



FIRST AMERICAN  
EXCHANGE COMPANY

## OUR EXCHANGE ACCOMMODATION TITLEHOLDING AND QUALIFIED INTERMEDIARY SERVICES BRING YOU PEACE OF MIND

First American Exchange's senior exchange professionals and in-house legal staff understand the exchange and escrow process and will work closely with your legal and tax advisors to ensure the transaction is properly structured.

First American Exchange creates separate holding companies to take title to the relinquished or replacement property.

We offer the experience, nationwide service and financial strength of The First American Corporation, which is the parent company of First American Exchange and First American Title. The First American Corporation is a multi-billion dollar FORTUNE 500® company with the resources and strength to protect your investment.

*First American Exchange Company provides this information as a courtesy to our clients and their advisors. While every effort has been made to provide correct, accurate and useful information, First American Exchange Company does not warrant or guarantee the information in any way. You should seek the independent advice of your own accountant and/or attorney prior to entering into an exchange transaction.*



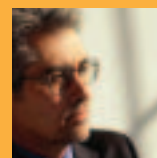
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preserving equity

saving tax dollars

benefiting from experts

## Reverse 1031 Exchanges



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A QUALIFIED INTERMEDIARY IN  
1031 TAX-DEFERRED EXCHANGES



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# 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") without paying capital gains tax on the disposition. If properly structured, the proceeds from the sale of the relinquished property can be used to invest in the replacement property rather than to pay taxes. 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.

### 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 first and relinquish 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.



# 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 transactions”) or the relinquished property (“exchange first transactions”).

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

#### EXCHANGE LAST TRANSACTIONS

- In an Exchange Last reverse exchange, 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 third party buyer, the replacement property and the net funds from the sale of the relinquished property are transferred to the Exchangor to complete the reverse exchange.

#### EXCHANGE FIRST TRANSACTIONS

- In an Exchange First reverse exchange, 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 the net funds from the relinquished property are transferred to the Exchangor.

#### GENERAL REQUIREMENTS

- Reverse exchanges under the IRS safe harbor rules must be completed within 180 days.
- In an Exchange Last reverse exchange, the Exchangor has 45 days from the first closing to identify what he intends to dispose of.
- Most rules that apply to deferred 1031 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.

### 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 excess funds from the relinquished property after acquiring the replacement property. The excess equity is used to design and construct improvements on the replacement property.
- In an improvement exchange, the EAT holds title to the replacement property, but the construction is managed by the Exchangor.
- The Exchangor must identify what will be constructed on the replacement property within 45 days after the EAT takes title to the replacement property.
- The exchange must be completed within 180 days, but the construction does not need to be completed during that time. Nevertheless, the only property that is considered “like-kind” for exchange purposes will be property that is considered to be real property, i.e., attached to the land or building.

