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The DST 1031 Exchange: An alternative to a traditional 1031 Exchange - by Eric Packer

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Progressive Asset Management

When an investor sells real estate, that is held for business or investment purpose and has appreciated in value, they will most likely incur a capital gain. The profit on the sale of this property is usually taxed at both the federal and state levels.

A 1031 Property Exchange, based on Section 1031 of the IRS Code, allows an investor selling a business or investment real estate, to defer paying both the federal and state taxes, by completing an exchange by purchasing other like-kind property (ties). The tax deferral can be up to 100% of the taxes otherwise due at the time of the sale.

The IRS defines like-kind property as any real property held for business or investment purposes. This includes, but is not limited to: raw land, farmland, rental and commercial properties. Like-kind property does not include a primary residence.

You may replace (exchange) a single property with a single property or multiple properties or use a Delaware Statutory Trust (DST) 1031 Exchange.

A DST allows an investor to purchase a fractional interest in a high quality property or portfolio of properties. The DST holds title to the property(ties) while multiple investors own a beneficial interest in the DST. For tax purposes, each DST investor is treated as owning an undivided fractional interest in real estate. The IRS Revenue Ruling (2004-86) released in 2004, provides guidance on the use of a DST for property ownership.

DST Exchanges can hold a property(ties) with a mortgage(s) or having no mortgage (debt free).

Major benefits of a DST are:

- Passive Ownership
- Quality Commercial Properties

- Portfolio Diversification
- Rental Income
- Low Investment Minimums
- Efficient Closing Process

DST Exchanges are available only to accredited investors. These are individuals whose net worth is in excess of \$1 million and/or earn an individual income of \$200,000.

A DST Exchange can be chosen as one of the properties identified by the investor

Risk Factors to Consider:

Real estate investments can be speculative and there are various economic factors that can negatively impact the value of a property. AEI cannot guarantee income distributions and overall performance of any DST property or properties. Investors should be able to endure the loss of all or a substantial portion of their investment.

There is no guarantee that the investment objectives of any AEI sponsored program will be achieved.

As with all real estate, investments in a DST are considered “non-liquid”. Investors have the right to sell their interest at any time, however there is no established secondary market for these property interests. Investors should be prepared to hold their interests until the properties are sold by the trust manager

DST investors have limited rights and no control in the operation and management of the trust.

The manager of a DST may not modify the lease, make capital improvements or recapitalize the investment. If circumstances arise where these changes are required, the DST must spring to a LLC, which could result in an investor losing the ability to participate in a future 1031 exchange of the affected properties.

The prior performance of past programs sponsored by AEI should not be used to predict the results of future programs.

Professionally sponsored programs have experienced adverse developments in the past.

The information here references general tax and guidelines related to IRS Section 1031 Exchanges and may not apply to certain individuals. Prospective investors should consult with their tax and legal advisors before beginning an exchange.

There is no guarantee that an investor can complete an exchange within the 45 and 180 day time frame or that the acquisition of interests will qualify under section 1031 of the Internal Revenue Code.

The information in this brochure does not constitute an offer to sell or a solicitation of an offer to buy any security. Such offers can be made only by Offering Memorandum. This is not intended to be a complete list of risks associated with a DST investment and 1031 exchange transaction. This is only a summary of select risk factors to consider. For more details about these and other risks, please reference the specific Private Placement Memorandum for the DST in which you may invest. Investments are suitable for accredited investors only. Investors should consult with their personal tax advisor, financial advisor and legal counsel before investing.

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