Multiple Property Exchanges – The Basics

IRC Section 1031 allows for the exchange of several properties into one or more replacement properties. Exchangers, however, need to be aware of the following rules that can make planning for such an exchange challenging:

- The 45-day identification period and 180-day exchange periods start when the first of several sales close in the same exchange.
- If several relinquished properties are included in a single exchange, the identification rules are as follows:

    1. Listing only three properties of unlimited value, OR:
    2. Listing more than three properties whose combined values do not exceeded 200% of the value of the properties being sold.

If the objective is to exchange several properties into one or more replacement properties, all sales and purchases must be completed within the 180-day window. The investors must then decide whether there is an advantage in having one exchange or several exchanges. Multiple exchanges enable the investor to have separate 45-day identification and 180-day exchange periods for each exchange. Clearly this allows for more flexibility with respect to the timing of these transactions as well as the identification of multiple properties. One disadvantage would be the additional cost associated with several exchanges.

Although multiple exchanges provide flexibility, the identification rules become more complex when a single property is acquired out of the proceeds of several exchanges. Specifically, the identification notices should specify only the fractional interest of the property that will be purchased in each exchange. This ensures the exchanger ultimately acquires substantially the same property that is identified in each exchange.

For more information:
Steven Rosansky
Senior Director / Director
949-836-7604
steven@peakexchange.com
www.peakexchange.com

PEAK™ 1031 EXCHANGE
5900 Canoga Ave. Suite 280 Woodland Hills CA 91367

Here are a few strategies that investors can utilize when selling multiple properties:

- Delay closing on the first few properties until the remainder can be agreed to and closed within a short period of time. All sales must close before the purchase to avoid needing a reverse exchange. Leases may be utilized to coordinate timing issues.
- Tie up the desired replacement property with an option to purchase (with or without a lease) until sales of the relinquished properties can be negotiated and closed at roughly the same time.
- As a last resort, consider a reverse exchange so that the replacement property can be purchased by the Intermediary prior to selling any of the relinquished properties. Although the strict time limits of delayed exchanges are avoided under this scenario, the reverse exchange is significantly more complicated and costly than a standard delayed exchange.
- Consider a partial reverse exchange to get more time to complete the transaction. For example, if an exchanger closes their first relinquished property and then closes their replacement property before a second sale closes, they can set up a standard exchange and then a reverse exchange to extend the time periods for completing the entire transaction.

With proper planning and guidance through the use of an experienced Qualified Intermediary like Peak 1031 Exchange, Inc., exchanging multiple properties into one or more replacement properties can achieve a variety of investment objectives. Always remember to consult with your tax adviser or attorney as part of the evaluation process.

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