

Strategic 1031 Exchange Advisors

OUR BUSINESS PRINCIPALS

SECURITY

Industry-leading security measures that ensure exchange fund liquidity and principal protection

KNOWLEDGE

Expert team of CPAs, MBAs, and attorneys that provide exchange guidance for forward, reverse, build-to-suit construction, leasehold, international, personal property, multi-asset, and other complex exchanges

SERVICE

A significant value-adding resource with exceptional client service and innovative strategies that complement core business objectives

An Insight into:

Build-to-Suit / Construction 1031 Exchanges

In a Build-to-Suit 1031 Exchange (also referred to as a Construction Exchange), Replacement Property is constructed or improved upon by the taxpayer. A critical element to the transaction is the fact that the taxpayer may not take title to the Replacement Property while the improvements are being completed. This process requires a few considerations:

- The taxpayer must enter into a written Qualified Exchange Accommodation Arrangement ("QEAA"). The QEAA states that the property is being held on behalf of the taxpayer and ensures that the property is sold back to the taxpayer via granting the taxpayer a fixed price option to buy the property.
- The taxpayer engages the services of an Accommodation Titleholder ("AT") to hold the Replacement Property (referred to as "parking" the property) in a single-member entity (typically, a single-member limited liability company) until such time as the property or single-member entity can be acquired by the taxpayer from the AT in completion of the exchange.

In a Construction Exchange there are three distinct transactional steps for the taxpayer to complete:

Step 1: The Relinquished Property is sold to a third-party purchaser. Equity proceeds from the sale are held by the Qualified Intermediary ("QI") on behalf of the taxpayer and are used towards purchasing and placing improvements on the Replacement Property.

Step 2: The QI acts as the AT through a wholly separate holding company, and parks the Replacement Property in a new LLC. The exchanger is responsible for securing any additional debt and/or equity that will be required to purchase and improve the Replacement Property, for obtaining property & casualty insurance for the property, and for hiring the general contractor.

Step 3: The Parked Property must be acquired as Replacement Property at the earlier of construction completion or 180 days from the date the AT parked the property. In order to ensure complete tax deferral, the taxpayer must reach the target replacement value on or before the 180th day. If necessary, this allows the taxpayer to acquire the property in a semi-improved state. No certificate of occupancy or similar completion confirmation is required.

Why would a taxpayer perform a Construction Exchange? In certain instances, the taxpayer may wish to build or renovate the ideal Replacement Property. Note that these transactions may also be structured as Reverse Construction Exchanges whereby the Replacement Property is parked and improved prior to the sale of the Relinquished Property. In instances where the transaction may not be completed within the 180-day safe-harbor timeframe, the taxpayer should consider structuring the transaction as a Non-safe Harbor Reverse Construction Exchange. Please contact Strategic 1031 Exchange Advisors with any exchange questions or issue you may have.

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