GRACE CAPITAL MANAGEMENT

DELAWARE STATUTORY TRUSTS
DST INVESTING

LOAN OFFICER, REALTOR, BROKER?

Master DSTs to Shake Loose Listings & Put a Safety Net Under Your 1031 Exchange Transactions

Tax Deferment • Passive Income
Liability Removal • Estate-Planning
Investment Return

1031WITHGRACEDST.COM

STORY: THE HESITANT PROPERTY SELLER

Increase Listings with DSTs: A Strategic Tool for Realtors

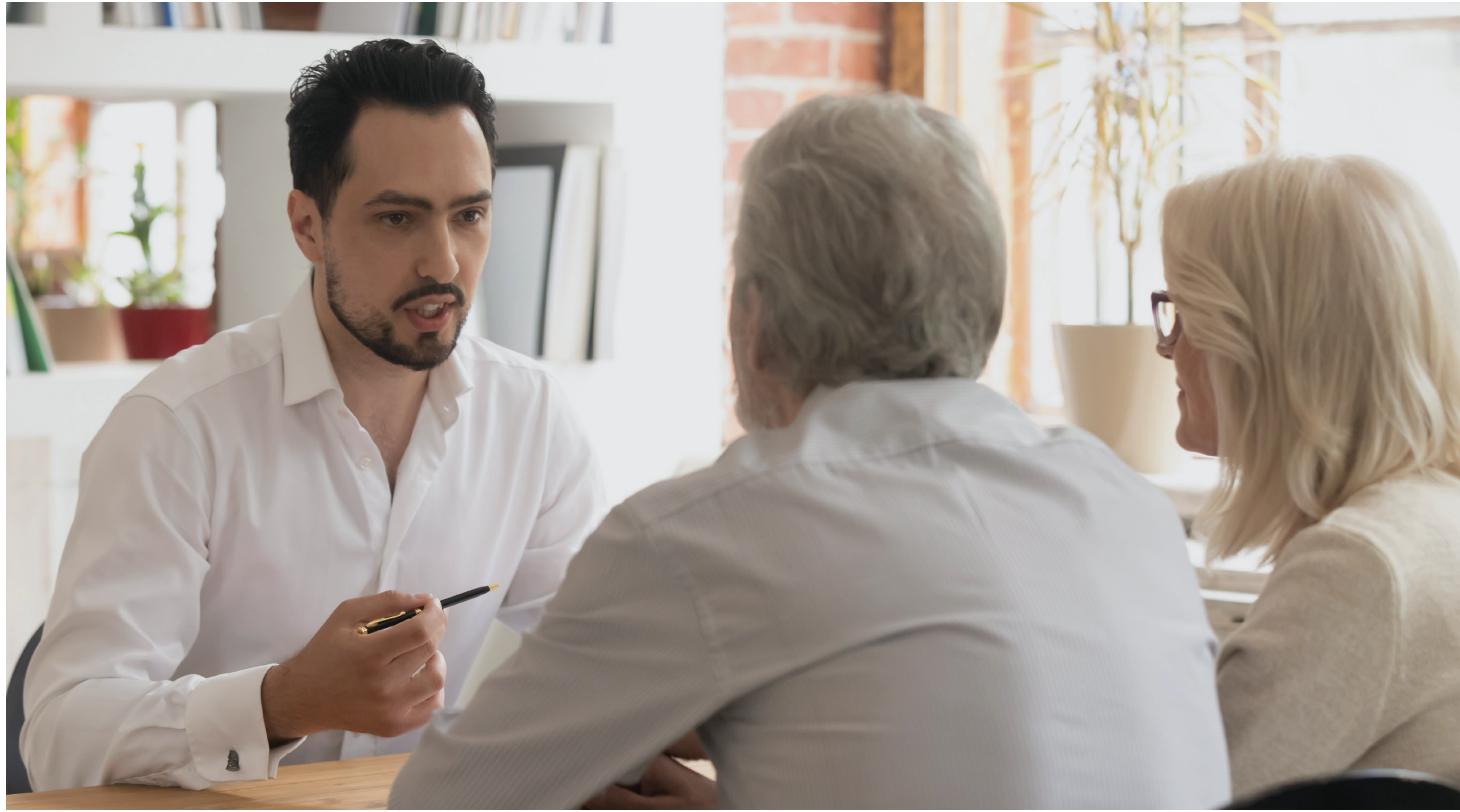
Bill and Nancy Coffman, a retired couple, owned a highly appreciated investment property. Giving a Realtor the listing had, so far, been out of the question, as they didn't want to pay capital gains taxes or manage replacement property from a 1031 Exchange. The real goal was freedom. In this situation, Todd was equipped to help.

