



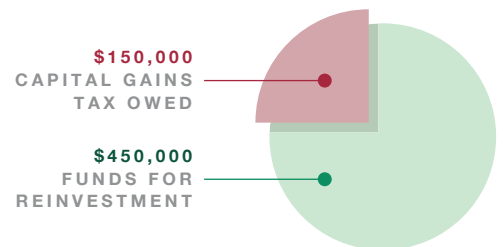
1031 AND DST INVESTING STRATEGY

The **1031 exchange** is one of the most effective ways to defer the capital gains taxes that an investor would otherwise owe after selling an investment property. **Delaware Statutory Trusts**, or “**DSTs**”, are popular investment structures that enable investors to invest in diversified portfolios of institutional-grade commercial real estate. Since DSTs qualify for 1031 exchange purposes, an investor can complete their 1031 exchange by investing in diversified portfolios of passive income-producing real estate through DSTs. This strategy can help protect your capital with broader diversification, free you from the burdens of property management with access to professional asset management, and provide you a source of stable, passive income backed by institutional-quality real estate.

Selling an investment property for the purpose of acquiring new investment opportunities **can trigger taxes exceeding 20-35%** of the capital gain on the sale of your investment property.



For example, if you sell an investment property for \$600,000 which was originally purchased for \$100,000, you would realize \$500,000 in capital gains. Approximately 30% of this gain, \$150,000, may be owed in capital gains taxes. You would therefore only have \$450,000 available from the proceeds to reinvest in new property.



Using a **1031 exchange** to reinvest the proceeds from the sale of an investment property, you can **defer all capital gains and depreciation recapture taxes**, safeguarding 100% of your capital for the next investment opportunity.



A 1031 exchange is not a traditional sale. With a 1031 exchange, no gains are officially realized, so no capital gains or depreciation recapture taxes are due.

To complete a successful 1031 exchange, you cannot take receipt of any proceeds from the sale of your original investment property. Instead, you must use a Qualified Intermediary to facilitate your 1031 exchange. A normal 1031 exchange typically involves the following five steps:

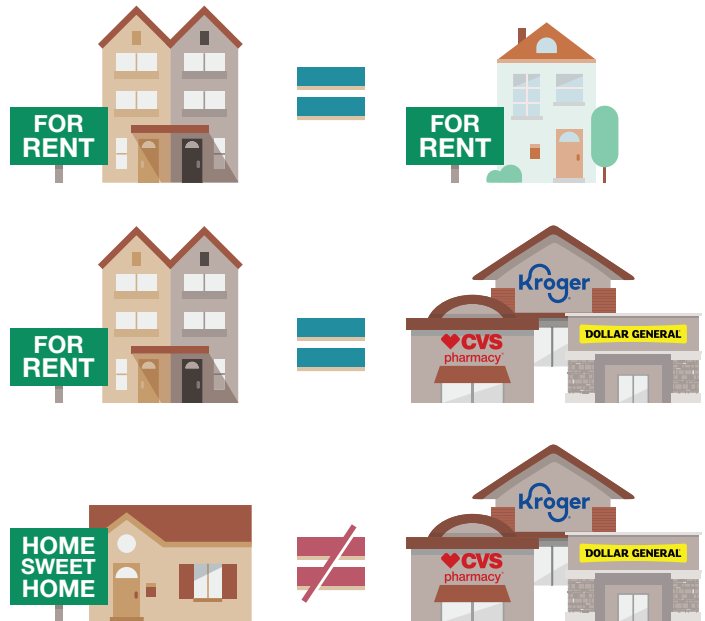
1. **List Relinquished Property:** If you want to sell investment property and defer the capital gains and depreciation recapture taxes using a 1031 exchange, the first step is to list the property for sale. Once you select a buyer, make sure your purchase contract states that you intend to complete a 1031 exchange, providing a paper trail that reflects your intent.
2. **Identify Qualified Intermediary:** While the property is under contract, you must identify an unrelated third-party professional to serve as your "Qualified Intermediary" also known as a "QI" or "1031 Accommodator".
3. **Sell Relinquished Property:** As a part of the sale, you will direct your Qualified Intermediary to take receipt of the sales proceeds so that you do not invalidate your 1031 exchange by directly taking receipt of the proceeds.
4. **Identify Replacement Properties:** Once your Qualified Intermediary holds the sales proceeds, you will work with your investment representative or broker to identify suitable replacement properties.
5. **Acquire Replacement Properties:** Once you decide which of the identified properties to acquire, your Qualified Intermediary will forward the funds for the closing as you direct, completing the 1031 exchange.



PROPERTIES MUST BE “LIKE KIND”

In a 1031 exchange, the replacement property must be “like kind” to the relinquished property. Generally, any real estate held for business or investment purposes in the U.S. is considered like kind. The difference in type, grade, and quality does not matter. For example, you can exchange a residential rental property for another, or a residential rental property for a commercial property, and vice versa.

Your personal residence or second home are not considered to be of like kind to any real estate held for investment or business purposes, and they cannot be used in a 1031 exchange.

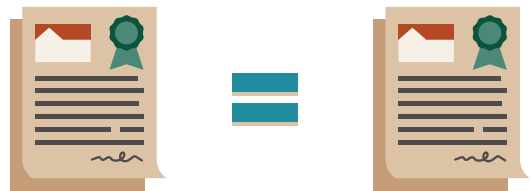


PROCEEDS MUST BE REINVESTED

The value of the replacement property must be equal to or greater than the value of the relinquished property to obtain a full deferral. Any proceeds that are not reinvested constitute gain, so you would have to pay capital gains taxes on those funds.

TITLES MUST BE IDENTICAL

The ownership title for the replacement property must be identical to the title on the deed for the relinquished property. This requirement can be met even if you use a pass-through entity to take title to your replacement property.

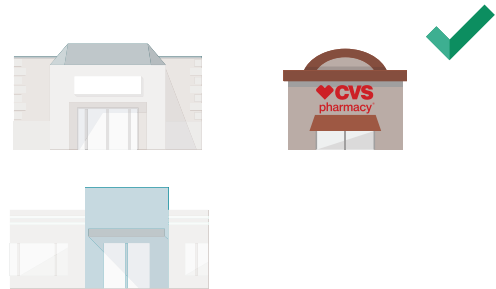


PROPERTY IDENTIFICATION RULES

You have 45 calendar days after closing on your original investment property to identify potential replacements. Your property identification must comply with one of the following three rules. If you violate the rule chosen for your 45-day identification period, your transaction will fail to qualify as a 1031 exchange and you will have to recognize all your capital gains and depreciation recapture for tax purposes.

3-PROPERTY RULE

You may identify up to three potential replacement properties and purchase any or all of them, regardless of their total value.



200% RULE

Alternatively, you may identify more than three potential replacement properties if their total value does not exceed 200% of the gross sale price of the relinquished property. You may purchase any number of the identified properties.

95% RULE

If you cannot use the 3-property rule or the 200% rule, you may identify any number of potential replacement properties regardless of their total value so long as you purchase 95% of the total value of all of the properties identified.



In identifying replacement property, you are not restricted to identifying individual investment properties. Real estate investors who need stable, passive income can also use an investment offering structured as a **Delaware Statutory Trust**, or “DST” to complete a 1031 exchange.

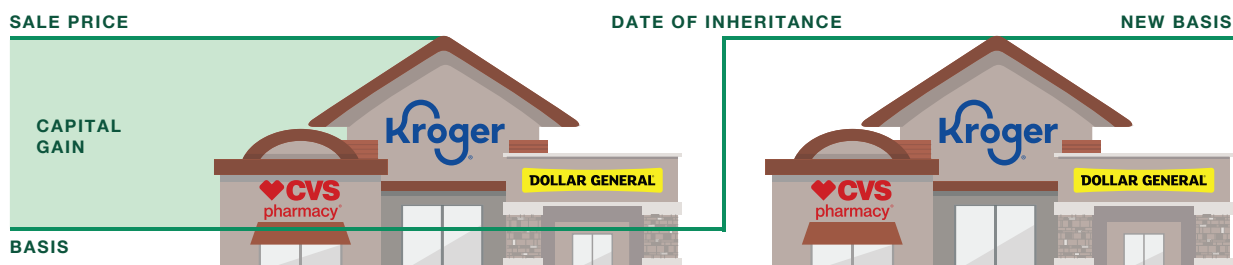


A DST investment can significantly increase your diversification and income potential. Once you have identified suitable DST investment(s), your Qualified Intermediary forwards the funds for the closing.

BENEFITING YOUR HEIRS

You can continue to defer capital gains taxes using the 1031 exchange process until you pass assets onto your heirs. DST shares can be evenly divided and passed on to multiple heirs, greatly simplifying investors’ estate planning.

When real property is passed to your heirs, whether held directly or through a DST, the basis by which the capital gains are determined steps up to the current market value at the time of inheritance. After your heirs inherit the investment property, they may sell it for its current value without realizing any capital gains.



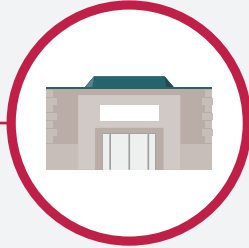
A DST is a vehicle that makes it possible to own shares of a diversified portfolio of passive income-producing real estate. The DST itself can hold title to real estate, borrow money from a bank, and shield its owners from personal liability.

You can purchase units in a DST and benefit from your pro rata share of the rental income, tax deductions, and any long-term gains achieved by the underlying real estate. The ownership of the real estate “passes through” the DST to its owners. For this reason, acquiring an interest in a DST can satisfy the IRS requirements for a 1031 exchange while significantly increasing your access to institutional quality real estate and diversification.

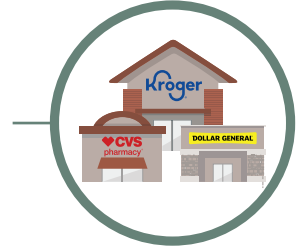
THE IRS RULED THAT A DST MEETING THE FOLLOWING CONDITIONS IS ELIGIBLE FOR 1031 EXCHANGE (REV. RUL. 2004-86)

- ✓ The DST actually operates as a trust, rather than a de facto partnership.
- ✓ The DST only spends money on repairs, maintenance, minor improvements, and legal obligations.
- ✓ The DST distributes all of its available cash to investors on at least a quarterly basis (most DSTs pay monthly distributions).
- ✓ If the DST sells any of its assets, it either distributes the proceeds to investors or reinvests them in short-term debt instruments on behalf of investors.
- ✓ The DST receives no additional investment capital after closing.
- ✓ The DST neither refinances its loan from the bank nor borrows any additional funds after closing.
- ✓ The DST does not renegotiate any leases or enter into any new lease agreements unless a tenant defaults. A master lease can be used to address this limitation by allowing the offering's sponsor to provide cash flow to investors and renegotiate its subleases to the tenants.

LESS
DIVERSIFIED
OWNERSHIP



DIVERSIFICATION
ACROSS A PORTFOLIO
OR MULTIPLE
PORTFOLIOS OF
PROPERTIES



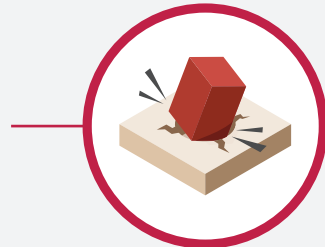
ALL THE
BURDENS OF
MANAGEMENT



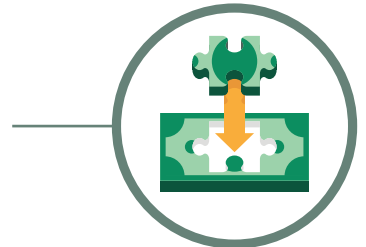
NONE OF THE
BURDENS OF
MANAGEMENT



HARD TO FIND
REPLACEMENT
OPTIONS THAT
MATCH EXACT 1031
REQUIREMENT



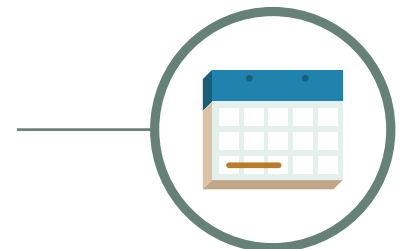
INVESTMENT
AMOUNT MAY BE
CUSTOMIZED TO
FIT EXACTLY WHAT
IS NEEDED



HARD TO FIND,
INSPECT, AND
CLOSE WITHIN
IDENTIFICATION
DEADLINE



INVESTORS
CAN CLOSE
ESCROW
IN AS FEW
AS 1-3 DAYS



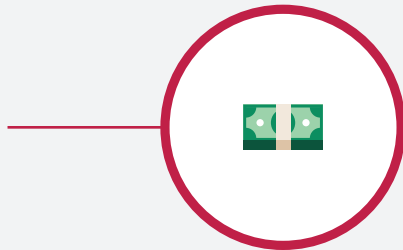
ADDITIONAL LIABILITY
AND LENDER
RECOURSE



