

The DST –
an
Alternative
1031
Exchange
Tool



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- DST 1031 properties are only available to accredited investors (typically have a \$1 million net worth excluding primary residence or \$200,000 income individually/\$300,000 jointly of the last two years, and reasonably expects the same for the current year) and accredited entities only. If you are unsure if you are an accredited investor and/or an accredited entity please verify with your CPA and Attorney.
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Passive Investment Options for your \$1031 Exchange

- Great Point Capital, LLC
- Tax-Deferral Strategies
 - Why do you care?
- The DST as a Retirement Tool
 - A Tax-Deferred Exit Strategy
 - Retire from Management and the Terrible T's
- Estate Planning for Real Estate Investors
 - Preparing a RE Portfolio for Your Heirs
- DST Investor Profile
- Case Studies

Who is Great Point Capital?

- Boutique Wealth Management Firm established in 2000
- Focus on Passive 1031 Tax Deferral Investment Solutions such as Delaware Statutory Trusts and Opportunity Zone Funds as well as Private Equity
- Primary client base are high net worth real estate investors, and we provide them with tax efficient investing solutions and estate planning services
- Also has an Investment Banking Department and Trading Group



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- **Manage our New England Market from the Beacon Hill Neighborhood of Boston**
- **“Brick and Mortar” Financial Advisor**
- **Majority of Clients are High Net Worth Real Estate Investors**
- **1031 Expert and Specialize in Tax Deferral Strategies Such as Delaware Statutory Trusts(DST’s) and Opportunity Zone Investments**
- **Landlord and Real Estate Investor**
- **Utilized the Benefits of a 1031 Exchange Personally**



The Commercial Real Estate Environment



REAL ESTATE VALUES *in most markets have recovered since 2008*

This, combined with continued low interest rates, has led to an active market:

1. **Sellers** are looking to lock in gains
2. **Buyers** are eager to secure new properties

DEMOGRAPHIC TRENDS *are fueling demand for turnkey passive ownership*

1. **As the population ages, passive ownership** demand has increased in popularity in response to a desire to minimize property management responsibilities

VELOCITY *of today's market:*

1. **The challenge** of executing a 1031 Exchange has played a major role in today's environment
2. **This has been fueled by** the difficulty of finding quality replacement properties



Real Estate
VALUES



Market
VELOCITY

Demographic
TRENDS



What is a 1031 Exchange?



- Strategy for deferring capital gains taxes incurred from the sale of business/investment real estate
- Reference to Section 1031 of the Internal Revenue Code –
“No gain or loss shall be recognized on the exchange of property held for productive use in a trade or business or for investment if such property is **exchanged solely for property of like-kind** which is to be held either **for productive use in a trade or business or for investment.**”
- By exchanging real property for like-kind real estate, property owners may defer tax liability and use all of the proceeds for the purchase of replacement property

Tax Deferral – Why Do You Care?



	SCENARIO A	SCENARIO B
	Paying Taxes on Property Sale	Completing a 1031 Exchange and Deferring Taxes ¹
Purchase Price	\$400,000	\$400,000
Depreciation ²	\$250,000	\$250,000
Adjusted Cost Basis	\$150,000	\$150,000
Sale Price	\$1,100,000	\$1,100,000
Total Taxable Gain	\$700,000	\$700,000
Long-term Capital Gain Liability (20%) ³	\$140,000	\$0
State Tax	—	—
Net Investment Income Tax (3.8%) ³	\$36,100	\$0
Depreciation Recapture Tax (25%)	\$62,500	\$0
Total Taxes Due	\$238,600	\$0
Net Proceeds for Investment	\$861,400	\$1,100,000

The tax information provided is for informational purposes only and should not be construed as legal or tax advice. Consult an attorney or tax professional regarding your specific legal and tax situation.

¹The above scenario cannot reflect factors such as income tax brackets and investment horizons. Individual investors should consider these factors when making investment decisions.

²Assumes straight-line depreciation in this scenario.

³Assumes a taxpayer in the highest federal income tax bracket. Lower tax rates may provide reduced benefits.

What Qualifies For An Exchange?