Todd explained that a 1031 Exchange could defer their taxes and he introduced an alternative to buying more property; Delaware Statutory Trusts (DSTs). With DSTs, they could invest passively in Trusts that hold professionally managed, institution grade real estate.

Todd's deep knowledge of DSTs differentiated him from other Realtors and reassured the Coffmans. They were drawn to the idea of potential monthly income distributions and returns.

By offering DSTs as an option, Todd addressed the Coffmans' concerns, transforming hesitant sellers into confident investors. They appreciated the benefits of passive income and simplified estate planning. Todd highlighted that DSTs offer a step-up in basis, eliminating deferred taxes and simplifying wealth transfer to heirs. DSTs foster peace where sometimes there are family squabbles and feuds over property.

Through this process, Todd secured the listing and strengthened his reputation as a knowledgeable and trustworthy advisor, illustrating how DSTs can unlock new opportunities while serving clients' specific goals.



A REMINDER - 1031 EXCHANGE TRANSACTIONS

When Clients sell investment property, always explore the 1031 Exchange

What is a 1031 Exchange?

A 1031 Exchange allows investors to defer capital gains taxes on the sale of an investment property by reinvesting the proceeds into another "like-kind" property. (It is named after Section 1031 of the U.S. Internal Revenue Code). This tax-deferral mechanism can alternately be utilized by investing in Delaware Statutory Trusts (DSTs), where investors acquire shares in a Trust that owns institutional, professionally-managed property. This offers a flexible and diversified approach to real estate investment while operating within the 1031 Exchange framework.

Why is the 1031 Exchange a real estate investor's BFF (Best Financial Friend)?

Tax Deferral: Keep your hard-earned money working for you by deferring capital gains taxes and reinvesting 100% of your sale proceeds into a new property or DSTs.

Portfolio Diversification: Expand your real estate holdings by exchanging one property for multiple properties, or vice versa, to spread your risk across different types of investments in diverse market areas.

Estate Planning: Pass on your real estate investments to your heirs with a "step-up in basis" to the property's current market value at that point, effectively eliminating their capital gains tax liability.

Leverage: Use the equity in your current property to acquire a higher-value replacement property or DST, increasing your cash flow and potential appreciation over time.

Management Efficiency: Exchange a high-maintenance property for a lower-maintenance one, freeing up your time and resources for more lucrative investments.

Long-term Wealth Building: Repeatedly use 1031 Exchanges to defer your capital gains tax and reinvest the proceeds into more productive properties, building significant long-term wealth.

UNDERSTANDING 1031 EXCHANGES

The Essentials of 1031 Exchanges: A Path to Tax Deferral

1 PLAN AHEAD

BEFORE selling your property, consult with a 1031 Exchange specialist to ensure eligibility and make a plan.

2 SELL YOUR PROPERTY

Complete your sale. The proceeds **MUST** be transferred to a Qualified Intermediary (QI), instead of you directly, to defer taxes.

3 IDENTIFY REPLACEMENT PROPERTY

Within 45 days after selling your property, formally identify potential replacement properties. You can select up to three properties of any value, following the "Three Property Rule," or more under certain conditions.

