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Delaware Statutory Trusts can add flexibility to a 1031 exchange - by Justin Amos

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Earlier this year we wrote about the growing market for 1031 exchanges using Delaware Statutory Trust (DST) investments as replacement property. Since then, interest in DST solutions for 1031 exchanges has continued to grow.

A number of prospective 1031 exchange clients have shown interest in getting out of the property management business because they are nearing retirement age. Like many other investors, they've found DST investments to be an intriguing potential solution for the problem of 1031 replacement property. The DST interest offers the ability to earn a consistent revenue stream, without the stress of day-to-day management activities—a value proposition that is also attractive to busy people and people unexperienced in real estate management, as well as people who want to wind down their involvement in active real estate management.

Another plus is that a DST interest can be used either as the sole replacement property or in conjunction with other real property which requires management. Because the DST enables the 1031 exchanger to indirectly acquire partial interests in property, it requires less of a financial commitment to acquire an interest in an attractive investment property.

A DST interest may also be useful as a back-up property in case the exchanger's first choice replacement property is unavailable or there are exchange funds left over after the exchanger has purchased its preferred property.

With any investment, the investor is exposed to certain risks. One of the risks involved with investing in a DST is the illiquidity of the capital invested. DST investments are considered long-term investments, and the typical length of an investment ranges from five to ten years. For an individual who is retired, or nearing retirement, the inability to liquidate funds for an unforeseen emergency can

be a bit concerning. But for many exchangers the trade-off between illiquidity and no management required may be quite acceptable.

For the right exchanger, using a DST as part of a 1031 exchange — with the ability to split 1031 exchange funds between a DST interest and real property — may be an attractive solution, and it's one that should be considered before the final decision on the properties to be identified as replacement property in an exchange is made.

What can we help you exchange?

As the market continues to grow, it's more important than ever to establish best practices for investment administration to prevent fraud and abuse from occurring. With a potential of risk, it's crucial to work with a qualified intermediary (QI) that has developed risk-appropriate practices and controls. At NES Financial, we've put together an industry-leading track record of 1031 success, over tens of thousands of transactions and more than 25 years in the business. Our general counsel developed significant 1031 guidance while working at the IRS national office. And we've built a cutting-edge administration platform, called eSTAC, from the ground up to maximize your transaction security and transparency.

Engaging NES Financial as the administrator of a DST or 1031 exchange provides the security, transparency and compliance expected by the investors. NES provides a full-service solution for all accounting and reporting requirements to make sure your DST remains in compliance with tax regulations and investors are able to realize the tax deferral benefits.

NES Financial is a specialty financial administrator which provides purpose-built solutions that streamline the administrative processes by simplifying specialized financial transactions, curtailing fraud and abuse while ensuring the utmost in security, transparency and regulatory compliance through each step of an investment's life cycle.

NES Financial, recognized by the San Francisco Business Times and Silicon Valley Business Journal's top Bay Area fin-tech list, has defined industry best practices in each of the markets it serves — from 1031 exchanges and EB-5 visa funding, to private equity and the landmark Opportunity Zones program. NES Financial services more than 290 funds, administers over \$20 billion annually, and has worked with over 700 EB-5 projects.

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