1031 Exchange Trends & CRE Info for 2025

As we step into 2025, the commercial real estate (CRE) market and 1031 Exchange landscape are set for another dynamic year. Economic fluctuations and evolving market conditions will require investors, property owners and their teams to stay informed about the latest trends and opportunities. Here's a look at what to expect in 2025.

1031 Exchange Trends and Market Update 2025

Interest rates will continue to fluctuate, creating an unpredictable environment. Despite this, 1031 transactional volume is expected to increase due to tax deferral benefits.

Strict underwriting guidelines continue to make CRE financing challenging. Seller-financed deals will continue to increase, with sellers motivated to seek creative 1031 Exchange solutions to optimize their purchasing potential.

Limited property availability is increasing the popularity of Reverse Exchanges, where taxpayers close on their new Replacement Property before selling their current investment. This flexibility has given 1031 Exchangers an advantage in competitive markets.

Larger multifamily properties, industrial spaces and neighborhood retail outlets are expected to remain in high demand throughout 2025. We see a growing trend of investors moving away from office properties and using 1031 Exchanges to reinvest their profits into more resilient asset classes with stronger growth potential.

Local governments continue to implement restrictions on short-term rentals, prompting many residential investment property owners to sell. These investors are turning to 1031 Exchanges to shift their investments into traditional apartment buildings or other asset classes with fewer regulatory hurdles.

In 2024, there were no significant changes to Section 1031 of the Tax Code. However, 2025 may bring new proposals, potentially affecting 1031 Exchanges. IPX1031, the Federation of Exchange Accommodators (FEA) and industry advocates continue to meet with and educate lawmakers about the economic benefits of 1031 Exchanges. Our goal is to preserve the law in its current form. Sign up for Save1031 updates here.

Given the anticipated challenges in the CRE market, 1031 transactions will stay active as informed investors and commercial property owners employ strategic 1031 tax deferral tools.

Anticipated 1031 Exchange Trends for 2025

- **Reverse and Improvement (a/k/a Build-to-Suit) Exchanges:** These will continue to be popular due to higher interest rates and interest rate volatility coupled with limited quality inventory.
- **Maturing Loans and Refinancing Needs:** There will be significant transactional activity driven by a substantial volume of loans coming due as CRE owners sell due to maturing loans and use 1031 Exchanges for better ROI and loan terms.
- **Interest Rates and Transaction Volume:** Any decrease in interest rates is expected to boost 1031 transaction volume, leading to an overall upward trend in residential and commercial exchanges.
- **Seller Financing:** Traditional financing challenges will lead to more seller-financed transactions, with sellers leveraging 1031 Exchanges to maximize their strategies.
- **Shifts in Asset Classes:** Multifamily, industrial, and retail properties are expected to see robust activity as investors use 1031 Exchanges to defer taxes.
- **Shift to Passive Investments:** An increase in management-intensive properties being exchanged for passive investment types like NNN (Triple Net Lease) and DSTs (Delaware Statutory Trusts) is expected.
- **Geographical Shifts:** Investors will continue to move their investments to more landlord-friendly areas, driven by local regulations and economic conditions.
- **ADU/Mixed-Use Growth:** 1031 opportunities are expected to thrive for properties with accessory dwelling units (ADUs) and mixed-use properties that combine residential and commercial spaces. The diverse income streams enhance the appeal for 1031 Exchanges investors seeking new Replacement Properties.
- **Retirement-Friendly Areas:** Warmer climates, lower costs of living, and favorable tax conditions will attract investors looking to exchange into retirement-friendly regions.

As we navigate through 2025, staying informed and being adaptable will be key for success in the CRE market and 1031 Exchanges. By keeping an eye on these trends and leveraging strategic opportunities, investors can make the most of their investments and thrive in a dynamic market.

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