REALOGY
1031 SERVICES

1031 Exchange Complete FAQs

1. HOW LONG DO I HAVE TO IDENTIFY REPLACEMENT PROPERTY?

The replacement properties must be identified within 45 days after the sale of the relinquished property. This requirement is strictly enforced and no extensions are first granted, except in very limited instances (e.g. IRS Notice 2020-23). Identification must be in writing, signed, and dated, and received by Realogy 1031 Services no later than 45 days after the sale of relinquished property. Replacement property must be identified unambiguously, using either a legal description or a physical address.

2. HOW LONG DO I HAVE TO PURCHASE THE REPLACEMENT PROPERTY?

The replacement property must be purchased within 180 days after the sale of the relinquished property. This requirement is strictly enforced and no extensions are first granted. NOTE: The time period may be shorter if you are required to file a tax return prior to the expiration of the 180 day period and you do not seek an extension to file your return.

3. AM I LIMITED TO THE NUMBER OF PROPERTIES I MAY IDENTIFY?

The IRS has rules on the number of properties you may identify. In most cases, you are basically limited to identifying 3 properties, regardless of value. You may identify more than 3 properties if the combined fair market values of the properties you identify does not exceed two times the sales price of the relinquished property (200% rule). Otherwise, you have to close on 95% of the identified replacement property to have a valid exchange (95% rule).

4. WHAT PROPERTY IS LIKE KIND TO MY PROPERTY?

When it comes to real estate, all real estate is basically like kind to all other real estate. For example, an office building could be exchanged for an apartment complex or raw land could be exchanged for a duplex. The two types of real property that generally don't qualify for 1031 exchange purposes are a person’s personal residence or a vacation home.

5. WHAT MUST I DO TO HAVE A FULLY DEFERRED EXCHANGE?

The general rule in order to have a fully deferred exchange is that the exchangor must trade equal or up in equity and equal or up in fair market value. The effect of this rule is that the exchangor uses the entire net proceeds from the relinquished property on the purchase of the replacement property. Also, the exchangor must replace any mortgage paid off at the sale of the relinquished property with an equal or greater mortgage on the replacement property.

6. MAY I DO A MULTIPLE PROPERTY EXCHANGE?

Yes. Several relinquished properties may be exchanged for a single replacement property or one relinquished property may be exchanged for several replacement properties. Advanced planning is recommended.

7. HOW SHOULD I TAKE TITLE TO THE REPLACEMENT PROPERTY?

With limited exception, title to the replacement property must be taken in the same name (entity) in which the relinquished property was held.

8. CAN I USE EXCHANGE FUNDS TO BUILD IMPROVEMENTS ON REPLACEMENT PROPERTY?

Yes, if it is structured correctly. Generally speaking, the best way to accomplish this goal is to have a "Special Purpose Entity" acquire title to the replacement property, have the Special Purpose Entity build the improvements, and have the exchangor acquire the replacement property and improvements from the Special Purpose Entity under the regulations for improvement or build-to-suit exchanges, in accordance with Rev. Proc. 2000-37.

9. WHAT IS A REVERSE EXCHANGE?

A reverse exchange is an exchange wherein the replacement property is purchased prior to the relinquished property being sold. Reverse Exchanges are complicated and should be discussed with a Realogy 1031 Services employee to fully understand all of the steps in the transaction.

Questions? Contact us for a free consultation | 844-554-REAL