



## Getting Started with a Reverse 1031 Exchange: Requirements, EATs, QIs, and Titleholders

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Real estate markets move quickly. Sometimes the perfect investment property (replacement property) is located long before the investor finds a buyer for their current investment property (relinquished property). A reverse 1031 exchange offers a powerful solution to this timing problem. This tax planning strategy allows investors to acquire their new investment property immediately while still deferring capital gain taxes on the eventual sale of their current real property.

Executing a [reverse 1031 exchange](#) requires strict adherence to federal tax guidelines and precise coordination with specialized 1031 exchange professionals. One misstep can disqualify the entire transaction and trigger substantial tax liabilities. This comprehensive article outlines the exact steps needed to successfully execute this complex transaction.

Investors will learn the fundamental benefits of a reverse exchange and how to choose the best exchange professionals. We will detail the specific safe harbor requirements, step-by-step processes involved, critical insurance mandates, and provide actionable best practice tips for a successful and compliant reverse 1031 exchange transaction.

### Seek Competent Legal, Tax and Financial Counsel

The first step with any 1031 exchange transaction, especially with more complicated transactions such as reverse 1031 exchanges and reverse improvement 1031 exchanges, is to review the proposed exchange with competent legal, tax and financial advisors. Make sure the advisors have significant experience and expertise in structuring reverse 1031 and reverse improvement 1031 exchanges. Seeking legal, tax and financial guidance should always be an integral part of any 1031 exchange planning process.

### Review Reverse 1031 Exchange with the Qualified Intermediary

The second step should be to discuss and review the proposed reverse 1031 exchange transaction with the qualified intermediary (QI) to ensure there are no administrative issues that need to be addressed as part of the exchange transaction such as problems with legal title, lender or financing challenges, closing and deadline related problems, etc., and to determine whether the relinquished or replacement property will be acquired and held or “parked” by the exchange accommodation titleholder (EAT).

### Understanding the Benefits of the Reverse 1031 Exchange

A standard or regular 1031 exchange, often referred to as a forward exchange, requires investors to sell their existing relinquished property before acquiring a new replacement investment property. A [reverse 1031 exchange](#) flips this structural timeline. Investors can close on the acquisition of their new replacement property first, giving them up to 180 calendar days to complete the sale of their current relinquished property. They can purchase their new replacement property first and subsequently sell their relinquished property second through the reverse exchange structure.



The primary benefit is more control over the acquisition timeline. Investors never have to rush into buying a subpar replacement property simply to beat the standard forward 1031 exchange deadlines. Investors can negotiate from a position of strength and secure the exact real property that meets their investment real estate portfolio goals and objectives.

This structure also protects their capital gain tax deferral when an unexpected delay stalls the sale of the investor's relinquished property. By utilizing a reverse exchange, investors can safely bridge the gap between the acquisition (purchase) and disposition (sale). Investors maintain their competitive edge in the real estate market while operating fully within the boundaries of tax-deferred exchange treatment under Section 1031 of the Internal Revenue Code (IRC).

### **How to Choose a Qualified Intermediary and EAT**

One of the requirements for a reverse 1031 is that the real estate investor cannot own or hold legal title to both their relinquished property and their new replacement property at the same time (simultaneously or concurrently) during a reverse exchange.

To solve this problem, investors must retain the professional services of an exchange accommodation titleholder (EAT), such as Exeter Asset Services Corporation (ExeterAsset™), and a qualified intermediary (QI), such as Exeter 1031 Exchange Services, LLC (Exeter1031™). The EAT will acquire and hold or "park" legal title to either the replacement property or the relinquished property on behalf of the investor, while the qualified intermediary or QI manages the eventual 1031 exchange. Choosing a [best practices qualified intermediary](#) is critical to a successful and safe exchange.

### **Demand Regulatory Oversight and Safeguards**

Choosing the right 1031 specialists is the most critical decision for any 1031 exchange. Investors are trusting these entities with significant capital and legal responsibilities. Investors must demand the highest levels of institutional security, safeguards, financial stability and [regulatory oversight](#).

Look for a QI and EAT backed by routine regulatory exams, independent CPA audits, substantial fidelity bond, errors and omissions insurance, cyber and wire fraud insurance, and minimum regulatory required equity capital reserves. Most providers operate with zero regulatory oversight and with very little insurance, bonding and equity capital reserves, which expose the investor's capital and transaction to unnecessary risks. Safe and secure intermediaries provide comprehensive transparency regarding their internal controls, financial stability and [fee structures](#).

