



**Accruit**  
An Inspira Financial Solution

# LEASEHOLD IMPROVEMENT EXCHANGES

## 1031 EXCHANGE INTO IMPROVEMENTS ON RELATED PARTY PROPERTY

### WHY IS A LEASEHOLD NEEDED?

Acquiring Replacement Property from a Related Party in a 1031 exchange is generally prohibited. However, long-term leasehold arrangements can allow an Exchanger to construct improvements on land owned by a Related Party using exchange value, and to then acquire those improvements as Replacement Property in an exchange. The graphic below breaks down the process at a high level.

Essentially, the involvement of an Exchange Accommodation Titleholder (EAT) enables an Exchanger to avoid the problems created by acquiring Replacement Property from a Related Party. In other words, if an EAT enters into a long-term lease with the Related Party and then constructs the improvements (using exchange value), the Exchanger can then acquire those leasehold improvements from the EAT, instead of the Related Party that owns the land. The IRS approved a similar structure in a Private Letter Ruling issued in 2014.

With the cost to build currently less than the cost to buy in many instances, utilizing exchange value construct tenant improvements on land owned by a Related Party is an attractive option to many.

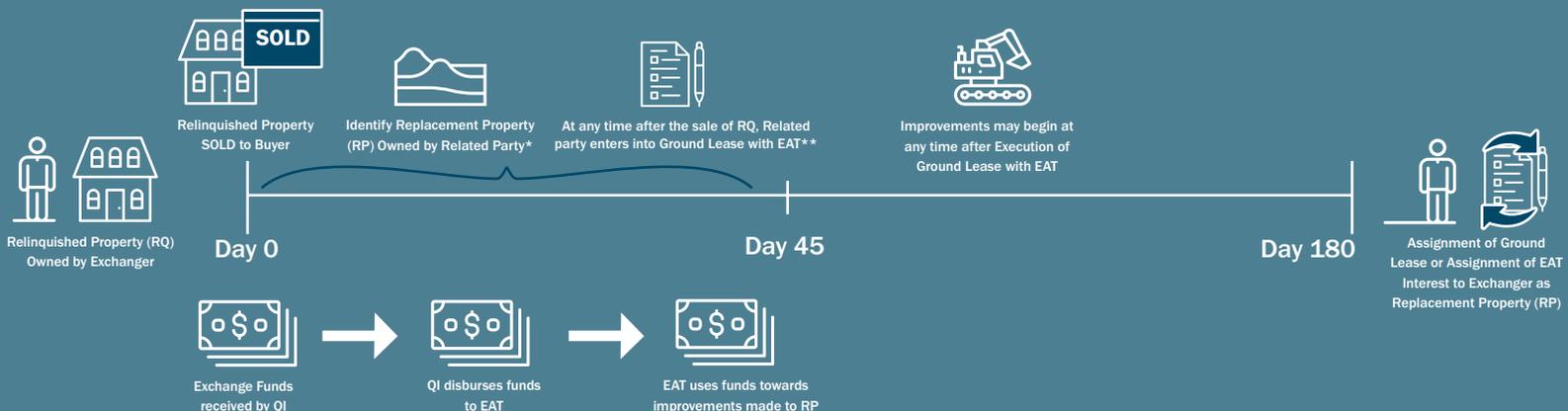
The structures shown in the graphics below provide two IRS-approved options to accomplish a Related Party Leasehold Exchange.

### WHO IS CONSIDERED A RELATED PARTY?

The most common forms of Related Party that might pertain to a situation where a leasehold would be a solution include:

- Member of the same family unit (spouse, sibling, parents, children)
- Entity were same person or persons own over 50%
- Two entities that are in the same controlled group

