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Northmarq

1031 Exchanges in 2025

Execution, Cash Flow and Tax Strategy in Focus

September 2025

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Certainty is rare in real estate, but investors now have clarity on one key strategy. The One Big Beautiful Bill Act (OBBBA) preserved Section 1031 of the Internal Revenue Code—commonly known as 1031 exchanges—assuring that investors can continue deferring capital gains taxes by reinvesting proceeds into like-kind properties. Early proposals contemplated capping deferrals above $500,000, but those restrictions did not make it into the final legislation. In addition to preserving 1031 exchanges, the OBBBA reinstated key tax initiatives, including permanent bonus depreciation and 100% expensing of qualified improvements such as appliances, HVAC and flooring.

For decades, 1031 exchanges have been a cornerstone of wealth preservation and portfolio optimization. By allowing investors to defer taxes when reinvesting in like-kind assets, the strategy provides flexibility to respond to market shifts, personal goals and regulatory changes.

With the rules unchanged, savvy investors are using this moment to rethink their portfolios, simplify management and position themselves for long-term success. But succeeding in today's environment requires more than just understanding the rules. It demands a clear vision for both sides of the exchange.

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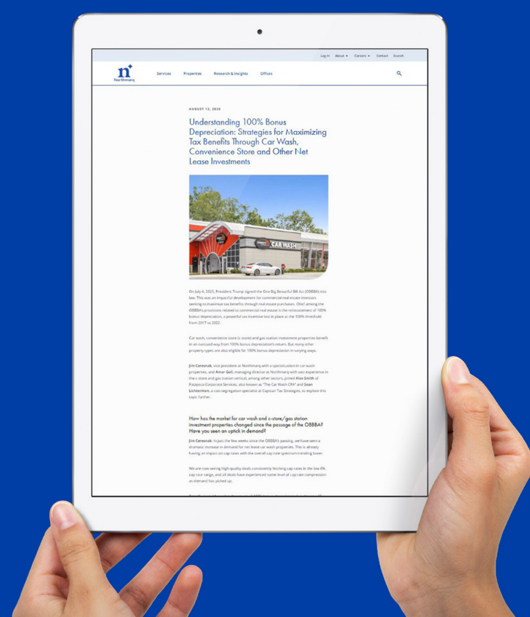

What the 2025 Legislation Means for 1031 Exchanges

Section 1031 remains fully intact – no new caps, limits or reporting requirements

Capital gains and depreciation recapture deferrals preserved

Real estate exchanges still qualify as like-kind property

Timelines unchanged – 45-day identification and 180-day closing windows

What Clients Are Prioritizing in 2025

While Section 1031 is intact, the overall market transaction volume remains lower than in prior years. Higher rates, tighter financing and broader uncertainty have thinned activity, though the percentage of 1031 exchanges have held steady.

The following continue to be consistent themes we're hearing from our 1031 exchange clients in today's market.

1. **Tax deferral and wealth preservation** remain top priorities.
2. **Improving cash flow** continues to drive exchange activity.
3. **Simplifying management** is a common goal, especially for owners transitioning out of multi-tenant, multifamily or hands-on assets.
4. **Housing restrictions and regulations** are pushing investors out of restrictive states and into more predictable, landlord-friendly markets.

In practice, investors are pruning portfolios at key inflection points—loan maturities, rental escalations or tenant credit changes—while also diversifying tenants and lease ladders to smooth cash flow. Geographical shifts remain two-way, with some reallocating to landlord-friendly states and others moving into supply-constrained metros for insulation.

Top Concern: Certainty of Execution

Tight timelines and financing complexity mean execution often drives decision-making. Many investors won't sell without a replacement identified, but waiting on the upleg can lead to delays or suboptimal choices. The most successful exchanges start with a disciplined process: lender alignment up front, multiple underwritten targets and contracts structured with 1031 cooperation and built-in extensions, while *avoiding common mistakes* that can derail the exchange.

Dual tracking is especially effective. Marketing the downleg while sourcing upleg options in parallel allows investors to preserve timing and control. Leveraging national networks, off-market relationships and multiple LOIs keeps options open when the 45-day identification window begins.