“...if such property is exchanged solely for property of like-kind which is to be held either for productive use in a trade or business or for investment” – IRC Section 1031

Does NOT include:

- Stocks, Bonds
- Property purchased for resale (fix & flips)
- Primary residence
- REITs

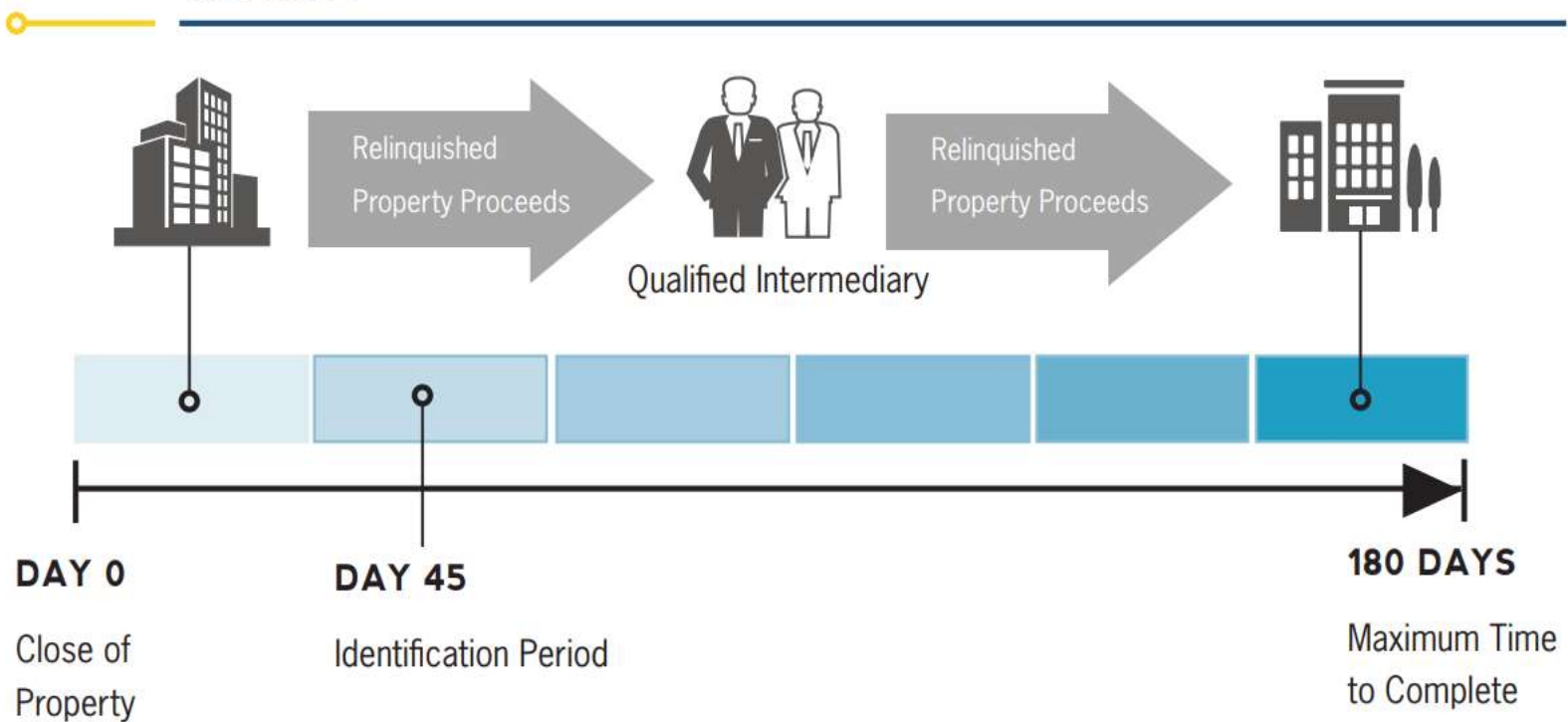
Does include:

- Rental (investment) property
- Commercial real estate
- Raw land
- Business real estate
- Certain fractional/indirect ownership interests

1031 Exchange Process & Timeline



TIMELINE



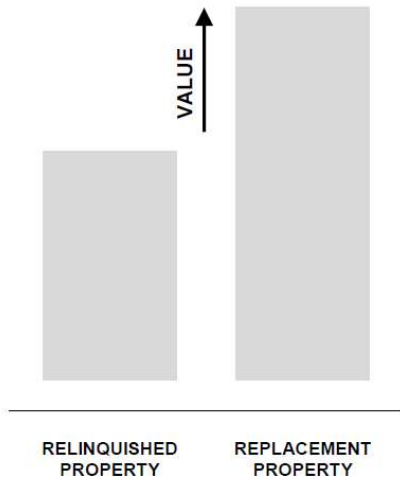
Property Replacement Rules



To successfully complete an Exchange and defer capital gains taxes, investors need to satisfy the following requirements:

