1031 EXCHANGES

PRESERVING EQUITY
SAVING TAX DOLLARS
BENEFITING FROM EXPERTS

REVERSE AND IMPROVEMENT 1031 EXCHANGES

REVERSE EXCHANGES

ANOTHER POWERFUL TAX-SAVING TOOL FOR REAL ESTATE INVESTORS

IRC SECTION 1031 EXCHANGES

Real estate investors who want to sell investment property and continue to invest in real estate have a powerful tax-saving tool at their disposal. Under Section 1031 of the Internal Revenue Code, an investor can dispose of existing investment property (the "relinquished property") and acquire new property (the "replacement property"). If properly structured, the proceeds from the sale of the relinquished property can be used to invest in the replacement property while deferring capital gains tax. To defer tax, the sale and purchase must be structured as an exchange, but the swap of properties does not have to be simultaneous. The regulations permit an investor to dispose of relinquished property and then acquire replacement property up to 180 days later. To do so, the investor must identify the replacement property within 45 days after the relinquished property is transferred, among other requirements.

WHAT IS A "REVERSE EXCHANGE"?

A reverse exchange occurs when an investor wants to acquire replacement property prior to the closing of the relinquished property.

Although common terminology calls this type of transaction a "reverse exchange," the investor (also referred to as the "Exchangor") does not actually acquire the replacement property first and dispose of the relinquished property later. Instead, the Exchangor arranges for an Exchange Accommodation Titleholder (or "EAT") to take title to either the relinquished property or the replacement property.

This allows the Exchangor to comply technically with the "relinquish first, replace later" order, while satisfying a market requirement to close on the replacement property. First American Exchange assists you with the entire transaction by setting up a separate entity as the EAT, as well as acting as the qualified intermediary. With the strength, security and reputation of First American Exchange, you can be assured that your reverse exchange will be handled with the utmost competence and efficiency.

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FIRST AMERICAN EXCHANGE COMPANY

OUR EXCHANGE ACCOMMODATION TITLE HOLDING AND QUALIFIED INTERMEDIARY SERVICES BRING YOU PEACE OF MIND.

Experience, nationwide service, financial strength—the Qualified Intermediary you choose should offer these, along with solid credentials in 1031 Tax-Deferred Exchanges. That's what you can expect from First American Exchange. First American Exchange Company maintains a multimillion-dollar fidelity bond and errors and omissions insurance from a leading underwriter.

Before starting the process of selling or buying a property that may be a part of an exchange transaction, call First American Exchange Company or access our website at www.firstexchange.com.

Let us help you reap the rewards of your investment. It's a smart move.

SETTING UP YOUR REVERSE EXCHANGE

HOW DOES A REVERSE EXCHANGE WORK?

In a reverse exchange, the EAT acquires title to either the replacement property ("exchange last transaction") or the relinquished property ("exchange first transaction").

It is important to note that a reverse exchange must be set up and structured with an EAT prior to the replacement property closing.