### **Verify Experience with Complex Transactions**

Reverse exchanges involve sophisticated legal and tax structures, non-recourse financing, and intricate special purpose entity (SPE) formations. The investor's advisory team must have extensive experience and expertise in executing these specific transactions across all 50 states. Ask potential providers to explain their expertise, experience, and inquire about their specific track record with reverse exchanges.

An experienced advisory team, such as Exeter1031™ and ExeterAsset™, provides creative solutions for complex hurdles, ensuring investors' transactions remain completely sound. They will offer multiple channels for assistance, giving investors direct access to experts when time-sensitive questions arise. Never settle for an intermediary that treats a reverse exchange as a basic administrative task.

### **Structuring the Reverse Exchange: Revenue Procedure 2000-37**

The Internal Revenue Service (IRS) established clear guidelines for setting up reverse exchanges in Revenue Procedure 2000-37. Rev. Proc. 2000-37 outlines a specific safe harbor provision known as a parking arrangement. When investors follow these structured guidelines, the IRS will not challenge the EAT as the property's true owner for tax purposes during the exchange transaction.



### **Mechanics of the Parking Arrangement**

Under Rev. Proc. 2000-37, the EAT takes the place of the buyer to purchase and hold or “park” legal title to either the new replacement property or the existing relinquished property. This parking arrangement isolates investors from simultaneously holding legal title to both the relinquished property and the replacement property. Investors and the EAT must enter into a formal Qualified Exchange Accommodation Agreement (QEAA).

The QEAA explicitly defines the EAT's role as the beneficial owner for the duration of the reverse exchange. It also outlines the investors' rights to lease the property from the EAT, sub-lease the property to tenants, manage the rental property (e.g., leasing activity, collecting rents, paying expenses), and/or supervise the construction of capital improvements during the parking period.

### **Choosing Between Exchange Last and Exchange First Structures**

Reverse 1031's can be structured two different ways. The EAT can either acquire and hold or “park” legal title to the new replacement property (exchange last structure) or the current relinquished property (exchange first structure).

The exchange last structure where the replacement property is parked by the EAT is by far the most beneficial structure for the investor and is therefore the most common of the two options.

The exchange first structure where the relinquished property is parked by the EAT is less beneficial because it has certain liquidity and financial hurdles that must be overcome by the investor. It is therefore the least common of the two options and is often used when the lender will not allow the EAT to hold legal title to the replacement property being used to collateralize the financing.

Selecting the optimal structure requires careful attention to lender requirements, property encumbrances, local taxes and fees, challenges involving the property operations, and deal dynamics:

Collateral and Guarantee Issues: Generally, traditional lenders will not lend to an SPE EAT, or to accept assignments of loan collateral or personal guaranties from the investor when the SPE EAT holds legal title to the replacement property. Early, transparent communication with any lender involved with the relinquished property or the replacement property is essential to avoid last-minute disruptions to the transaction.

Non-Recourse Loan Requirements: The EAT generally executes the promissory note and deed of trust or mortgage if a loan is involved when parking legal title to the replacement property. EAT's are generally willing to do so if the promissory note contains non-recourse language to protect the EAT. The loan must be non-recourse to the EAT and legal title holder. Traditional lenders will usually not allow non-recourse language in their loan documents.

Lender Consent and Due on Sale Clauses: Loan documents often include various loan carve outs or “bad boy provisions” such as “due on sale” clauses. If existing debt is in place on the relinquished property, transferring legal title of the relinquished property from the investor to the EAT in an exchange first strategy may trigger the loan acceleration or immediate payoff requirements.

Taxes and Fees: The parked property will result in two separate title transfers or conveyances. The first is when legal title is transferred to the EAT and the second is when the legal title is transferred to the final party. This may trigger two sets of documentary transfer taxes in certain jurisdictions.

Tax, Legal, and Practical Factors: Depending upon the investor's specific facts—such as business strategy, timing, debt arrangements, and property characteristics—either an exchange last or exchange first scenario may provide advantages. Expert guidance from legal, tax, and financial advisors as well as the qualified intermediary specialists is strongly recommended.



