



THE REVERSE 1031 EXCHANGE

In a Reverse 1031 Exchange, the Replacement Property is purchased on behalf of the Exchanger before the Relinquished Property is sold. An Exchange Accommodation Titleholder (EAT) holds legal title to either the Relinquished Property or the Replacement Property (known as “parking title”) until the Reverse 1031 Exchange is completed. **Typically, the EAT parks the Replacement Property until the Relinquished Property is sold and the Reverse 1031 Exchange is completed.**

Two key deadline still apply to the Reverse 1031 Exchange, which are strictly construed by the IRS:

- **45-Day Identification Period.** Once the EAT begins the Reverse 1031 Exchange by acquiring the Replacement Property, the Exchanger has 45 calendar days to identify the Relinquished Property. The Exchanger usually knows what property will be the Relinquished Property.
- **180-Day Exchange Period.** The identified Relinquished Property must be sold *and* the Replacement Property transferred to the Exchanger within 180 days of starting the exchange.

Steps for Parking Replacement Property (Most Common):

- **Step 1.** Exchanger enters into a purchase contract with a third-party seller and assigns its rights in the purchase contract to the EAT. Exchanger then loans funds to the EAT to acquire legal title to the Replacement Property.
- **Step 2.** EAT acquires the Replacement Property and parks title. EAT leases the Replacement Property to the Exchanger until the Reverse 1031 Exchange is completed.
- **Step 3.** Exchanger sells the identified Relinquished Property to a third-party purchaser. The sale proceeds (“exchange funds”) go to the Qualified Intermediary (QI), which uses the exchange funds to purchase the Replacement Property from the EAT on behalf of the Exchanger.
- **Step 4.** EAT uses the exchange funds to repay the Exchanger’s initial loan. EAT then conveys title to the Replacement Property directly to the Exchanger.
- **Note:** If the sale of the Relinquished Property yields more funds than necessary for the QI to purchase the Replacement Property from the EAT, then the Exchanger can identify *additional* Replacement Property within 45 days of the sale of the Relinquished Property and acquire that *additional* Replacement Property within 180 days as part of a conventional 1031 exchange.

Steps for Parking Relinquished Property (Less Common):

- **Step 1.** Exchanger loans funds to the EAT to acquire legal title to the Relinquished Property. If the Exchanger has an existing mortgage on the Relinquished Property, then the Exchanger’s loan to the EAT will be equal to the Exchanger’s equity in the Relinquished Property.
- **Step 2.** Exchanger conveys legal title (subject to any existing mortgage) to the Relinquished Property to the EAT, who then parks title.
- **Step 3.** The QI purchases Replacement Property on behalf of the Exchanger. The Replacement Property is conveyed directly to the Exchanger.
- **Step 4.** EAT sells the Relinquished Property to a third-party purchaser. The sale proceeds (“exchange funds”) go first to the EAT to payoff any existing third-party financing and then to repay the Exchanger on the initial loan.

“Like-Kind” Property. The Relinquished Property and Replacement Property must be of “like-kind” and held for, or intended to be held for, **investment purposes or for productive use in a trade or business.** The test to determine that the property has been, or will be, used for investment or productive use in a trade or business falls on the Exchanger’s purpose and intent, as well as the nature and characteristic of the property.