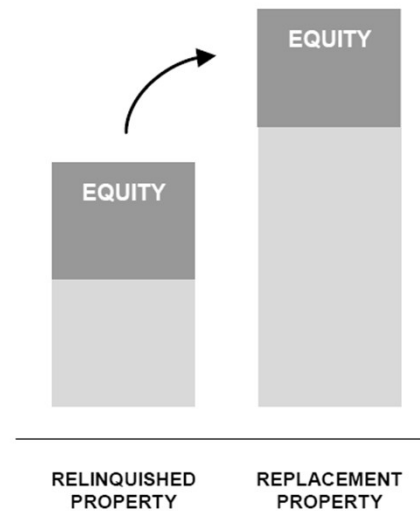
#1 - Value

Replace equal or greater **value**



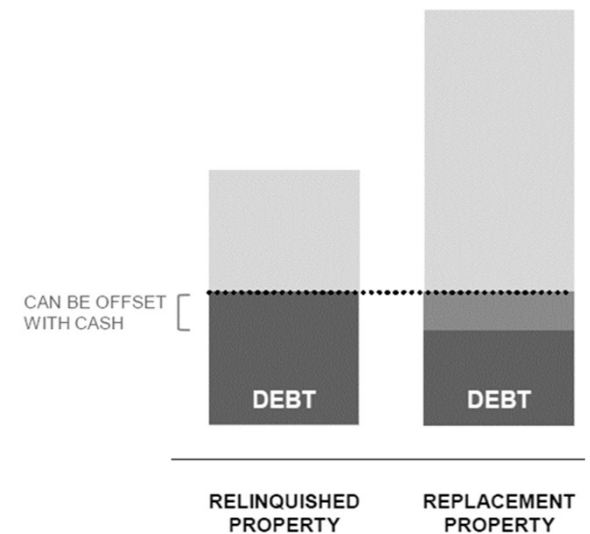
#2 - Equity

Replace equal or greater **equity**



#3 - Debt

Replace equal or greater **debt**



Property Identification Rules



1. Three Property Rule –

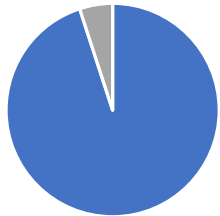
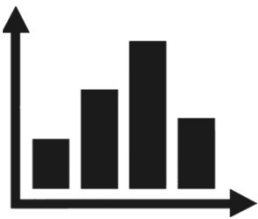
Identify a maximum of three properties for any fair market value.

2. 200% Rule –

Identify any number of properties as long as the fair market value does not exceed 200% of the relinquished properties sale price.

3. 95% Rule –

Identify ANY number of properties for ANY value but investor must close on 95% of the value identified.



The DST – Fractional RE Ownership



Delaware Statutory Trust (DST)

- IRS Revenue Filing 2004-86 – A taxpayer may exchange real property for an interest in the DST without recognition of a gain or loss under section 1031 if other requirements of section 1031 are satisfied

Institutional Investment

- Institutional-grade real estate ownership
- Typically A or B+ properties, professionally managed by a major institution

1031 Exchange Replacements

- Accredited investors have access to a menu of replacement options varying in **equity** and **debt** levels
- Less of a headache to meet hectic exchange deadlines



DST - Characteristics



1. Passive Ownership

- Retire from being a landlord
- Less management than other asset classes

2. Expertise

- Benefit from real estate expertise of a reputable and well-known sponsor company

3. Non-Recourse Debt

- Long-term, institutional financing

4. Diversification

- Smaller minimum investment (\$50,000)
- Diversify by sector, sponsor, location

5. Not a Blind Pool

- Property is acquired prior to investor participation, dissolves upon property sale

6. Selling a DST

- Rollover assets into another DST
- Exchange into new property
- Cash out, pay taxes

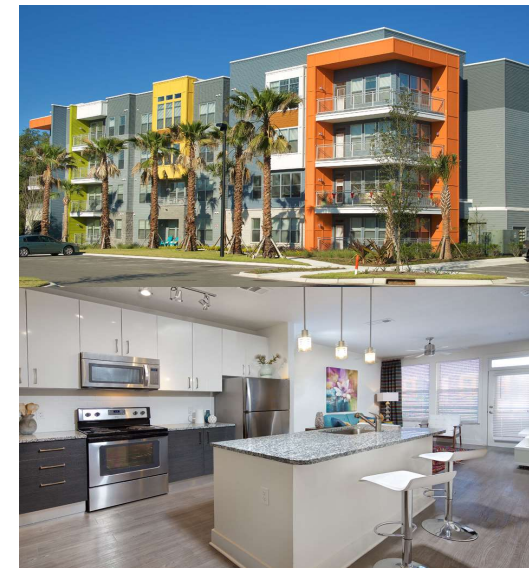
There are risks associated with investing in Delaware Statutory Trust (DST) properties including, but not limited to, loss of entire investment principal, declining market values, tenant vacancies and illiquidity. Investors needs to review all risks associated before making an investment.

