

The 1031 Exchange: Defer the Tax, Redeploy the Equity

Turn one appreciated property into several income-producing ones — without handing a third of the gain to the IRS.

INVESTOR-FIRST | VA · MD · DC · WV | 45 / 180 DAY CLOCKS



Lexie De Stefano · List with Lexie DMV

INVESTOR-FIRST REAL ESTATE

SELL ONE · BUY SEVERAL

Sell an appreciated rental and you owe capital gains tax plus depreciation recapture. A 1031 exchange rolls that entire gain into your next properties instead, so your **full equity keeps working** rather than the IRS taking a cut off the top.

What it actually does

THE MECHANISM

Deferral, not forgiveness

Your basis and deferred gain carry forward, so you keep compounding on money you would have handed over in tax. Hold long enough and heirs inherit at a stepped-up basis, and the deferred tax can disappear entirely.

THE FLEXIBILITY

“Like-kind” is broad

Any U.S. investment real estate qualifies for any other. A rowhome can become a small multifamily, two short-term rentals, or bigger houses in a cheaper state. You are not locked into the same type or market.

Two rules to defer *every dollar*

1

RULE ONE

Buy equal or greater value

What you buy must total at or above your net sale price. If you had a mortgage, that debt has to be replaced too — with new financing or with cash. Selling free and clear keeps it simple: no debt to replace, just reinvest the equity.

2

RULE TWO

Reinvest all of the money

Every dollar routes back through your Qualified Intermediary. Anything you pocket is **boot** and gets taxed like a normal sale. Buying slightly more than you sold, or budgeting for renovation, keeps all of it sheltered.

The two clocks that decide everything

45

DAYS TO IDENTIFY

Name your targets in writing. Calendar days. No weekend relief, no extensions.

180

DAYS TO CLOSE

Every purchase must fully close. The window ends at day 180 or your tax return due date, whichever is first.

The deadline almost nobody plans for. Both clocks start the day your sale closes. Sell late in the year and day 180 can land past your April filing deadline, cutting the exchange short unless you file an extension.

— The 45-Day List

You don't get to name *everything* you like

The identification rules are the part people misread — and the part that quietly kills exchanges.

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IDENTIFICATION STRATEGY

You get 45 days to put your targets in writing. After that the list is locked and you can only buy from it. Most people assume they can name everything interesting and sort it out later. **You cannot.** There are exactly three ways to identify, and every one is a ceiling.

THREE WAYS TO IDENTIFY · EVERY ONE IS A CEILING

RULE 1 · CAPS YOUR COUNT

Three Property Rule

Three properties, at any value. Sell an \$800K rowhome and you could name three \$4M buildings. Write down a fourth and this rule is gone. Most exchanges run here, and that is the problem: three slots is a thin bench.

RULE 2 · CAPS YOUR VALUE

The 200% Rule

Want more than three? Name as many as you like, but their combined value **cannot exceed 200% of what you sold.** Sell for \$900,000 and the whole list has to total \$1.8 million or less.

RULE 3 · CAPS YOU

The 95% Rule

Blew past both? Identify anything at any value, but you must actually close on 95% of what you named. Name \$6M and you are committed to \$5.7M. A safety net, not a strategy.

Go over the 200% ceiling and you do not lose the extras — you lose everything. The IRS does not fall back to your first three. You are treated as having identified **nothing at all**, the exchange fails, and the full gain is taxable that year. Every address on the page counts against the ceiling whether you were serious about it or not.

YOUR CEILING AT A GLANCE

Combined value of everything you name — not what you intend to buy

IF YOU SELL FOR

\$600,000

Ceiling **\$1.2M**

Three \$350K targets, or two at \$500K

IF YOU SELL FOR

\$900,000

Ceiling **\$1.8M**

Five \$300K targets, or three at \$550K

IF YOU SELL FOR

\$1,400,000

Ceiling **\$2.8M**

Six \$400K targets, or four at \$650K

IF YOU SELL FOR

\$2,200,000

Ceiling **\$4.4M**

Four \$950K targets, or two at \$2M

Measured on the **value of everything identified**, not what you plan to close. Name four and buy one — fine, as long as all four stayed under the line. Go a dollar over and the identification is void entirely.

A Note From Lexie

Identification strategy starts long before day 45. It belongs in the pricing conversation on your sale, because what you sell for sets the ceiling on what you can name. Most exchanges fail on the buy side, not the paperwork.

