

SECTION 1031 REAL ESTATE LIKE-KIND EXCHANGES



Title agents see firsthand the importance of 1031 exchanges for building and sustaining local communities. These transactions are large and small, in both rural and metro areas and represent everything from small rental housing properties, to neighborhood strip malls and large mixed-use buildings in urban centers, to agricultural land. Like-kind exchanges provide an important incentive for investing in affordable housing and commercial real estate.

The Internal Revenue Service (IRS) code Section 1031 allows people that sell real estate to defer the payment of capital gains taxes when they reinvest those gains in similar or “like-kind” real estate. According to [research](#) by Professors David Ling (University of Florida) and Milena Petrova (Syracuse University), around 10-20% of commercial real estate transactions involve a 1031 exchange.

For over a century, 1031 exchanges have made it more cost effective to invest in upgrades and improvements to property. Without like-kind exchanges, real estate markets would face significant instability while we are working to recover from COVID-19 and increase investments in infrastructure and affordable housing. Rules for like-kind exchanges are narrowly tailored and have been modified and improved to eliminate potential abuses.

Economic Benefits

- ✓ Generates \$2.8 billion in annual state and local tax revenue through increased real estate transactions, according to [research](#) by Ernst & Young
- ✓ Critical tool for small, veteran, women and minority-owned businesses
- ✓ Supports 568,000 jobs annually, generating \$27.5 billion in labor income each year
- ✓ Roughly 70% of tax is recouped through less reliance on other real estate tax incentives

Real Estate Market Benefits

- ✓ 40% of 1031s involve rental property, increasing the supply of affordable housing
- ✓ \$127,500 more spent on upgrades (15.4 percent of value) when investors use a 1031
- ✓ 35% lower loan-to-value ratios for 1031 buyers, meaning less overall risk in real estate market
- ✓ Driver of development for smaller properties and shopping centers with 75% of 1031s involving property valued at less than \$1.5 million

Land Conservation Benefits

- ✓ Creates increased opportunity for land conservation and environmental protection
- ✓ Helps preserve family-owned farms and ranch land
- ✓ Supports the preservation of open spaces for public use

For these important reasons, current law tax treatment for Section 1031 real estate like-kind exchanges must be preserved.

**All data cited from Professors David Ling (University of Florida) and Milena Petrova (Syracuse University) and Robert Carroll, Co-leader EY Quantitative Economics and Statistics Group*