

TAX STRATEGY

The 1031 Exchange Guide for Commercial Property Owners

How to defer capital gains and reinvest tax-free into your next West Michigan commercial asset

What Is a 1031 Exchange?

Section 1031 of the IRS Tax Code allows real estate investors to defer capital gains taxes when they sell a property and reinvest the proceeds into a “like-kind” replacement property. Properly structured, a 1031 exchange allows you to build wealth tax-deferred, compounding equity instead of surrendering it to taxes.

Example Impact

A property sold for \$2.5M with \$800K in gains could trigger \$180K–\$220K in federal capital gains tax. A 1031 exchange defers that entire liability.

The Critical Timeline

- 1 Sale Closes**
Day 0 — Clock starts immediately at closing.
- 2 45-Day Identification Window**
You must identify up to 3 potential replacement properties in writing within 45 days. This window cannot be extended.
- 3 180-Day Exchange Window**
You must close on the replacement property within 180 days of selling the relinquished property.
- 4 Qualified Intermediary (QI)**
Proceeds must be held by a QI — you cannot touch the funds. Select your QI before you close on the sale.

"Missing the 45-day identification deadline ends the exchange — no exceptions."

Qualifying Property Rules

- Both properties must be held for investment or business use
- Primary residences do not qualify
- Replacement property value must be equal to or greater than sale price
- All equity must be reinvested (no “boot” taken as cash)
- Debt on replacement must equal or exceed debt on relinquished property

Common 1031 Strategies

Upleg — Upgrade Your Asset

Exchange out of a management-intensive asset into a triple-net leased property for passive, predictable income.

Diversification

Exchange one large property into two or three smaller assets to reduce single-tenant concentration risk.

Geographic Repositioning

Move equity out of a challenged market into a high-growth corridor without a taxable event.

How We Help

Site Advisors specializes in 1031 replacement property identification across West Michigan and the broader Midwest. We maintain an active buyer and seller network and can often identify off-market replacement properties before your 45-day window closes.

Start the conversation before you sell. We work with your QI and tax advisor to structure a seamless exchange from day one.