4 PURCHASE REPLACEMENT PROPERTY

Within 180 days of the original sale, close on one or more of the identified properties. The replacement purchase(s) must be of equal or greater value to fully defer capital gains taxes.

5 MATCH OR EXCEED DEBT LOAD

The debt on the replacement property(s) should match or exceed the debt on your sold property to maximize tax deferral.

6 COMPLETE THE EXCHANGE

The QI will use the proceeds they are holding from the sale to purchase the replacement property on your behalf, completing the exchange.

7 REPORT TO IRS

File Form 8824 with the IRS during tax season to document the 1031 Exchange and the deferral of capital gains tax.

Remember, timing is critical in a 1031 Exchange, and each step must be carefully executed to ensure tax deferral.

THE SAFETY NET STRATEGY

Direct Real Estate Investment: Mitigate Some of the Challenges

Navigating the intricacies of a 1031 Exchange can be challenging, and there are potential pitfalls that you should be aware of. Identifying DSTs as replacement property provides a safety net for when things don't go as planned.

Identifying Replacement Property:
One of the biggest challenges is identifying suitable replacement property within the short 45-day identification period. Fully covering the boot, and matching debt load doesn't always come together. This can add stress and pricing pressure. Adding DSTs to the list provide a back-up plan.

Securing Financing:
There is a limit of 180 days to close, so locking down financing early in the process is important. Note that taking on more debt for the replacement property can help defer more capital gains taxes, but this also increases your clients' financial liability and risk.

Maintaining Equal or Greater Leverage:
To fully defer capital gains taxes, the net market value and leverage on the property acquired must be the same as, or greater than, the property sold. This can be challenging. A qualified intermediary (QI) will calculate the necessary leverage and ensure that the 1031 exchange is structured correctly. DSTs can balance this equation.

Avoiding Constructive Receipt of Funds:
This means that your seller cannot have direct access to the sale proceeds at any point during the exchange process. The QI holds the funds in escrow until they are used to purchase the replacement property(s). Make sure to choose a reputable QI with appropriate bonding.

Structuring the Exchange Correctly:
The 1031 Exchange process must be established and in place at or before the closing of the sale property in the exchange. This means that the QI must be selected and the exchange agreement must be in place before any transactions occur.

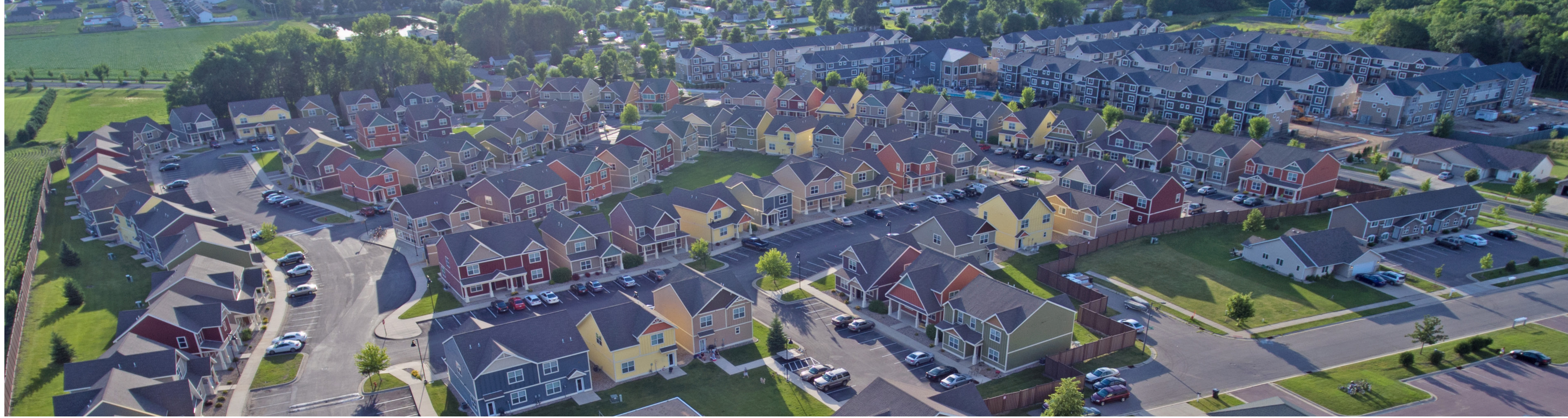
Conclusion:
As powerful a wealth-building tool as the 1031 Exchange can be, navigating the complexities of the exchange process is challenging. Adding DSTs can assist with the Real Estate option or replace it altogether.

