TFES | TITLE FINANCIAL EXCHANGE SERVICES

Reverse Exchanges

WHAT IS A REVERSE EXCHANGE?

A Reverse Exchange occurs when an Exchanger wishes to acquire the replacement property before selling the relinquished property. Ideally, an investor will be able to sell their relinquished property first, but often circumstances arise which make it necessary to acquire the replacement property before closing on the relinquished property.

WHY IS A "PARKING ARRANGEMENT" NECESSARY?

Revenue Procedure 2000-37 provides safe harbor guidelines for the Exchanger to acquire the replacement property before selling the relinquished property. The ownership is described as a "parking arrangement" in a Reverse Exchange as the property is "parked" with an Exchange Accommodation Titleholder (EAT). Rev. Prov. 2000-37 clearly states that the Exchanger cannot own both properties simultaneously, hence why a "parking arrangement" is necessary. To "park" the property means the deed is recorded to the EAT, preventing the Exchanger from owning both the relinquished and the replacement property at the same time.

GENERAL REQUIREMENTS OF REVERSE EXCHANGES

- The Reverse Exchange must be completed within 180 calendar days.
- The Exchanger needs to identify the relinquished property to be sold within 45 days of closing.
- Most rules that apply to Tax-deferred Exchanges also apply to Reverse Exchanges.

PROCESS OF THE REVERSE EXCHANGE "REPLACEMENT PARKED"

The EAT will acquire the replacement property utilizing the Exchanger's funds. Within 45 calendar days from the transfer of title, the Exchanger must identify, in writing, the property to be relinquished. The Exchanger has a total of 180 calendar days to dispose of the relinquished property through the Deferred Exchange format. Property acquired by the EAT is transferred to the Exchanger.

CONSIDERATIONS TO BE MADE

- If the Exchanger is receiving a loan collateralized by the replacement property, then the lender needs to be consulted as the EAT will be showing on title to the replacement property.

- A Reverse Exchange can be combined with an Improvement Exchange. This would allow for the cost of the improvements to be included in the exchange value. Remember that the 180-day time limit is still in effect.

- When the EAT is on the title to the property, an insurance binder for full replacement fire, hazard, and general liability coverage would be required naming the EAT as additional insured.

- Additional costs incurred by the Exchanger will be substantially higher than that of a Simultaneous or Deferred Exchange. Potentially includes the Exchange fee, additional title insurance costs, document or transfer taxes, additional lender fees, and recording fees.