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Using 1031 exchanges to recession proof your business

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Real estate investors and their advisors have long been familiar with the cash flow benefits of 1031 exchanges. The most common are deferred exchanges- this is when the owners sell a piece of property first before buying more property within the 180 day limit.

There are a number of other types of 1031 exchanges that can also be used in a down market. For example, real estate investors with capital are currently able to purchase valuable properties at a significant discount. 1031 exchanges can then be used later to sell a property asset and use those proceeds to reduce the loan to the lender or to reimburse the investor for funds invested in the property purchased. This preserves the investors' overall equity in their investments.

There are two options: a Reverse Exchange or a Parking Exchange. Both are the buy first, sell second method. A Reverse Exchange is when the sale is completed within 180 days. A Parking Exchange, on the other hand, allows the exchange to continue until the sale happens, even if it takes several years. While standard exchanges have a strict 180-day limit and a non-arm's length legal structure, a Parking Exchange is the opposite: strict legal structure and a relaxed timeline.

There are good reasons for wanting a relaxed time line: in this economy, banks are hardly lending, and with prices of most properties substantially lowered, it is easier to buy than sell these days. The question of selling property, however, is not to ask if it is possible to sell but if it is probable. It is possible to sell anything; if it is probable to sell within the 180 day period is the more fitting question. If it is not, then a Parking Exchange will be the best course of action.

Parking Exchanges provide a remarkable opportunity to invest in a down economy. This is especially advantageous for unique pieces of property, where no suitable purchaser is available at the present moment.

A sample roster of our clients using Parking Exchanges includes a car dealership, a nursing home, commercial industrial building, apartment complexes and an orchard. By having the ability to "park" the property, the Qualified Intermediary (an independent 3rd party is required by law) safeguards the property and ensures the exchange's successful completion. Every Parking Exchange is custom designed, since each exchange involves different type of properties with different purposes in mind, while following the same guidelines put forth by the IRS.

Example: Client A buys land and builds a new facility. It takes more than 6 months to build. Once the building is completed, client A moves from the old facility to the new facility. Once moved in, client A sells the old facility, and all the gains from the sale are deferred to the new facility's purchase.

In real life, this exchange took a year and two months. If this had not been a Parking Exchange, it would not have been possible. However, because client A had more time, they were able to sell their old building without reducing their desired price.

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