INTRODUCTION TO DSTS

Delaware Statutory Trusts (DSTs): Simplifying 1031 Exchange Transactions

Why a Delaware Statutory Trust?

1. Shake loose a listing, by giving your client the option to move from active property management to passive income (as well as streamlining estate planning)
2. Reduce 1031 Exchange hesitancy with backup options, and have the option to reinvest the "boot" (leftover funds not used in the Exchange, subject to capital gains taxes)



Key DST Considerations:

Income Distribution: Regular monthly income distributions can provide a steady cash flow to your sellers.

End of Life Cycle: At the end of the DST's term, the property is sold, potentially resulting in profit distribution to your clients. The typical life cycle is 5-7 years.

DSTs are securities: Shares in a real estate-related investment, available ONLY to "accredited investors".

Tax-deferment: DSTs follow the 1031 Exchange rules to qualify.

Professional Control: Management decisions rest with the Trust Sponsor, not individual investors.

No Ongoing Costs: No ongoing expenses for your clients, as is common when they manage real estate directly.

No Liability: Limited to the amount invested, with no responsibility for property debt or property liabilities.

Shielded Ownership: They hold a beneficial interest in the DST, not direct property ownership.

ADVANTAGES OF DSTS

The 3 "paydays" of a DST

1ST Tax-deferment results in immediate tax savings and reinvestment of 100% of your capital gains.

2ND Potential regular monthly income from DST profit distributions. May be tax-exempt!

3RD The return of your principal + profit from the sale of the DST property.

EXAMPLE OF A FUNDED DST

Engagement: Traditional Real Estate vs. DSTs in a 1031 Exchange

	TRADITIONAL REAL ESTATE INVESTMENT	DST INVESTMENT
Personal Engagement:	1. Active Management: Buyer is directly involved in such tasks as tenant screening, lease management, and regular property maintenance.	1. Passive
	2. Decision Making: Frequent decision-making is required for property upgrades, tenant issues, and finances.	2. None
	3. Problem Resolution: Buyer handles emergencies and unexpected issues like repairs or tenant disputes.	3. None
	4. Time Commitment: Buyer can invest significant time, especially if managing multiple properties or dealing with high maintenance units.	4. None
Financial Engagement:	1. Initial Capital Outlay: Buyer typically invests a substantial amount up front for down payments, closing costs, and potential renovations.	1. Fixed Initial Investment
	2. Ongoing Costs: Increasing expenses include annually rising property taxes and insurance, and possibly high maintenance and management fees.	2. No Extra Costs
	3. Variable Income: Rental income can be unstable, influenced by market conditions, vacancy rates, and tenant reliability.	3. More Stabilized Income
	4. Resale Considerations: Buyers have the potential for good returns upon a sale, but this is subject to market conditions, timing, and closing costs.	4. Targeted Exit Strategy

CONCLUSION:

The choice between traditional real estate and a DST in a 1031 exchange largely depends on your Buyer's desired level of personal involvement and risk tolerance. Traditional real estate offers more control and potentially higher returns but requires ongoing personal and financial engagement. In contrast, DSTs offer a passive investment option with targeted returns and NO personal involvement, **making them ideal for those looking to simplify their life.**

Unlock the Power of Tax Deferral with a 1031 Exchange

Here's the story:

When Academy Sports & Outdoors was gearing up to go public, their brand new headquarters in Katy, TX, was clearly a financial burden due to its high tax liabilities. The creative resolution? They sold the huge facilities to a DST sponsor while securing a leaseback agreement. This pivotal strategy converted a major taxable asset into a deductible office expense, refining the company's financials and boosting its attractiveness to the stock market. For DST investors, this maneuver created a dependable and lucrative income source throughout the life of the trust, a great illustration of the stability and profitability of investing in DSTs.

