



## **TASKS PERFORMED BY REVERSE EXCHANGE SERVICES, INC.**

The following is a list, in summary form, of the tasks which Reverse Exchange Services, Inc. ("RES"), and the special-purpose entity ("SPE") which it forms, undertake in structuring and implementing a "reverse" exchange for investors and owners of real and personal property. We hope this provides a greater understanding to you and your associates of the extent of our services.

As you will see from the list of tasks below, a reverse exchange is considerably more complicated to structure and to implement than a regular "deferred" exchange. As a consequence, the principals of RES spend a great deal of time not only with the Exchanger, but the Exchanger's attorney, accountant, and other advisors, and are directly involved throughout the process.

Of particular importance, is the fact that all three RES principals have extensive property transactional experience. Each of us has been putting real estate and personal property deals together for over 25 years, and we are all "deal-makers."

We believe the qualifications of the principals and staff of RES are something which no other "reverse" exchange accommodation company can offer. No other company provides, in-house, the professional training and actual experience which RES brings to the table. The principals of RES are able to deal, directly and professionally, with the legal and tax issues these transactions present, particularly the financing requirements, and the additional concerns when construction of improvements is required.

Here is the list of most of the activities performed by RES in connection with a typical reverse exchange:

### **1. Create Special Purpose Entity**

Create a legal entity and qualify it to do business in the state in which the property is located. RES creates a separate legal entity (a single-purpose entity or "SPE") for each Exchanger to protect the property, and the transaction, from problems with another taxpayer's transaction. For instance, if there are environmental problems with one piece of real estate, it is "insulated" within that SPE, and another Exchanger's deal is not tainted. Some of our competitors are NOT setting up separate companies for each Exchanger. We believe this is a risk that should not be taken. The minimal cost of forming, accounting for, and finally dissolving an SPE is worth the benefits conferred. The cost, which is approximately \$2,500.00, covers the following:

Formation costs, filing fees, minimum franchise fees, etc. In some states the filing fees, and local franchise (or other similar taxes), are considerable. Additional fees and taxes could be imposed by different jurisdictions; these are added to the formation costs.

Establishing the SPE as a taxpayer, and filing a federal (and sometimes a state) tax return; if the transaction straddles tax years, then returns are required for both years.

### **2. Arrange Financing for SPE Acquisition.**

This includes arranging for the financing of the purchase of the replacement



property with the exchanger, and/or a third party lender (and if the relinquished

property has already sold, with the Qualified Intermediary ("QI") holding the exchange proceeds).

### **3. Prepare Documentation**

Documents include: (i) the Qualified Exchange Accommodation Agreement; (ii) Typically a Lease, since the SPE net-leases the "parked" property to the Exchanger; (iii) Ground Lease (where the Exchanger already owns the replacement property on which it wishes new improvements to be built); (iv) Loan documents to evidence and secure the debt (Note(s), Deed of Trust or other security instruments) as required by the lender(s), which may include the Exchanger and/or the QI holding proceeds from the disposition of the relinquished property; and (iv) Other ancillary documents, depending on the transaction (e.g., A Project Management Agreement for build-to-suit projects, Assignment of Buy-Sell Agreement, etc.)

### **4. Review Third Party Documentation**

Review and sign any third-party lender documentation to ensure that the terms of financing comply with the reverse exchange requirements.

### **5. Arrange for Insurance**

Property, casualty and commercial liability insurance on the property must be procured in the name of the SPE with the exchanger as an additional named insured on the policy.

### **6. Consultation**

Answer inquiries from Exchanger and the Exchanger's broker, as well as its legal and tax advisors about documents and other aspects of the transaction. This usually results in the direct involvement of one of the RES principals.

### **7. Coordination of Closing Process**

Coordinate closing of acquisition by SPE with escrow agent. This will include documenting the assignment of the purchase contract, reviewing escrow closing instructions, settlement statements, etc.

### **8. Coordinate with Qualified Intermediary**

This includes coordinating the closing with the QI, and where the SPE is engaged in construction, coordinating construction draw-down payments.

### **9. Monitor Ownership of the "Parked" Property**

This includes ensuring that all documents and bills regarding the "parked" property are forwarded to the tenant (under the Lease) of that property so they are timely dealt with. RES is required to maintain accounting records for the property as the "owner" of the property during the parking period.

### **10. Construction Disbursements**

If construction is going to be done during the 180-day "safe harbor" ownership, review and approve construction disbursements, and coordinate with RES bookkeeper to ensure that transaction is properly reported under "safe harbor" requirements.



### **11. Non-Safe Harbor Issues**

If the transaction is outside of the 180 day "safe harbor", the major accounting firms advise that in order for the SPE not to be deemed the "agent" of the Exchanger, for tax purposes, the SPE must have between 5% and 10% equity invested, and "at risk". This of course results in a greater cost. To compensate for this risk, RES usually requires a yield of 16%-18% p.a. on the equity provided. The amount depends on a number of factors, including the credit status of, and business activities of Exchanger, the kind of property, etc.

### **12. Complete the Transaction - Exchange "First"**

If the SPE "parks" the relinquished property, it will enter into a sales contract (and any amendments), when presented by the broker (and approved by Exchanger). Then the SPE will complete the sale, arrange for pay down of debt (and arrange for Exchanger to make-up shortfall, or arrange for payment of excess to Exchanger) and then report the sale, on its own tax return, showing no gain or loss.

### **13. Complete the Transaction - Exchange "Last"**

If the SPE owns the replacement property, when the Exchanger is ready to complete the exchange, the SPE enters into the Exchange Agreement with Exchanger and QI, sells the replacement property to Exchanger, and then accounts for the sale on its own books.

### **14. Dissolve the SPE**

After the exchange is completed, and the SPE no longer owns any property, the SPE is dissolved, and final tax returns are prepared and filed.

*We hope this summary has been helpful to you. If you want further clarification, please call us toll-free at 1-866-276-1031 or visit us on the web at [www.reverse1031.com](http://www.reverse1031.com).*