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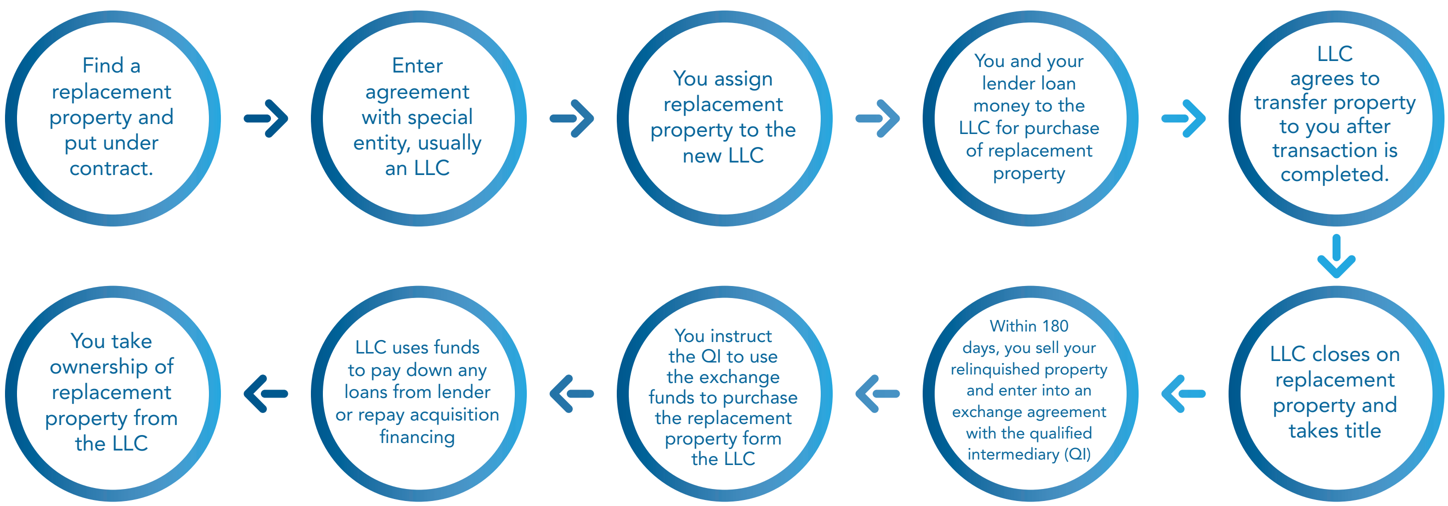
EXCHANGE LAST TRANSACTION

- In an exchange last transaction, the EAT acquires title to the replacement property at the scheduled closing. The acquisition is funded by the Exchangor or by a loan arranged by the Exchangor.
- The EAT leases the replacement property to the Exchangor, and the lease provides that the Exchangor receives all of the income and pays all of the expenses of the replacement property.
- Once a third-party buyer is found for the relinquished property, the relinquished property is transferred to the buyer.
- After the relinquished property has been transferred to the buyer, the replacement property and any net sale proceeds from the relinquished property are transferred to the Exchangor to complete the reverse exchange.



EXCHANGE FIRST TRANSACTIONS

- In an exchange first transaction, the EAT acquires title to the relinquished property prior to the scheduled closing of the replacement property.
- The EAT leases the relinquished property to the Exchangor, and the lease provides that the Exchangor receives all of the income and pays all of the expenses of the relinquished property.
- On the scheduled closing date, the Exchangor takes title to the replacement property.
- Once a third-party buyer is found for the relinquished property, the relinquished property is transferred to the buyer and any net sale proceeds from the relinquished property are used to retire any debt, or portion thereof, incurred by the EAT on its acquisition of the relinquished property.

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GENERAL REQUIREMENTS

- Reverse exchanges under the IRS safe harbor rules must be completed within 180 days.
- In an exchange last transaction, the Exchangor has 45 days from the first closing to identify the relinquished property.
- Most rules that apply to 1031 Tax-Deferred Exchanges also apply to reverse exchanges.
- All of these transactions must be set up as an exchange, rather than as a sale followed by a purchase. At First American Exchange, we will guide you through the entire process with our team of reverse exchange specialists to create a seamless transaction.

IMPROVEMENT EXCHANGES

HOW DOES AN IMPROVEMENT EXCHANGE WORK?

- An improvement exchange occurs when the Exchangor wants to acquire replacement property and build improvements on it during the exchange period. This usually occurs when the Exchangor determines that he will have exchange funds in excess of the cost of the replacement property. The excess equity is used to construct improvements on the replacement property.
- In an improvement exchange, the EAT holds title to the replacement property, but the construction may be managed by the Exchangor.
- The Exchangor must identify what will be constructed on the replacement property within 45 days after the relinquished property is transferred to the buyer.
- The exchange must be completed within 180 days, but the construction does not need to be completed during that time. It is important to note that the only property that will count towards the exchange value will be property that is considered to be real property, i.e., completed improvements that are attached to the land or building on the replacement property within the 180 day exchange period.

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