Facts:

210,300 square feet of corporate office space in West Houston.

Maximize rental revenue and distribute annual cash flows.

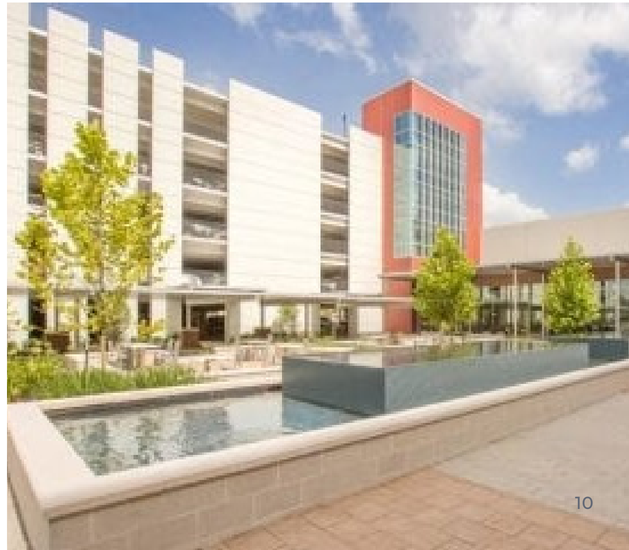
Anticipated Debt: $35,500,000

Equity from investors: $27,475,000

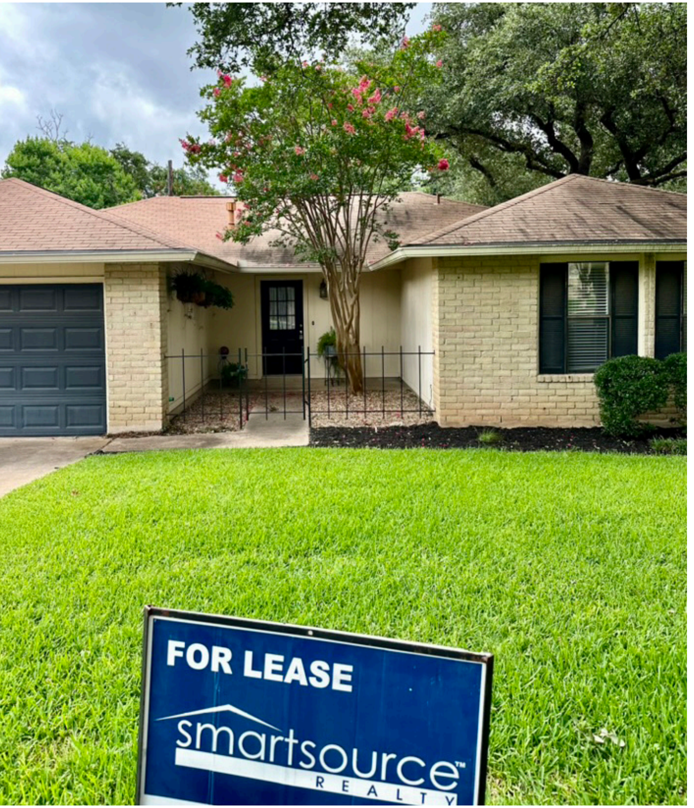
Anticipated Leverage: 56.4%

Amortization: 10 Years Interest Only

Estimated Distribution for Years 1-5: 6.0%; Years 6-10: 6.61%



WHICH IS RIGHT FOR YOU? PROPERTY VS. DST



Real Estate: The Tried and True Investment

DIRECT OWNERSHIP:
Buyer has complete control over their property, from management decisions to renovations.