Market Dynamics: Inventory, Pricing and Strategy

Inventory is selective but improving. Quality supply remains limited, but incremental volume is expected as financing clarity improves. More properties coming to market should expand buyer choice over time.

Pricing is flexible but requires discipline. Sellers are more negotiable than a year ago. Deals listed at a 5.5% cap rate may still deliver investor goals if the lease structure, credit and real estate fundamentals align. Many buyers are prioritizing downside protection and income durability over chasing nominal yield.

Strategic repositioning is the opportunity. Investors are moving away from chasing headline yields and instead focusing on income durability, tenant credit and mark-to-market potential. Many are accepting tighter pricing in exchange for stronger lease structures and more predictable operating environments.

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CASE STUDY

REAL DEALS, **REAL IMPACT**

Healthcare Portfolio Exchange Across Four States

CLIENT OBJECTIVE:

Scale into a diversified healthcare portfolio while deferring capital gains and aligning assets with financing and tax goals.

STRUCTURE:

- Five simultaneous 1031 exchanges, ~$38M total value
- Portfolio included eight healthcare properties across four states
- Standard 45-day identification and 180-day closing timelines met

NORTHMARQ'S ROLE:

Investment Sales in Tulsa, Debt + Equity in St. Louis and our 1031 Exchange and Triple Net Lease Financing teams worked side by side to deliver on the client's strategy. More than a dozen professionals collaborated across valuation, marketing, debt placement and exchange structuring to optimize returns, balance risk profiles and realign assets into exchange buckets that met financing and tax objectives. The process demanded seamless communication across multiple states, creative structuring and contingency planning to complete five exchanges on the same timeline.

OUTCOME:

All five exchanges were completed successfully. The client achieved full capital gains deferral, improved cash flow and built a strategically aligned healthcare portfolio.

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CASE STUDY

REAL DEALS, REAL IMPACT

Retail Sale in the Puget Sound Region

CLIENT OBJECTIVE:

Transition out of active management and into a stabilized, lower-maintenance asset.

STRUCTURE:

- Single-property exchange
- Downleg value: approx. $8M
- Upleg under contract with multiple vetted backup options

NORTHMARQ'S ROLE:

The Northwest Retail team guided a long-time client through the process of selling an actively managed retail property and transitioning into a stabilized, higher-credit asset. They launched a broad marketing process to secure a qualified buyer for the downleg, while simultaneously activating sourcing efforts for the upleg through internal databases, long-standing market relationships and targeted off-market outreach. To protect the client under the exchange clock, the team built in extensions and timing flexibility during negotiations. Running both legs in parallel allowed the client to secure their preferred upleg before closing the sale, while also maintaining multiple backup options.

OUTCOME:

The exchange remains on track. The client is positioned to transition into a stronger, more predictable asset, with timing flexibility and contingencies in place to ensure certainty of execution.

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Looking Ahead: Trends Shaping 1031 Exchanges

Over the next 12 to 18 months, several factors could reshape exchange strategies:

- **Selective but stabilizing supply:** Durable-income assets remain most resilient, with pricing holding firm. A modest increase in inventory could expand buyer optionality.
- **Shifting buyer focus:** Investors are prioritizing income durability, reset rent to market potential and tenant credit quality over headline yields.
- **Geographic re-weighting:** Capital is reallocating in both directions—toward landlord-friendly jurisdictions and into high-barrier, supply-constrained metros.
- **Interest rate impact:** With potential Fed rate cuts later this year, sidelined investors may re-enter, sparking more exchange activity.

Final Thoughts

Investors are no longer chasing yield for its own sake. The focus has shifted to income durability, tenant credit and the ability to reset rents to market. With the rules intact and financing clarity improving, 1031 exchanges are regaining momentum. Success will come to those who prepare early and stay flexible under the exchange clock.

> *"Succeeding in today's environment requires more than just understanding the rules. It demands a clear vision for both sides of the exchange."*

Joe Dugoni
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