

1031 Exchange Scenarios

1031 exchanges allow real estate investors to defer the payment of capital gain taxes upon the sale of qualifying investment property (ie. property is of “like-kind”). Many investors only consider the tax reasons for a like-kind exchange, despite being given considerable flexibility in changing the type or location of their property.

Typical Non-tax Motives to Exchange:

- ✓ Exchange from fully depreciated property to a higher value property that can be depreciated.
- ✓ Exchange from a stagnant or slowly appreciating property to a property in an area with greater appreciation potential.
- ✓ Exchange from a property with maximized or minimal cash flow to a higher cash flow property to generate a larger cash flow.
- ✓ Exchange for a property or properties that may be easier to sell in the coming years.
- ✓ Exchange to fit the lifestyle of a person. For example, a retiree may exchange for a property requiring reduced management responsibility so they can do more traveling.
- ✓ Exchange from several smaller properties to one larger property to consolidate the benefits of ownership and reduce management responsibilities.
- ✓ Exchange to a property the client can use in his or her own profession. For example, a doctor may exchange from a rental house to a medical building or office condominium to use for his or her practice.
- ✓ Exchange from an older property in need of repairs and/or system replacements to a newer property with more efficient and/or reliable systems.