

Multiple Properties

Selling Multiple Properties In a Section 1031 Exchange

1031

Knowledge



When performing a Section 1031 tax-deferred exchange, an exchanger may sell multiple relinquished properties in a single exchange, exchanging several properties into one (or multiple) replacement properties. However, two basic rules can make planning for such an exchange challenging:

- Both the 45-day identification and 180-day exchange completion periods start when the *first* of several sales in the same exchange closes.
- If several sales are grouped in the same exchange, the identification rules permit listing only three (3) properties of unlimited value - OR - more than three (3) properties whose combined values do not exceed 200% of the value of properties being sold.

If the goal is to exchange several properties into one or more replacement properties, the exchanger must consider the probability of completing all of the sales and then the purchase within a 180-day time period. The first question is whether there is an advantage to having only one exchange or if it is better to break the sales and purchases into separate exchanges. Two or more separate exchanges will provide more flexibility than one exchange because exchangers will have renewed identification and exchange periods. However, there may be practical limitations in purchasing a single replacement property in separate purchases.

Care must also be taken to establish two or more exchange transactions. The separate exchanges must clearly be reflected in the property sale agreements, separate exchange agreements, and separate closing arrangements. If a single replacement property is selected for two separate exchanges, the separate identification notices of both exchanges should specify only the fractional interest of the replacement property that will be purchased for each of the respective exchanges.

Exchangers have successfully sold multiple properties in the same exchange using a variety of strategies:

- Delay closing on the first few properties to sell until the remainder of the sales can be agreed to and closed within a short period. Leases to eventual purchasers can be structured.
- 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.
- If all else fails, a reverse exchange can be structured so that the replacement property can be purchased by an entity owned by the qualified intermediary called an Exchange Accommodation Titleholder (EAT) prior to the sale of any of the relinquished properties. While the strict time limits of delayed exchanges are avoided under this scenario, financing and other considerations often make this a more costly choice when compared with the standard delayed variation.

A well-planned exchange of multiple properties into one replacement property can help you and other exchangers achieve a variety of investment objectives. A thorough understanding of 1031 exchange rules is critical to a successful exchange.

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