

# 1031 Exchange

## Delaware Statutory Trust (DST)

### Traded Assets™

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*Leveraged Commercial Real Estate*



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# Traded Assets™



## What are Traded Assets™ ?

**Traded Assets™ (TA)** are equity ownership interests in large properties through Delaware Statutory Trust (DST) entities by multiple 1031 exchange investors.

- Offers the potential for stable long-term income, without landlord duties, plus potential property appreciation;
- Will fit almost any size exchange, as investors own a proportionate share of the property; and
- Offer the option to invest in one or multiple investment-grade properties, that may otherwise be out of reach.

# Traded Assets™



## Terms to Know

### **TRADED ASSETS™**

Equity ownership interests in large properties by multiple 1031 exchange investors through Delaware Statutory Trust (DST) and Tenants-In-Common (TIC) co-ownership structures. Sometimes also referred to as co-ownership or fractional interest ownership.

### **1031 EXCHANGE**

Method of deferring capital gains taxes on the sale of an asset by exchanging the proceeds for a similar asset.

### **REPLACEMENT PROPERTY**

The property being purchased in a 1031 exchange.

# 1031 Exchanges

- ***The 1031 Exchange Dilemma***
- ***1031 Exchange Overview***
- ***1031 Exchange: Terms to Know***
- ***1031 Exchange: Things to Note***



If you are educated and comfortable with the concept of 1031 exchanges, you can skip ahead to page 11.

For a more in-depth description of 1031 exchanges, please refer to our detailed articles at [www.leveragedcre.com](http://www.leveragedcre.com)

# The 1031 Exchange Dilemma

## POOR INVESTMENT

Reinvest Hastily In  
A Replacement Property  
You May Regret Owning

OR

## PAYING TAXES

Pay 20% to 30% In Taxes On  
Your Hard-Earned Profits  
From Selling A Property



*At times it can be difficult to find a high-quality replacement property for a 1031 exchange in the IRS imposed 45-day identification period, which creates anxiety, and often results in poor investment decisions.*

**Replacement Property Assets offer a potential solution to the 1031 Exchange Dilemma.**

These investments meet all the tax and legal conditions of a 1031 exchange, are equity ownership in pre-vetted assets without any landlord duties, and are “packaged” to simplify 1031 exchange sizing and timing requirements.



# 1031 Exchange Overview



Profits from selling investment properties are taxed. Depending on your tax bracket and where you live, Federal and State Capital Gains Tax, Affordable Care Act Surtax and Depreciation Recapture Taxes combined range between 15% and 30%, but can surpass 35% in some cases.

A 1031 exchange offers real estate investors the opportunity to defer paying these taxes by reinvesting their equity in one or more investment properties. The advantage is that money which would have been paid in taxes, instead remains invested, generating more income and wealth.

Many real estate investors have accumulated fortunes over their lifetimes by completing exchanges each time they sell, keeping more of their money at work. With proper estate planning, the taxes deferred through 1031 exchanges can be eliminated when properties are passed to an investor's heirs.

# 1031 Exchange



## Terms to Know

### **1031 “LIKE-KIND” EXCHANGE**

Method of deferring capital gains taxes on the sale of property by using or “exchanging” the sale proceeds to buy another investment property.

### **REPLACEMENT PROPERTY**

The property(s) purchased in a 1031 exchange.

### **CAPITAL GAINS TAX**

Tax payable on the taxable profits from the sale of a capital asset; Assessed by the federal government as well as by most states.

### **DEPRECIATION RECAPTURE**

Income tax due upon sale of an asset that had previously provided an offset to ordinary income via depreciation deductions.



# 1031 Exchange



## Things to Note

*In order to defer taxes, there are a few things to know that must be followed:*

- 1. 45-Day Identification Period:** Identify the replacement property(s) within 45 days of the date of sale.
- 2. 180-Day Closing Period:** Complete purchase of replacement property(s) within 180 days from the date of sale.
- 3. Purchase Price:** All funds from the sale must be reinvested in a replacement property(s), or will be subject to tax.
- 4. Debt Matters:** The mortgage amount on the replacement property must equal or exceed the mortgage paid off at sale of the relinquished property.

# 1031 Exchange



## Things to Note

**5. Don't Touch the Cash:** A Qualified Intermediary must hold the proceeds during an exchange. Investor control of funds may disqualify the exchange.

**6. Same Taxpayer:** The buyer of the replacement property must be the same legal entity as the seller of the relinquished property.

**7. Qualified Intermediary:** An independent person, company, or entity that enters into a written agreement with the exchanger to facilitate the transfer of proceeds from the exchanger to the buyer of the relinquished property and from the exchanger to the seller of the replacement property to effect a tax-deferred exchange under IRC Section 1031.

