

1031 Exchange Guide

California Real Estate Owners & Investors

Prepared by: Samantha, Real Estate Advisor
Educational guide only

Introduction: What Is a 1031 Exchange?

A 1031 exchange allows real estate owners to **defer capital gains taxes** by reinvesting proceeds from the sale of an investment property into another qualifying property.

- Named after **Section 1031** of the Internal Revenue Code
- Commonly used by **California investors** to preserve equity, reposition portfolios, and build long-term wealth

In high-value markets like Los Angeles and the Westside, where appreciation can be significant, understanding a 1031 exchange is especially important.

Who Should Consider a 1031 Exchange?

A 1031 exchange may be appropriate for:

- Owners of **rental or investment properties**
- **Long-term property holders** with large unrealized gains
- Investors looking to **upgrade, downsize, or diversify**
- Owners **transitioning from active to passive investments**
- Sellers **relocating investment capital** within California or out of state

Note: **Primary residences do not qualify**, but many second homes and rentals may, depending on use.

Like-Kind Property Explained

- “Like-kind” does **not mean identical**
- Broadly refers to:
 - Any **investment or business-use real property** exchanged for another
 - Residential rentals exchanged for **multi-unit, commercial, or other investment properties**

Examples:

- Duplex → single-family rental
 - Condo rental → apartment building
 - California property → out-of-state property
-

Key 1031 Exchange Rules & Timelines

Rule 1: Use a Qualified Intermediary (QI)

- Sale proceeds **cannot be touched by the seller**
- A QI holds funds during the exchange

Rule 2: 45-Day Identification Period

- Within **45 days** of closing the sale, replacement properties must be **identified in writing**

Rule 3: 180-Day Closing Period

- The replacement property must **close within 180 days** of the sale

Rule 4: Equal or Greater Value

- To fully defer taxes, the replacement property must be of **equal or greater value and debt**
-

Common 1031 Exchange Mistakes

- Missing the **45- or 180-day deadlines**
- Improper **property identification**
- Selecting replacement properties **too late**
- Not accounting for “**boot**” (cash or debt reduction)
- Failing to **coordinate with tax professionals early**

In competitive markets like LA, **advance planning is critical.**

1031 Exchanges in California: Special Considerations

- California tracks **deferred gains**, even if exchanging out of state
 - High property values mean **higher potential tax exposure**
 - Tight inventory on the Westside requires **early replacement strategies**
 - Condo and HOA issues can **impact replacement eligibility**
-

Strategic Uses of a 1031 Exchange

- Selling a **high-maintenance property** and moving into **passive income**
- **Consolidating multiple properties** into one
- **Diversifying** from one location to multiple markets
- **Transitioning toward lifestyle-friendly investments**

Final Thoughts

A 1031 exchange can be a **powerful wealth-building tool** when executed properly.

Because rules are strict and timelines unforgiving, **coordination between real estate, tax, and legal professionals** is essential.

Disclaimer: This guide is for educational purposes only. Property owners should consult **licensed tax advisors, attorneys, and qualified intermediaries** before pursuing a 1031 exchange.