

1031 Exchange Trends and Market Update 2024

After a challenging 2023 year for Commercial Real Estate and 1031 Exchange transactions, what's in store for 2024?

With an uncertain interest rate environment, the Commercial Real Estate (CRE) industry faces a year of unpredictability. However, there will continue to be many 1031 opportunities, particularly in specific asset classes.

Borrowers are also facing tighter underwriting guidelines leading to challenges with financing CRE transactions. This has led to a growing number of seller financed transactions. Sellers who provide financing are motivated to seek strategic and creative 1031 solutions to make the most of their seller financed transactions.

Reverse Exchanges will continue to be popular as taxpayers need the flexibility to close quickly due to limited properties on the market. Reverse Exchanges occur when a taxpayer has to close on the Replacement Property before selling their current investment property.

Larger multifamily, industrial and neighborhood retail outlets are predicted to be popular asset classes and we see a growing number of investors shifting from office properties and utilizing 1031 Exchanges to invest their profits into these property types.

Regarding the housing market, many owners of residential investment properties who primarily lease their units as short-term rentals, are selling their properties due to new restrictions that have been implemented by many local governments. These new laws are making it difficult to keep profitable vacancy rates. We see these investors using 1031 Exchanges to primarily invest in traditional apartment buildings or other less restrictive asset classes.

Regarding the Tax Code, in 2023 there were no major changes regarding Section 1031. It was another year of educating our congressional representatives regarding the value that Tax Deferred Exchanges have to the US economy and the billions of dollars of tax revenue that exchange activity creates. As we enter 2024, we will be waiting for the President to issue his proposed budget which may include limitations to 1031 Exchanges. We will continue to meet with the Administration, Representatives and Senators and we are prepared to respond to any threats to eliminate or limit Section 1031. IPX1031 will share periodic legislative updates. [Sign up for Save1031 updates here.](#)

With the anticipated CRE market challenges, 1031 transactions will remain active as educated investors and commercial property owners utilize strategic 1031 tax deferral tools.

1031 Exchange trends for 2024 we are anticipating:

- As long as interest rates are relatively high and quality inventory is limited, Reverse, Improvement and Build-to-Suit Exchanges will continue to be popular.
- Traditional financing challenges will spur seller financing with sellers utilizing 1031 Exchanges to maximize this strategy.
- Most CRE asset classes including multifamily, industrial, and retail are poised for strong activity utilizing 1031 Exchanges to defer taxes.

- There will be an uptick in management intensive properties being exchanged into passive types of investments such as NNN and DSTs.
- Cities and States that are not landlord/investor friendly will continue to see money being 1031 Exchanged into more real estate friendly areas.
- There will be growing 1031 opportunities in pro ADU states for homeowners with rental ADUs. An accessory dwelling unit, usually just called an ADU, is *a secondary housing unit on a single-family residential lot*. When these properties are sold, the taxpayer may use the profits from the ADU to exchange, tax deferred, into another type of investment property.
- We will continue to see investors exchange into areas that have warmer climates, low cost of living/lower taxes and are retirement friendly.

2024 Capital Gains Tax Brackets

2017 tax reform indexed the Long-Term Capital Gain rate breakpoints (whether a 15% or 20% rate) to inflation. The actual rates didn't change for 2024, but the income brackets did adjust slightly. The breakpoints for 2024 are as follows: married filing jointly: \$583,750+ and single filers: \$518,900+. The capital gains brackets are based on "Taxable Income" whereas the Net Investment Income Tax thresholds are based on "Adjusted Gross Income".

1031 Exchange Checklist

A 1031 Exchange transaction requires planning, expertise and support. [Here's a checklist outlining key steps in your exchange.](#)

1. Choose your 1031 Qualified Intermediary (QI)
2. Consult with your tax professionals
3. Include Cooperation Clause language in your purchase and sale agreement
4. QI prepares your exchange documents
5. Start searching for Replacement Property
6. Sign all documents QI prepares
7. Sell your Relinquished Property
8. Identify your Replacement Property
9. Enter into contract on Replacement Property
10. Contact QI once Replacement Property escrow is opened
11. Close on Replacement Property
12. QI transfers funds to complete your purchase
13. Your exchange is complete

Tax Straddling: Pay Taxes in 2024 or 2025?

If your transaction closed at the end of 2023 and you are unable to find new property to identify or purchase the property that you have identified, [you may still be able to defer paying taxes on your capital gains until 2024](#). Since you will receive your 1031 funds back in 2024, in certain circumstances, since you did not have control/possession of your funds until 2024, the IRS may allow you to pay taxes on your 2024 tax return, which are due in 2025. This is in accordance with IRC Section 453(d) and requires your accountant to file specific tax forms. Ask your accountant if you are eligible to take advantage of this “mini” tax deferral.

IPX1031 – Choose the Experts

IPX1031 is the largest and one of the oldest Qualified Intermediaries in the United States. As a wholly owned subsidiary of Fidelity National Financial (NYSE:FNF), a Fortune 500 company, IPX1031 provides industry leading security for your exchange funds as well as considerable expertise and experience in facilitating all types of 1031 Exchanges. Our nationwide staff, which includes industry experts, veteran attorneys and accountants, are available to help you and your legal and tax advisors. For additional information regarding IPX1031 and questions on 1031 Exchanges, please review: