue Procedure 2000-37 has removed some of the Exchanger's tax risk for Reverse Exchanges structured within its guidelines, Reverse and Improvement Exchanges are not risk free. It is critical for Exchangers to understand that in this industry, all companies are not equal and that the service and security available from different EATs can vary greatly. At IPX1031 security for the client's exchange is our number one concern.

- \$100 MILLION Fidelity Bond Coverage
- \$50 MILLION Written Performance Guaranty
- \$30 MILLION Professional Liability Insurance
- UNPARALLELED Financial Strength
- Full Service Qualified Intermediary with nationwide locations
- Attorneys and Certified Exchange Specialists® to guide you and your clients through the exchange process
- Complimentary strategic 1031 consultation
- Timely document preparation
- Subsidiary of Fidelity National Financial (NYSE: FNF)

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