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Reverse exchanges empower investors

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There are some good real estate deals out there and investors are eager to take advantage of the lower pricing before the market turns (yes, it will turn). However, in a climate where properties are taking longer to sell, property owners are finding reverse exchanges an excellent strategy to defer capital gains tax.

Reverse exchanges may be the answer if the exchanger finds new replacement property and must close before the other property sells; or if the property up for sale fails to close on time and the exchanger cannot postpone the closing of the new purchase.

This tax structure also gives investors the flexibility to search for new property first, or even make an offer on a foreclosed property, which may have to be purchased in as little as 30 days. Once accepted, a Reverse Exchange can be set up and the property to be relinquished then listed for sale.

In a reverse, the exchanger acquires the replacement property before selling another. Since the exchanger cannot hold title to both properties at the same time, title to one must be "parked" with a Qualified Intermediary, acting as the Exchange Accommodation Titleholder (EAT).

Another creative approach is the Reverse Build-to-Suit Exchange, allowing the investor to purchase property first and make improvements prior to the relinquished property sale. Businesses that need to remain active and keep a continued income stream during a move utilize this approach.

Reverse Exchanges are more costly and involved than Delayed Exchanges, but are quite useful in helping an exchanger defer capital gains taxes under Section 1031. These factors can be justified by the flexibility gained by doing Reverse Exchange.

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