# Delaware Statutory Trust (DST)



## What is a DST?

- Operationally similar to a limited partnership, but with a different legal structure in order to be eligible for 1031 exchange investments;
- A Sponsor “packages” the DST investment by finding the property, performing due diligence, securing financing, acquiring the asset and retaining management prior to interests being offered to individual 1031 investors;
- Each investor owns their proportionate share of equity in the DST;
- Each investor is entitled to their proportionate share of income produced by the DST.

# DST Traded Assets™



## Advantages

- *Tax-Advantaged Recurring Income*
- *No Landlord Duties*
- *Simplified Investment Process*
- *Can Fit Any Size Exchange*
- *Institutional Quality Properties*



# DST Traded Assets™



## Terms to Know

### **SPONSOR**

The firm that has created the DST investment for consideration finding, acquiring, financing and managing the DST property on behalf of its investors.

### **LIMITED PERSONAL LIABILITY**

The DST is the borrower, not the individual investors. Like a corporation or LLC, investors are not personally liable for any debts of the DST beyond the value of their investment.

### **45-DAY IDENTIFICATION PERIOD**

Replacement property(s) must be identified within 45 days of the date of sale of the relinquished property.

# DST Traded Assets™



## Terms to Know

### **180-DAY CLOSING PERIOD**

Replacement property(s) must be purchased within 180 days of the sale of the relinquished property.

### **INSTITUTIONAL QUALITY**

Properties of sufficient size and stature to merit attention by large national or international investors.



# DST Traded Assets™



## Advantages Explained

### *Tax Advantaged Recurring Income*

- DST Traded Assets™ offer long-term, recurring income deposited directly into the investor's designated account, typically each month or quarter.
- Income from a DST is tax-advantaged to the extent an investor is able to deduct their proportionate share of mortgage interest and depreciation.





## Advantages Explained

### *No Landlord Duties*

- DST investments are “packaged” by a Sponsor who is responsible for all property management, asset management and property operations.
- The Sponsor typically has extensive background in managing and maintaining the types of properties in their respective DSTs.
- Sponsors typically provide periodic investor reports on the performance of the underlying DST properties.
- Investors are generally shielded from personal liability beyond their investment.



## Advantages Explained

### *Simplified Investment Process*

- DST investments are “pre-packaged”, meaning the mortgage is already in place and property due diligence such as title, survey and environmental assessment has been completed.
- Investment in DST Traded Assets™, and your 1031 exchange, can be completed quickly with limited paperwork.
- Reduced risk of missing 45-day or 180-day 1031 exchange deadlines.
- Eliminates need to frantically try to find potential replacement properties.

# DST Traded Assets™



## Advantages Explained

### *Can Fit Any Size Exchange*

- Because DST Traded Assets™ are “pre-packaged”, they can be purchased in \$1,000 increments. \*
- Can be perfectly sized to the amount of proceeds you have to exchange.
- Investors are allocated their proportionate share of the mortgage on the DST property.
- Perfect for investors with “leftover” 1031 funds from purchasing other properties.

*\* Subject to minimum investment size established by the Sponsor.*



## Advantages Explained

### *Institutional Quality Properties*

- Replacement Property Interests provide access to properties that may otherwise be out of reach for individual investors based on their 1031 exchange funds.
- By pooling their equity with other co-owners, an investor is able to own a portion of an “institutional quality” property that may otherwise be an unattainable investment.

For example, an investor could exchange \$500,000 of equity into a \$20,000,000 property. Assuming the deal was capitalized with 50% debt and 50% equity, the investor would own 5.0%\* of the DST Interest.

*\* Ownership based on percentage of equity invested in example.*

# Final Notes

**Are you currently in a 1031 Exchange or planning to do a 1031 Exchange?** Fill out this quick 1-minute **SURVEY FORM** and we will help you find properties that will meet your business needs!

Even after outlining all the information above, dealing with 1031 Exchanges, Delaware Statutory Trust (DST), and Traded Assets™ can still seem daunting. That's why the Leveraged CRE Investment Team at Commercial Properties, Inc. is here to help you achieve your investment goals. Contact us at (480) 330-8897 or send us an email at [request@leveragedcre.com](mailto:request@leveragedcre.com).

*Phill Tomlinson is a commercial real estate broker with Commercial Properties, Inc. (CPI) in Scottsdale, Arizona, and owner of the Leveraged CRE Investment Team specializing in investment sales and tenant/landlord representation in the Phoenix and Scottsdale submarkets. Phill applies over 21 years of experience in the Real Estate industry helping investors and owners maximize their returns.*

*Bookmark [www.leveragedcre.com](http://www.leveragedcre.com) to learn more about the Commercial Real Estate market and keep informed of relevant real estate strategies designed to maximize your income property investment results. Connect and follow Phill on Social Media at [sm.leveragedcre.com/smplatform](https://sm.leveragedcre.com/smplatform). #LeveragedCRE*