### **Documents and Information Needed by the EAT to Get Started**

When you are ready to get started, provide the qualified intermediary and exchange accommodation titleholder with the following information and transactional documentation to begin the due diligence, pre-transaction screening and set-up of the reverse 1031 exchange:

- Full and complete legal name, or the legal name of the entity setting up the reverse 1031 exchange;
- Complete contact information for the property owner (exchangor), including the physical street address, mailing address (if any), office, home, mobile and facsimile phone numbers, and email addresses;
- The social security number (SSN), federal taxpayer identification number (FEIN), or individual taxpayer identification number (ITIN) for the investor completing the reverse 1031 exchange;
- Additional contact information that might be relevant for the particular real estate owner;
- A copy of the current government issued driver's license, passport or other government issued photo identification for the individuals that will be signing documents as part of the reverse exchange on behalf of the investor or real property owner;
- If the current relinquished property is held in the name of a legal entity (e.g., a limited liability company, general or limited partnership, corporation, trust, etc.) other than in the property owners individual name, provide the full and complete legal name of the entity, a complete list of authorized signers on behalf of the legal entity (include a sample signature block), and the federal taxpayer identification number (FEIN), often referred to as the employer identification number (EIN) for the legal entity, and any other information that might be relevant, including copies of the legal entity formation documents (e.g., certificate of incorporation, certificate of organization, bylaws, minutes, corporate secretary resolutions showing the authorized signers, etc.);
- Description of the property using the common street address, or legal description, or Assessor's Parcel Number (APN), or other description for all relinquished and replacement properties involved in the reverse 1031 exchange;
- Copy of the deed where the investor originally acquired title to their relinquished property that will be part of the reverse 1031 exchange;
- Completed Environmental Site Assessment Questionnaire on the property that will be parked by the exchange accommodation titleholder as part of the reverse 1031 exchange transaction;
- Phase I Environmental Site Assessment and Inspection Report to determine whether there has been any environmental contamination of the property. This report is required if the property is zoned commercial, office, industrial, retail, agricultural, vacant land, or multi-family consisting of more than ten (10) units. The Phase I report must be received and approved by EAT before closing occurs;
- Purchase and sale agreement or contract for the acquisition of the replacement property and for the disposition (sale) of the relinquished property, if it is already under contract;
- Preliminary title insurance reports or title insurance commitments for the acquisition of the replacement property, and for the disposition (sale) of the relinquished property, if it is already under contract.



- Escrow Instructions — if applicable — for the acquisition of the replacement property and for the disposition (sale) of the relinquished property, if escrow has already been opened.
- Insurance binder providing evidence of property and casualty insurance (except if vacant land) and liability insurance coverage. The insurance binder must list the name of the special purpose, single member limited liability company and disregarded entity established for the reverse 1031 exchange transaction as the INSURED and the investor(s) as the ADDITIONAL INSURED. Evidence of insurance coverage must be received and approved by the EAT prior to closing.
- Reverse 1031 exchange fees, costs related to the set-up, maintenance and disposition of the special purpose, single member limited liability company and disregarded entity (SMLLC or title holding entity) and other related administrative costs will be invoiced through, and are due at, the closing of the first real estate transaction.
- Other documents and agreements that may be needed for processing and closing.

### **Applicable Timelines and Deadlines**

The safe harbor guidelines impose rigid deadlines that investors cannot extend under any circumstances. Reverse 1031 exchanges are governed by the same strict timing constraints as standard forward exchanges, including:

45 Calendar Day Identification Period: From the date the EAT acquires or “parks” legal title to the replacement property, the investor has exactly 45 calendar days to identify, in writing, the real property that will ultimately be relinquished (sold) through the reverse 1031 exchange. The identification of the relinquished properties must be unambiguous and delivered to the QI.

180 Calendar Day Exchange Period: The reverse exchange must be completed, the ownership of the relinquished property transferred to a third-party buyer, and the ownership of the replacement property transferred to the investor (exchangor) within 180 calendar days from the date that the EAT initially acquired title of the parked property.

Non-Compliance Risks: Failure to meet either deadline will disqualify the entire exchange, resulting in the immediate recognition of taxable gain.

### **Insurance Requirements for Reverse 1031 Exchanges**

Because the EAT holds legal title to the parked property and therefore has significant risk exposure, investors must obtain adequate insurance coverage to protect both the EAT, legal title holder and the investor. This is a frequent stumbling block for investors and insurance underwriters. Proper insurance is a critical safeguard for both the investor, EAT and legal title holder while a property is parked.

Insurance Coverage: Comprehensive [property and casualty and liability insurance](#) must be in place throughout the time that the EAT holds title to the parked property. Policies should clearly name the EAT and legal title holder as the INSURED party, given their legal ownership during the exchange period, and should also designate the investor as an ADDITIONAL INSURED to protect relevant economic interests.

Compliance and Risk Mitigation: This coverage insures that in the event of property damage, loss, liability, or casualty, both the legal and equitable interests are protected, and lender and EAT requirements are satisfied.



