Reverse (Parking) 1031 Exchanges

What is a Reverse or Parking Exchange?

A Reverse or Parking Exchange is where an Exchanger purchases their Replacement Property prior to selling their Relinquished Property. The typical order of events in a 1031 Exchange occur in reverse, hence the name.

Process of a Reverse Exchange

In order to have a valid Reverse Exchange, the Exchanger cannot own the Relinquished Property and the Replacement Property at the same time. Therefore, the transaction must be structured such that they sell the Relinquished Property prior to acquiring the Replacement Property. Typically, this is accomplished by having an "Exchange Accommodation Titleholder", or EAT, acquired the Replacement Property. The EAT will hold title to the Replacement Property in a Reverse Exchange until the Exchanger sells the Relinquished Property, at which time the EAT then transfers the title back to Exchanger to complete the Reverse Exchange process.

Other Considerations in a Reverse Exchange

Some additional considerations for a Reverse Exchange include determining which property to "park" with the EAT. When parking the Replacement Property with an EAT the amount needed to acquire the property is a certain sum; however, if you are parking the Relinquished Property the amount is usually a best guess, which later requires adjustments to deal with the deviations. Therefore, traditionally the Replacement Property is "parked" with the EAT in a Reverse Exchanges.

Some reasons why a Relinquished Property would be "parked" include:

- If the value of the Relinquished Property is much less than the Replacement Property making the loan to the EAT more easily attained
- If the Replacement Property requires special financing
- If the Replacement Property lender will not lend to an LLC
- If the Replacement Property has environmental issues or concerns

Reasons For A Reverse Exchanges

Below are a few of the reasons or factors that contribute to the need for a Reverse Exchange:

- **Competitive Real Estate Market**
In a competitive market, finding suitable Replacement Property within the 45-day Identification Period can be difficult. A Reverse Exchange allows for the Replacement property to be identified and purchased prior without consideration of a 45-day regulation.

- **Financial Considerations**:
If an income-generating Relinquished Property is sold first, then income ceases until the Replacement Property is identified and purchased which could take up to 180 days with a traditional 1031 Exchange. Acquiring the Replacement Property first would allow the Exchanger to continue to generate income on the Relinquished Property, as well as potentially on the Replacement Property through a Reverse Exchange.

- **Ongoing Business:**
If the Exchanger operates their business in the Relinquished Property, they typically cannot shut down operations during the time it takes to acquire the Replacement Property. Acquiring the Replacement Property first allows them to relocate their business in a manner that minimizes business interruptions.

- **Timing Doesn't Work:**
Sometimes the seller of the Replacement Property insists on the transaction occurring on or before a particular date, but the buyer of the Relinquished Property cannot complete the acquisition by that date. While the Exchanger hadn't planned on a Reverse Exchange, the structure can save potentially thousands of dollars in taxes or other costs.