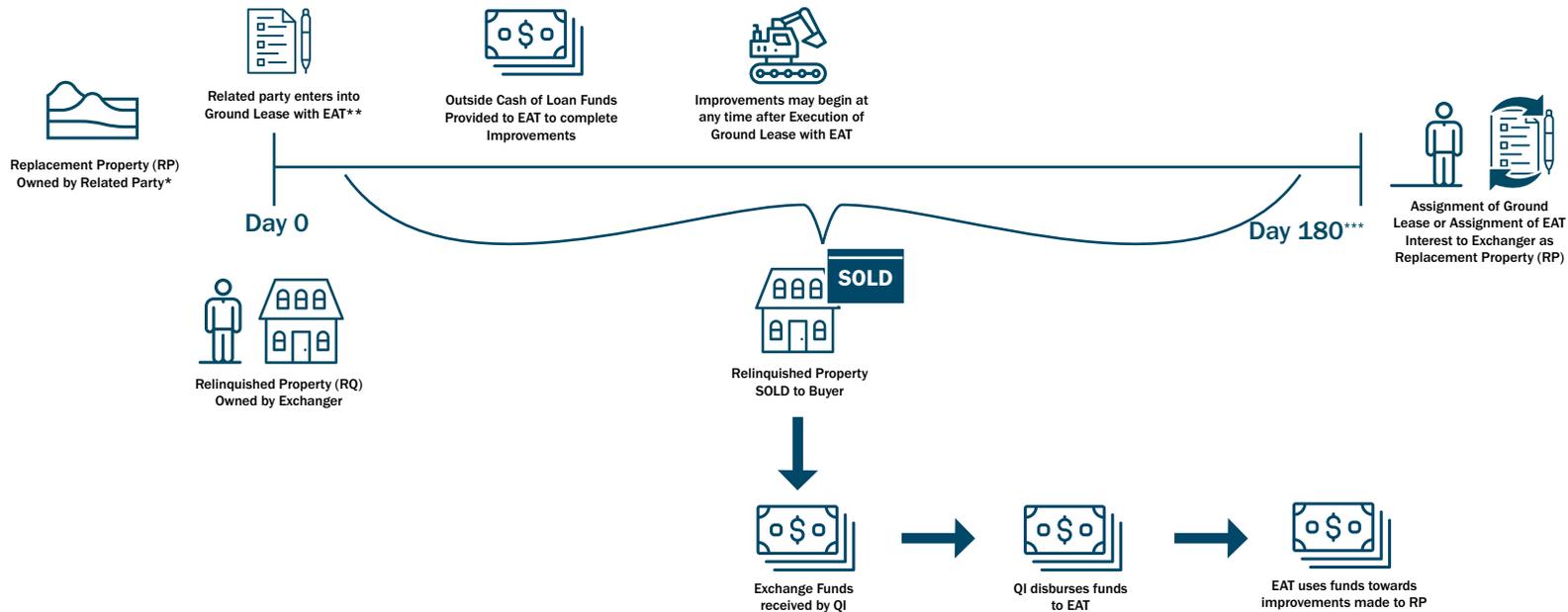
### LEASEHOLD FORWARD PROCESS



\*Must be different Entity that has its own TIN and is tax REGARDED  
\*\*Leasehold Agreement should remain in place following the exchange

# LEASEHOLD REVERSE PROCESS

In the event that the property being sold, the Relinquished Property, cannot be sold prior to acquiring the Replacement Property a Reverse Leasehold Improvement Exchange would be required. Below illustrates the process for this scenario.



\*Must be different Entity that has its own TIN and is tax REGARDED

\*\* Leasehold Agreement should remain in place following the exchange

\*\*\*Option to extend past 180 days for a "Non-Safe Harbor" transaction, above graphic depicts a "Safe Harbor" Exchange

## ABOUT ACCRUIT

Founded in 2000 and acquired by Inspira Financial in 2023, Accruit is a leading full service Qualified Intermediary and Exchange Accommodation Titleholder, as well as the developer of the industry's only patented 1031 Exchange technology

- Dedicated exchange officers provide individualized service
- Developer of patented 1031 exchange workflow technology, Exchange Manager Pro<sup>SM</sup>
- \$50 million Fidelity bond, \$25 million Errors & Omissions, and \$15 million Cyber Liability
- Client funds held in segregated accounts at top-rated financial institutions
- Multiple Certified Exchange Specialists® on staff
- In-house CPAs and Attorneys
- Experience managing up to \$9 billion annually in exchange transactions
- Board & Committee member of the Federation of Exchange Accommodators (FEA)

## OUR PROCESS

Accruit works seamlessly with lending partners for a successful Reverse Exchange. Our process includes providing the lender a comprehensive document set which satisfies underwriting requirements, including the following:

- Operating Agreement for SPE LLC
- Articles of Organization for SPE LLC
- Operating Agreement and Org Docs for EAT
- Operating Agreement and Org Docs for Parent Company of the EAT
- Evidence of Good Standing for EAT and Parent Company
- Personal information for owners of EAT's Parent Company
- Signing resolutions for LLC and EAT
- Specific borrowing resolutions
- EIN for SPE LLC
- Taxpayer guaranty
- Non-recourse letter signed by Lender

## CONTACT US

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