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Three names is *not a plan*

How we use the ceiling to give you real backups instead of a single fragile option.

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STRATEGY

TWO WAYS TO RUN IT · PICK BEFORE YOU LIST

FORWARD EXCHANGE

Sell first, then buy

- The standard, lower-cost path
- Clock starts at your sale closing
- All the pressure is on finding deals inside 45 days
- Best when replacements are already lined up

REVERSE EXCHANGE

Buy first, then sell

- Lock up the great deal before the sale
- Needs cash or bridge financing up front
- Costs more, but removes the scramble
- Turns the timeline in your favor

Why we build the deepest list the ceiling allows

A three-property list is fragile. Lose one to another buyer on day 50, kill a second on inspection, and you are down to one option you may not even want.

WORKED EXAMPLE

\$900K sale, three targets

Three properties around \$300K each is \$900,000 committed against an **\$1.8 million ceiling**. That leaves room to name six or more and still sit well inside the rule. Real backups, without ever touching the edge.

WHERE IT GETS TIGHT

Trading up into fewer, bigger assets

If each replacement is near your full sale price, the ceiling only buys you two. That is when we either lean on the Three Property Rule deliberately, or restructure — smaller assets, or a reverse exchange so the deal is locked before the clock starts.

If a deal falls through. Before day 45 we simply re-identify; the list is not final until the deadline passes. After day 45 we move to your backups, which is the whole reason we built them. Worst case you buy fewer properties and owe tax only on the portion you did not reinvest. There is no penalty for a deal that dies. The penalty is having nothing to fall back on.

DO NOT TRIP OVER THESE

- **Same taxpayer rule.** Whoever sold has to be whoever buys. If LLCs are involved, the structure has to match before offers go out.
- **Replace the debt, not just the equity.** Paying off a mortgage and buying all cash for less than you sold still creates taxable boot. The replacement total is measured against your sale price, not your check at closing.
- **Nonresident withholding.** Maryland withholds from nonresident sellers at settlement, and the exemption requires paperwork filed at least 21 days ahead. West Virginia has a parallel regime. Missed constantly, and pure avoidable cash drag.
- **Inherited recently? Check the basis first.** Inherited property generally gets a stepped-up basis at date of death, which can erase most of the gain. If there is little left to defer, an exchange adds cost and a 45-day clock for nothing.

The exchange is *the easy part*

The paperwork is a solved problem. Finding properties that actually pencil inside 45 days is not.

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HOW WE RUN IT

"I run these strategies on my own deals. I'm not putting you into anything I wouldn't buy myself."

Most exchanges fail on the buy side, not the paperwork. My edge is underwriting and sourcing: I pressure-test layout, bedroom-count upside, lot value, and true rent potential so we only chase properties that actually pencil. And because we are often buying cash and closing fast, we write from a position of strength and win deals other buyers cannot.

HOW WE RUN YOUR EXCHANGE · FIVE STEPS

- 1 Line up your Qualified Intermediary early**
Engaged before the sale closes. You can never touch the proceeds or the exchange is void. I will introduce you to a QI and a CPA who does these regularly.
- 2 Source and underwrite contenders now**
The search starts before your listing goes live, not after settlement. I build a short list that clears your return targets while we are still prepping the sale.
- 3 Sell the relinquished property**
Priced and positioned to close on a timeline that protects both windows, and at a number that sets a workable 200% ceiling.
- 4 Identify inside 45 days, with backups**
Primary targets plus alternates, submitted in writing through your intermediary, built to the deepest bench the rules allow.
- 5 Close all purchases inside 180 days**
Strong offer terms and a tight closing process to get every property over the line before the clock runs out.

WHAT TO SEND ME · THREE THINGS

The address, roughly what you paid and what you have put into it, and what you still owe. That is enough for me to run the exchange against a straight sale and come back with replacement targets that actually pencil.

YOUR NEXT STEP

Sitting on an appreciated property?
Send me the address — I'll run the numbers.

Text or call: 703-679-1700
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This material is general information for real estate planning purposes and is not tax or legal advice. I am a Realtor and an investor, not a CPA or an attorney. 1031 exchange eligibility, timing, and treatment depend on your specific situation, entity structure, and state of residence. Confirm all details with your CPA and a Qualified Intermediary before acting.

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