DIVERSE OPTIONS:
They can choose from a wide range of property types, including residential, commercial, and industrial.

POTENTIAL FOR APPRECIATION:
Real estate might increase in value over time, leading to significant gains.

CASH FLOW:
Rental properties could provide a steady stream of income to your Buyers.

INHERITANCE:
They can pass properties to their heirs, with a step-up in basis.

DST Investments: The Modern Approach to Real Estate

FRACTIONAL OWNERSHIP:
They can buy shares in trusts that own high-quality, institutional-grade properties.

ELIMINATE THE MANAGEMENT BURDEN:
The DST Sponsor handles management and the day-to-day operations, so your Buyer can sit back and relax.

DIVERSIFICATION:
Buyers can invest in multiple DSTs; residential, commercial, or industrial in different markets, reducing risk.

RETURNS
Potential monthly cash flow, as well as the potential for a share in the profits when the property is sold.

ESTATE PLANNING:
Simplify inheritance, passing down shares with a step-up in basis, eliminating capital gains taxes deferred up to that point.

WHAT IS MEANT BY “LIKE-KIND” PROPERTY?

In a 1031 Exchange, “like-kind” does NOT mean replacing a rental duplex with another duplex in the same city, in other words, similar real estate... this confuses people! Rather, it is legal language that refers to the nature or character of the property rather than its grade or quality. Take a look at this list, illustrating the variety of exchanges, considered “like-kind” for your property:

1. **Commercial Office Buildings**
2. **Retail Properties:** Includes shopping centers, retail strip malls, or standalone stores.
3. **Industrial Facilities:** Warehouses, distribution centers, or manufacturing plants.
4. **Residential Rental Properties:** Apartment buildings, duplexes, or any other property rented out to tenants.
5. **Raw Land**
6. **Agricultural Land:** Farms, vineyards, or ranches
7. **Special-Purpose Properties:** Like-kind exchanges can also include properties like hotels, hospitals, parking lots, storage units, and more.
8. **Mineral Rights and Water Rights:** Yes, even these can be exchanged, provided they are held for investment purposes.
9. **Delaware Statutory Trusts (DSTs):** Investors can exchange real estate for an interest in a DST, allowing for investment in larger, potentially institutional-quality properties.

DST INVESTMENTS IN 1031 EXCHANGES: QUICK FAQS

1. What is a DST?

A Delaware Statutory Trust (DST) is a vehicle for fractional ownership in a trust, which owns institutional-grade real estate and is eligible for 1031 tax-deferred exchanges.

2. How does a DST fit into a 1031 Exchange?

The DST was specifically created to conform to the 1031 Exchange rules, to be a security alternative to reinvesting in real estate, while defering capital gains taxes.

3. What are the minimum investment requirements?

Most DSTs require a minimum investment of $100,000 in 1031 Exchanges. Above that, you can buy fractional shares to meet any amount.

4. Benefits of DST investment?

Access to premium real estate, professional management, portfolio diversification, and the potential for steady income, along with the opportunity to share in profits when the Trust property is sold.

4. Who can invest in a DST?

Accredited Investors, defined by income of $200k/year ($300k for couples) or a net worth over $1 million, excluding the primary residence.

5. Is a DST good for estate planning?

Yes, it allows for a simplified inheritance of shares, avoids probate, and has potential tax advantages like a step-up in basis.

6. What are DST risks?

Risks include property depreciation, market fluctuations, and potential foreclosure , just as in owning real estate directly.

7. DST investment duration?

Usually 5-7 years, based on the trust’s strategy and real estate performance. Could run for 10 years or more.

8. Can I sell my DST share early?

DST shares are illiquid, with limited options for early sale, typically relying on secondary markets or special redemption programs.

BEGIN YOUR DST INVESTMENT JOURNEY TODAY

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