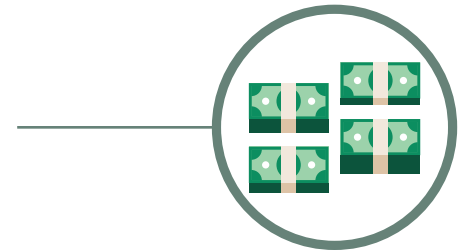
LIMITED
LIABILITY AND
NON-RECOURSE
FINANCING



LIMITED
TO ONE
INDIVIDUAL'S
INVESTMENT
CAPITAL



COMBINES
INVESTMENT
CAPITAL
OF MULTIPLE
INVESTORS



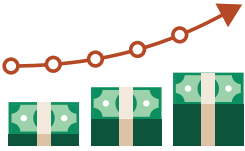
OPTIONS
OFTEN LIMITED
BY LOCATION
OR ASSET
CLASS



CAN BE
DIVERSIFIED
ACROSS THE
NATION AND BY
ASSET CLASS



POTENTIAL BENEFITS OF A DST



CASH FLOW

Net cash-on-cash returns typically start around 5–7% per year on your equity investment and are paid to investors on a monthly basis.



DIVERSIFICATION POTENTIAL

Acquiring a share in a DST or multiple DSTs with well diversified portfolios of assets can protect your capital from being overly dependent on any one property, location, asset class, tenant, industry, lease term, or debt term.



DUE DILIGENCE

DST sponsors are required to provide you with upfront access to appraisals, property condition reports, environmental reports, loan documents, and all market and property underwriting data.



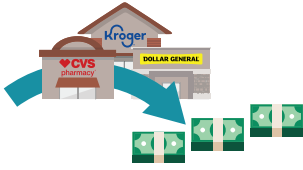
PASSIVITY

The sponsor is responsible for all management, accounting, reporting, and investor services so that you are able to receive fully passive cash flow.



TIMING

Since DSTs have already completed the underwriting, diligence, financing, and closing processes upfront, you can often close on a DST in as few as 1-3 days to successfully complete a 1031 exchange on time.



TAX DEDUCTIONS

A DST's tax benefits pass through to you during the hold period, including deductions for interest and depreciation. After the hold period, you may choose to defer any taxes that might otherwise be due on the capital gain and depreciation recapture by performing another 1031 exchange.



NON-RECOURSE FINANCING

DST investment offerings are often pre-packaged with long-term, non-recourse financing at 35% to 60% loan-to-value, so you can replace any equity and debt you may have to satisfy 1031 exchange requirements. There are also DSTs with much higher debt levels for special tax situations, and with no debt for investors that may prefer a debt-free instrument.



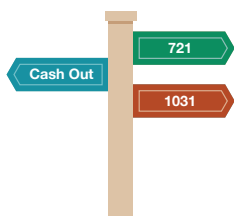
LIMITED LIABILITY

A DST provides the same limited liability protection as an LLC, shielding your personal assets from liability in case anything goes wrong with the investment.



BANKRUPTCY REMOTENESS

A DST is “bankruptcy remote”, which means that that your capital is safe from any potential creditors, bankruptcies, liens, or judgments that any of the other investors may encounter personally.



FLEXIBLE EXIT

Some DSTs are designed to provide multiple exit options, helping investors plan a strategic exit. For an appropriately designed DST, investors may have the option to cash out (potentially realizing capital gains), perform another 1031 exchange, or perform a 721 exchange to acquire ownership in a Real Estate Investment Trust (or “REIT”).

Lucey Wealth Advisors

Our mission is to help clients feel confident about their financial future.

This information is intended to highlight the typical objectives, benefits, and characteristics found in DST structures and may vary for individual DSTs. This is not a recommendation of any specific DST or investment offering. Potential benefits do not guarantee performance and the private placement memorandum of any DST offering should be reviewed before any investment is considered.



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