## **Practical Tips for Compliance and Smooth Execution**

A successful reverse 1031 exchange relies on careful preparation and proactive communication between the investor and their legal, tax, and financial advisors, as well as their closing agent (i.e., escrow company, title insurance company or closing attorney) and qualified intermediary. Waiting until investors find a property to begin organizing their exchange team almost guarantees failure. Use the following practical tips to keep the transaction secure and compliant.

### **Secure Specialized Financing Early**

Financing a reverse exchange requires specialized loan structures with a lender that is willing to work with the parking arrangement. Because the EAT holds legal title to the property, investors cannot simply apply for a standard mortgage loan with the investor as the borrower. Investors must either loan or advance the funds necessary to acquire the parked property directly to the EAT or secure a commercial lender willing to lend to the legal title holder on a non-recourse basis.

Investors should consult with multiple lenders weeks in advance to ensure they understand and approve of the EAT structure. Lenders must understand that legal title to the property to be parked will be held by a third-party facilitator (i.e., the EAT), legal title will be held in a single member limited liability company and disregarded entity owned by the EAT, and the promissory note, deed of trust or mortgage, and any other loan documents or agreements must be non-recourse to the EAT and legal title holder. It is highly recommended that investors coordinate a conference call with the qualified intermediary and the lender's decision maker to ensure that everyone is on the same page and there are no last-minute surprises before closing.

Traditional lenders will usually not finance parked real property in most cases. Hard money, private money, asset-based lenders, portfolio lenders, credit unions, and life insurance companies will often consider this financing arrangement during the parking period.

### **Required Documentation for the Parking Arrangement**

Documentation for a reverse 1031 exchange is highly technical, driven by IRS structuring requirements and lending considerations. The fundamental documents include:

Qualified Exchange Accommodation Agreement (QEAA): This governing contract outlines all the duties, rights, timelines, and indemnification obligations between the investor and the EAT. The QEAA is the controlling document for parking arrangements under the IRS safe harbor compliance.

Assignment of Purchase and Sale Agreement: Generally, the purchase and sale agreement or purchase contract is initially executed in the name of the investor. The purchase and sale contract must therefore be assigned from the investor to the legal title holder so that the EAT can acquire and hold or "park" title to the parked property.

Environmental Indemnification: Because the EAT holds legal title to the parked property and therefore has significant risk exposure, including risks associated with environment contamination, the investor and EAT will enter into an environmental indemnity agreement to protect the EAT and legal title holder in the event of any liability stemming from environmental issues.

Absolute Net Lease: To ensure the investor retains all economic benefits and operating responsibilities associated with the parked property, the property is leased to the investor under an absolute net lease. This lease shifts responsibility for revenue collection, taxes, insurance, maintenance, improvements, and payment of other operating expenses to the investor, allowing a seamless operation while the EAT holds legal title.

Loan or Advance Agreement: Investors must either temporarily lend or advance the required funds to the EAT for the acquisition of the parked property or secure a commercial lender willing to lend funds to the legal title holder on a non-recourse basis. The legal title holder and the investor and/or the commercial lender will enter into various loan or financing agreements.



**Supplemental Agreements:** Depending on deal complexity, additional legal documents—including loan instruments, loan guarantees by the investors, escrow instructions, management agreements, and lender estoppels—may be required.

**Identification of Relinquished Property:** The investor must complete, sign and submit a written identification of relinquished property notice when the replacement property is parked to the qualified intermediary no later than midnight on the 45<sup>th</sup> calendar day after the parked property was transferred to the exchange accommodation titleholder. No identification of relinquished property form is required when the relinquished property is parked by the EAT since the 1031 exchange is completed at the very beginning of the transaction (exchange first scenario).

#### **Due Diligence by Exchange Accommodation Titleholder**

The EAT will not take title to any real estate carrying severe environmental, legal or operational liabilities. Most reliable EATs will always require a Phase I Environmental Site Assessment (ESA) before they agree to park a commercial property. Investors must order their appraisals, environmental reports, and title commitments as early as possible to prevent delays in the EAT's acquisition process.

#### **Maintain Clear Documentation**

Keep meticulous records of all funds transferred, loan agreements signed, and leases executed with the EAT. Every dollar moving into or out of the parked property must flow according to the terms of the QEAA. The investor's advisory team will provide the framework, but investors must ensure their accounting records reflect the legal reality of the parking arrangement.

