

Real1031

1031 Exchange Reverse Exchange Procedural Outline

There are situations when the Replacement Property is purchased prior to the Relinquished Property being sold, in those situations a Reverse Exchange is required. A Reverse Exchange includes both a Qualified Intermediary, as well as an Accommodation Title Holder, learn more about the process of a Reverse Exchange below.

Step 1:

Taxpayer enters contract for Replacement Property

The taxpayer wants to do a 1031 Exchange, they entered into a contract to purchase the replacement property, however, the corresponding Relinquished Property cannot be sold by the closing date for the Replacement Property which will require a Reverse Exchange.

Step 2:

Contact Real 1031 to start a Reverse 1031 Exchange

Provide all taxpayer information and documentation requested in your Welcome Email via email to the Client Service team member to get exchange initiated. The taxpayer and the Reverse Exchange Accommodator, enter into a Reverse Exchange Agreement known as a Qualified Exchange Accommodation Agreement (QEAA) for Replacement Property whereby an LLC owned by the Accommodator will take title to the Replacement Property. A company, Accruit LLC, acts as Accommodator and provides this service for Real 1031 clients. The LLC is set up with Accruit Exchange Accommodation Services LLC, an affiliate of Accruit LLC as its sole member.

Step 3:

Taxpayer assigns the Replacement Property Purchase Contract to the LLC owned by AEAS, in this context AEAS is known as an Accommodator or an Exchange Accommodation Titleholder (EAT).

Step 4:

EAT receives additional funds to acquire Replacement Property

Unless the taxpayer is providing 100% of the necessary funds, a taxpayer selects a lending bank who loans the funds required for the purchase to the EAT. The LLC signs any applicable loan documents as the borrower, however, the taxpayer signs as the guarantor of any such loan. In the event the bank does not make a 100% loan-to-value loan, the taxpayer makes a second loan for the balance needed, which for documentation purposes should include any earnest money that may have been previously advanced by the taxpayer.

Step 5:

Sales Contract Executed for Replacement Property from LLC to Taxpayer

The taxpayer and the EAT and/or the LLC enter into the a contract for the sale of the Replacement Property back to the taxpayer, as well as a triple net Master Lease, which allows the taxpayer to oversee the day-to-day management of the property while it is held by the LLC. It allows the taxpayer to deal directly with the tenants, keep the rental income and to pay property expenses.

Step 6:

Replacement Property Sale Closes

Funds are sent directly to the closing by the lender and/or the taxpayer. The closing takes place and the LLC takes title to the property. Evidence of liability insurance must be furnished to Real 1031 showing the LLC as the insured party, while the lender and the taxpayer may appear as additional insureds.

Step 7:

Taxpayer entered into contract to sell the Relinquished Property

The sale must occur within 180 days of the Replacement Property closing, the taxpayer assigns its rights, but not its obligations, under the contract for the sale of the Relinquished Property to the Qualified Intermediary (QI) and gives to the buyer(s) written notice of this assignment on or before the closing. The closing must take place within the 180-day period and the net proceeds of the sale are paid to the QI.



Step 8:

QI disburses funds to EAT

The taxpayer directs the QI to disburse the exchange proceeds to the EAT as part, or all, of the purchase price. The EAT receives the funds and immediately wires those funds to the taxpayer to pay down all or part of the debt, any funds leftover are used to pay down principal on any bank loan.

Step 9:

Taxpayer takes ownership of Replacement Property

When desired by the taxpayer, via an assignment of the membership interest in the LLC from the EAT, the effective ownership of the property is transferred. Alternatively, should circumstances warrant it, a deed may be issued to the taxpayer by the LLC and the LLC may be dissolved.

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Start An Exchange!

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