

What Comes After a 1031 Exchange?

A 1031 exchange is frequently treated as the finish line. For most property owners, it is really a checkpoint.

KEY TAKEAWAYS

01

Tax deferral can preserve capital, but it does not determine what the replacement investment should accomplish.

02

Diversification, income, operating responsibility, and estate simplicity should shape the replacement strategy.

03

The governing question is not only what qualifies, but what fits the investor's next chapter.

The Replacement Strategy Is the Real Decision

Deferring capital gains, depreciation recapture, and net investment income tax can preserve basis and buying power. But the harder question is what the replacement property is supposed to do for the next chapter of an investor's life. The exchange mechanics are a means; the replacement strategy is the decision that matters.

Diversification and Concentration Risk

Diversification is often one of the first considerations a 1031 exchange makes possible. Concentrating decades of accumulated equity in a single building, submarket, or asset class creates a dependency that may remain invisible until an anchor tenant leaves, a local economy softens, or a property type falls out of favor with capital markets.

Replacement structures that spread exposure across property types, sponsors, or geographies may reduce that single-point dependency. The question is not whether diversification is desirable in the abstract, but whether a specific replacement structure genuinely broadens exposure or simply trades one form of concentration for another.

When Income Needs Reshape the Objective

Income needs can change the objective entirely. An owner who optimized for appreciation during the accumulation phase may now need more predictable distributions to support retirement. In that case, the replacement asset should be evaluated against a cash-flow need rather than only a growth thesis.

The shift from accumulation to distribution is one of the more consequential changes in an investment plan. An exchange creates a natural point to make that shift deliberately rather than by default.

The Value of Stepping Back from Operations

Tenant calls, capital expenditure decisions, leasing cycles, and loan maturities are genuine work. Many sellers want to retain real estate exposure without retaining the operating role, and an exchange may create an opportunity to reconsider that responsibility.

Passively managed structures can reduce day-to-day demands, but they also involve tradeoffs, including less decision-making authority and greater dependence on a sponsor or manager. The right balance depends on what the owner values now, not only on what worked in the past.

Estate Planning and the Complexity Heirs Inherit

Estate planning brings the tax picture full circle. Depending on current law and individual circumstances, deferred gain may receive a step-up in basis at death. Heirs, however, also inherit the asset's complexity: operating duties, illiquidity, deferred maintenance, and the challenge of dividing a single property among beneficiaries with different goals.

Structures that are simpler to value, divide, and transfer may help reduce the risk of a forced sale. An exchange that defers a tax liability but creates an estate problem has not fully answered the planning question.



The Question That Should Come First

The rules define what qualifies; they do not define what fits. Diversification, income, passive ownership, and estate simplicity are different lenses on one central question: What should this capital be doing for the next chapter, and what structure gives it the best chance of doing so? An exchange is the mechanism. The answer to that question is the strategy.

Questions to Consider

- What role should the replacement investment play: income, growth, diversification, simplification, or some combination?
- How much operating responsibility does the owner want to retain?
- Would the structure be understandable and manageable for heirs?
- What risks or concentrations would remain after the exchange?

WHAT SHOULD YOUR EQUITY DO NEXT?



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Forum Investor Relations

InvestorRelations@ForumIG.com
303.501.8804