



nerej

Four ways to use Delaware Statutory Trusts for your 1031 Exchange - by Dwight Kay

April 07, 2023 - Spotlights



Dwight Kay

Key highlights:

- How DSTs help investors successfully complete a 1031 Exchange.
- Can DSTs potentially provide investors greater diversification?
- How DSTs are utilized to help investors easily replace debt for their 1031 Exchange.
- DSTs can provide investors a good back-up option for a 1031 Exchange.

Regardless of what economic trends are taking place, Delaware Statutory Trusts provide investors four timeless benefits for their 1031 Exchanges including deferring capital gains taxes, eliminating the headaches of active management (think the Three T's: tenants, toilets, and trash), and the ability to create a more diversified* portfolio. Additionally, DSTs have the potential to provide investors consistent and durable income streams with the ability to achieve modest appreciation potential**.

Understanding how to best utilize DSTs for 1031 Exchanges can be an important ingredient to maximizing the potential benefits DSTs can potentially provide investors. Here are four specific strategies real estate investors can leverage DSTs for their 1031 Exchanges.

Delaware Statutory Trusts can be used by 1031 Exchange investors in these four ways:

1. Debt replacement
2. Cover strategy
3. Diversification and passive investing
4. Back-up option

1. Debt replacement.

One of the most popular uses of DSTs for a 1031 Exchange involves not having to secure financing. For example, if you are in the midst of a 1031 Exchange in today's unstable debt market, you are likely having a difficult time finding a mortgage to satisfy your 1031 Exchange requirements. DSTs, however, are designed to make it easy to invest in without having to deal with qualifying for and taking on a mortgage on one's own. That's why many investors find DSTs also make a suitable primary investment option for 1031 Exchanges. Kay Properties has a variety of leveraged DSTs that are pre-structured with non-recourse debt already built-in typically ranging from 30% to 70% offering loan to value (LTV). Because DSTs typically do not require you to have to qualify for a loan or even fill out loan documents, DSTs can create a reliable tool for you to access high-quality real estate investments without having to jump through the hoops of getting approved for a loan.

2. Cover strategy.

Another popular use of DST investments comes in the form of providing a cover strategy for left over equity. Let's say you sell one property and cannot find a suitable replacement property that uses the full exchange proceeds, and you now have leftover equity you need to place. One of the benefits DSTs can provide you in this situation is the ability to enter one without investing a lot of money. Because DSTs require a low minimum investment amount (typically \$100k), they can be a good way for you to use any extra 1031 Exchange proceeds to avoid having a "boot" to pay taxes on. Placing the leftover exchange proceeds into a DST property can potentially allow you to achieve full tax deferral for your 1031 Exchange.

An example of how DSTs can provide cover for a 1031 Exchange

Here's an example of how DSTs can provide a cover strategy for your 1031 Exchange:

Let's say you need to replace a \$3 million purchase price for a 1031 Exchange, but your real estate broker finds a property for \$2.7 million. By investing the leftover \$300,000 in a DST, you could successfully avoid the taxable boot. In this way, you could successfully complete your 1031 Exchange by acquiring both a real property investment and a DST investment with an aggregate value of \$3 million.

3. Diversification* and true passivity.

You have probably heard the expression, "why put all your eggs in one basket?" If you decide to invest in one single-tenant net leased property or one multifamily apartment building for your 1031 Exchange, that's exactly what you could be doing. However, DST properties can potentially allow you to achieve a level of diversification that you would not be able to achieve if you only bought a single NNN asset or multifamily building on your own. By investing in a DST, you have access to a diversified* portfolio of properties that are often high-quality real estate offerings with very large tenants that are professionally managed and potentially provide monthly cash distributions. In addition, you can also achieve a truly passive management structure, eliminating the headaches of the three T's: "tenants, toilets, and trash."

Investing in a single-tenant property, on the other hand, means you are relying heavily on the quality of a sole tenant. If that tenant fails to pay rent or even files bankruptcy, your income could likely be reduced or even completely eliminated. Similarly, would you invest all of your 401k into one company's stock, even if that company is Amazon or Apple? Your answer is probably no. No matter how great a company is, you probably do not trust it with all of your family's wealth. In the same way, there is no perfect investment property. You may be able to mitigate your potential exposure to the various risks of real estate by diversifying*. DSTs allow for diversification* amongst a number of different income producing properties.

4. Back-up option.

One of the many reasons investors should consider DSTs is as a back-up option for their 1031 Exchange. Why is this an important factor to consider? Let's say that you have successfully sold your investment property and are now proceeding to search for replacement properties that you can

manage on your own. In today's market, you may discover that identifying and closing on high-quality "like-kind" assets within the specified timeframe is not as easy as it sounds. This is when DSTs can be used as a backup option. The reason for this is because DSTs are pre-packaged specifically for 1031 Exchanges, so they can potentially be a very helpful tool to have in the bag in case your primary real property option falls through and you're facing a failed exchange. In addition, because of the turnkey nature of DSTs, you can often close on them within just 3-5 days to give you a strategy to successfully complete your 1031 Exchange.

DST properties continue to be one of the most popular passive investment option for 1031 Exchanges. Knowing how to best use DSTs to avoid common 1031 Exchange challenges, you will be better situated to potentially complete your exchange and avoid the expensive taxes that could accompany a failed exchange.

Kay Properties team members are always available for in-person meetings, zoom meetings and conference calls with investors to educate and explain various DST options, strategies, and potential benefits and risks.

Dwight Kay is the CEO and founder of Kay Properties and Investments, LLC, New York, N.Y.

*Diversification does not guarantee returns and does not protect against loss.

**Past performance does not guarantee or indicate the likelihood of future results. No representation is made that any DST investment will or is likely to achieve profits or losses similar to those achieved in the past or that losses will not be incurred on future offerings.

This material does not constitute an offer to sell nor a solicitation of an offer to buy any security. Such offers can be made only by the confidential Private Placement Memorandum (the "Memorandum"). Please read the entire Memorandum paying special attention to the risk section prior investing. IRC Section 1031, IRC Section 1033 and IRC Section 721 are complex tax codes therefore you should consult your tax or legal professional for details regarding your situation. There are material risks associated with investing in real estate securities including illiquidity, vacancies, general market conditions and competition, lack of operating history, interest rate risks, general risks of owning/operating commercial and multifamily properties, financing risks, potential adverse tax consequences, general economic risks, development risks and long hold periods. There is a risk of loss of the entire investment principal. Past performance is not a guarantee of future results. Potential cash flow, potential returns and potential appreciation are not guaranteed.

Nothing contained on this website constitutes tax, legal, insurance or investment advice, nor does it constitute a solicitation or an offer to buy or sell any security or other financial instrument. Securities offered through FNEX Capital, member FINRA, SIPC.

Kay Properties is a national Delaware Statutory Trust (DST) investment firm. The www.kpi1031.com platform provides access to the marketplace of DSTs from over 25 different sponsor companies, custom DSTs only available to Kay clients, independent advice on DST sponsor companies, full due

diligence and vetting on each DST (typically 20-40 DSTs) and a DST secondary market. Kay Properties team members collectively have over 150 years of real estate experience, are licensed in all 50 states, and have participated in over \$30 Billion of DST 1031 investments.

For a complete list of current 1031 eligible exchange DST properties, use the convenient QR code below and receive your FREE DST 1031 Exchange toolkit.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540