Delaware Statutory Trust – Hypothetical Example



- DST Created by “Sponsor”
- Typically, reputable institutional real estate firm that will own & manage property within trust structure
- All details are known at time of investment:
 - Property Type
 - Property Address(s)
 - Tenant(s)
 - Financing Term
 - Lease Terms & Options
 - Risks & Disclosures

- 328 Unit Class-A Multifamily asset in top U.S. market
- Purchase Price: \$80,000,000
- Equity: \$40,000,000
- Debt: \$40,000,000 (Non-Recourse)
- Potential Distribution: 4-6% cash flow in year 1 based on current NOI and occupancy of 95%.*
- Strategy: to increase cash flow based on pro-forma projections and improved management*



***Potential Distribution is not a guarantee for investor return and does not represent forecasted investor returns. As these figures are hypothetical, calculations are not incorporated to show how a sponsor may derive potential distributions.**

Example is for illustration purposes only and does not refer to any prior or existing programs. Actual results may vary.

DST – Investor Profile



1. Owns Appreciated RE Asset(s)

- Hesitant about selling due to large tax bill upon sale

2. Estate Planning

- Estate includes multiple heirs and investment properties

3. Looking Towards Retirement

- Years of self-management, would like to alleviate those responsibilities

4. Passive Cash Flow Potential

- Believes passive real estate ownership still requires some level of management

5. Escaping Local RE Market

- Wants to diversify in top markets across U.S.

6. 1031 Exchange Options

- Having difficulty sourcing quality replacement properties

Hypothetical DST Menu Offering Example



DST Options	DST Description	Equity	Potential Distribution *	LTV
DST #1	(30) Triple Net Retail Properties	\$55,570,000	4%-6%	40%
DST #2	(1) E-Commerce Distribution Center	\$105,000,000	4%-6%	60%
DST #3	(3) Class B Multifamily Properties	\$95,765,000	4%-6%	50%
DST #4	(22) Self-Storage Properties	\$255,000,000	4%-6%	60%
DST #5	(1) Corporate Headquarters	\$120,000,000	4%-6%	83.4%
DST #6	(5) Triple-Net Medical Properties	\$25,000,000	4%-6%	0%
DST #7	(2) Senior Living Facilities	\$80,925,000	4%-6%	49%
DST #8	(1) Class A Multifamily Property	\$39,425,000	4%-6%	48.1%
DST #9	(2) Student Housing Facilities	\$35,578,300	4%-6%	56.2%
DST #10	(1) New Construction Multifamily	\$40,000,000	4%-6%	53.5%

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DST – Investor Case Study



Client Profile

- Married couple, 71 years old
- Wife in good health, husband recently had a health scare
- One child in early 50's and one grandchild in college
- \$100M RE portfolio of multifamily assets, mostly debt-free, located in one particular region
- Developed assets themselves, self-managed
- Their only child is not versed in real estate management, the portfolio will be more of a burden upon clients' passing
- Received an appealing offer on (1) of the assets that will cause a very large taxable event



DST Menu – Client Allocation Example



- Client sells their Multifamily building after 15+ years of ownership for \$20,750,000 with \$11,250,000 in debt (54% LTV)

Property	Description	Equity Invested	Non-Recourse Debt	LTV
DST #1	(30) Triple Net Retail Properties	\$1,500,000	\$1,000,000.00	40%
DST #2	(1) e-Commerce Distribution Center	\$2,500,000	\$3,750,000.00	60%
DST #3	(3) Class A Multifamily Properties	\$1,750,000	\$1,750,000.00	50%
DST #4	(22) Self-Storage Properties	\$750,000	\$1,125,000.00	60%
DST #5	(1) Corporate Headquarters	\$750,000	\$3,000,000.00	80%
DST #6	(5) Triple-Net Medical Properties	\$1,000,000	\$0	0%
DST #7	(2) Senior Living Facilities	\$750,000	\$500,000.00	30%
DST #8	(1) Class A Multifamily Property	\$500,000	\$125,000.00	50%
Total		\$9,500,000	\$11,250,000	54%

Partner with Great Point Capital, LLC



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