#### **Conclusion and Next Steps**

A reverse 1031 exchange delivers incredible flexibility, allowing investors to capture investment real estate market opportunities immediately without sacrificing their tax deferral benefits. By understanding the mechanics of Revenue Procedure 2000-37 and strictly adhering to IRS guidelines and timelines, investors can reposition their capital seamlessly into better performing real property. The key to this process is engaging a highly reliable, heavily regulated advisory team early in the acquisition journey.

Begin by vetting potential qualified intermediaries and EATs, demanding proof of their financial security and regulatory compliance. Speak with lenders and insurance brokers to prepare them for the unique structuring requirements. When investors assemble a competent team of [1031 exchange specialists](#), investors guarantee a structured, fully compliant, and highly successful real estate transaction.

#### **Frequently Asked Questions (FAQs) on Reverse 1031 Exchanges**

Navigating a reverse 1031 exchange requires precision, expertise, and strict adherence to federal tax codes and regulations. To help property owners (investors) understand the core mechanics and regulatory requirements of this powerful tax-deferral strategy, we have compiled answers to the most common questions from investors.

#### **Understanding the Basics**

##### **What is a reverse 1031 exchange?**

A reverse 1031 exchange allows an investor to acquire a new replacement property before they finalize the sale of their current relinquished property. This strategy provides investors with better control over their acquisition timeline, allowing them to secure the exact real estate that meets their investment portfolio goals and objectives without losing their capital gain tax deferral opportunities.

##### **What is the role of an exchange accommodation titleholder (EAT)?**

Federal guidelines prohibit investors from owning (holding) legal title to both the relinquished property and replacement property at the same time during an exchange. To solve this problem, an exchange accommodation



titleholder (EAT) steps in to hold, or "park," legal title to one of the properties on behalf of the investor until the sale of the relinquished property can be completed.

### **Why do I need a qualified intermediary (QI) for a reverse exchange?**

While the EAT holds legal title to one of the properties, the qualified intermediary manages the eventual 1031 exchange. Investors must utilize both 1031 specialists to execute a compliant reverse exchange.

### **Structuring and Compliance**

#### **How does Revenue Procedure 2000-37 protect my exchange?**

Revenue Procedure 2000-37 establishes the Internal Revenue Service safe harbor guidelines for a reverse exchange parking arrangement. By strictly following these structured guidelines and executing a formal qualified exchange accommodation agreement (QEAA), the IRS will recognize the EAT as the legal owner of the parked property for tax purposes. This guarantees the transaction remains structurally sound and fully compliant.

#### **What are the strict timelines I must follow?**

The IRS imposes rigid deadlines that cannot be extended under any circumstances. Investors have exactly 45 calendar days from the moment the EAT takes title to the parked replacement property to formally identify the relinquished property. Furthermore, investors must complete the entire parking arrangement and standard exchange process within 180 calendar days.

#### **How do I finance a reverse 1031 exchange?**

Because the EAT holds legal title to the replacement property, investors cannot use a standard mortgage in the name of the investor. Investors must secure special lender financing. Investors can either loan or advance the necessary purchase funds directly to the EAT or work with a commercial lender willing to issue a non-recourse loan to the EAT.

In most cases, traditional lenders will not finance the parked replacement property. Hard money, private money, asset-based lenders, portfolio lenders, credit unions, and life insurance companies will often consider the financing arrangement during the parking period.

### **Insurance and Risk Management**

#### **What are the specific insurance requirements for a parked property?**

Investors must obtain hazard, property, casualty and general liability insurance that explicitly names the legal title holder as the primary INSURED party, since the EAT holds the legal title to the property. The investor should also be named as the ADDITIONAL INSURED since they also have an insurable interest in the property.

#### **Can I still carry operational liability insurance?**

Yes. Because investors will likely act as the landlord, property manager or tenant during the parking period, the most secure approach is to have the EAT listed as the named insured while adding the investor as an additional insured.

### **Choosing the Right Professionals**

#### **How do I choose the safest QI and EAT for my transaction?**

Investors are trusting these entities with significant capital and legal responsibilities, so investors must demand the highest levels of institutional security. Select a qualified intermediary and exchange accommodation titleholder backed by routine regulatory exams, independent CPA audits, and substantial insurance and bonding coverage. Utilizing safely audited professionals protects investors' funds and ensures structural accuracy.



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**Where can I get help if I have complex structuring questions?**

Whether investors have a basic compliance question or are conducting due diligence for a complex corporate transaction, investors can always obtain assistance from the experienced 1031 specialists at Exeter1031™ and ExeterAsset™. Exeter1031™ and ExeterAsset™ provide creative solutions and structural guarantees for clients across all 50 states, ensuring the exchange is executed safely and correctly.