



GRACE CAPITAL MANAGEMENT
GCM



SELLING REAL ESTATE, AND LOOKING TO DEFER CAPITAL GAINS TAXES?

**Master the 1031 Exchange &
Explore Alternatives to Buying
Replacement Property**

Tax Deferment • Passive Income
Liability Removal • Estate-Planning
Investment Return

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STORY: THE TYPICAL DST INVESTOR

The Typical DST Investor: Embrace Freedom to Enjoy What Matters

The Cohen couple, now in their golden years, want to enjoy retirement and to be more a part of the active lives of their grandchildren by reducing obligations. Having accumulated a portfolio of real estate over the years, they enjoyed the financial benefits but have grown tired of the “terrible Ts”: Tenants, Taxes, and Toilets. They have wanted to offload these assets, but have remained frozen with concern over the capital gains taxes involved.

Thankfully, they have a savvy financial advisor, who suggests the strategic solution of Delaware Statutory Trust (DST) investments. DSTs, compatible with 1031 Exchange rules, offer a way to reinvest the full amount of any capital gains into diversified, income-producing securities, freeing them from their real estate burdens.

So, the Cohens decided to sell, transitioning from hands-on property management to receiving passive income from DSTs,

trusts with professionally managed, institutional-grade real estate. This shift gave them higher asset quality with the potential for appreciation and streamlined their estate planning. Their heirs receive a step-up in basis, eliminating deferred taxes and simplifying wealth transfer. DSTs foster peace where sometimes there are family squabbles and feuds over property.

The move to DST investments was a significant improvement in their quality of life. The Cohens preferred this method of

INTRODUCTION TO 1031 EXCHANGES

Unlock the Power of Tax Deferral with a 1031 Exchange

What is a 1031 Exchange?

A 1031 Exchange allows investors to defer capital gains taxes on the sale of an investment property by reinvesting the proceeds into another “like-kind” property. (It is named after Section 1031 of the U.S. Internal Revenue Code). This tax-deferral mechanism can alternately be utilized by investing in Delaware Statutory Trusts (DSTs), where investors acquire shares in a Trust that owns institutional, professionally-managed property. This offers a flexible and diversified approach to real estate investment while operating within the 1031 Exchange framework.

Why is the 1031 Exchange a real estate investor’s BFF (Best Financial Friend)?

Tax Deferral: Keep your hard-earned money working for you by deferring capital gains taxes and reinvesting 100% of your sale proceeds into a new property or DSTs.

Portfolio Diversification: Expand your real estate holdings by exchanging one property for multiple properties, or vice versa, to spread your risk across different types of investments in diverse market areas.

Estate Planning: Pass on your real estate investments to your heirs with a “step-up in basis” to the property’s current market value at that point, effectively eliminating their capital gains tax liability.

Leverage:

THE LIMITATIONS OF THE REAL ESTATE OPTION

Direct Real Estate Investment: Navigating the Challenges

Navigating the intricacies of a 1031 Exchange can be challenging, and there are potential pitfalls that you should be aware of.

Identifying Replacement Property:

One of the biggest challenges is identifying a suitable replacement property within the short, 45-day identification period. An experienced real estate professional is a necessity.

Securing Financing:

You have a total of 180 days to lock down financing, so it's a good idea to start working with a lender early in the process. Taking on more debt for the replacement property can help you defer more capital gains taxes, but it also increases your financial liability and risk.



Maintaining Equal or Greater Leverage:

To fully defer capital gains taxes, the net market value and leverage on the property acquired must be the same as, or greater than, the property sold. This can be challenging. A qualified intermediary (QI) will calculate the necessary leverage and ensure that the 1031 exchange is structured correctly. DSTs can balance this equation.

Avoiding Constructive Receipt of Funds:

This means that you cannot have direct access to the sale proceeds at any point during the exchange process. The QI

INTRODUCTION TO DSTS

Delaware Statutory Trusts (DSTs): Revolutionizing Real Estate Investments

Why a Delaware Statutory Trust?

1. Move from active property management to passive income as well as streamlining estate planning
2. Protect the 1031 Exchange with backup options, and reinvest the “boot” (leftover funds not used in the Exchange, subject to capital gains taxes)

Key DST Considerations:

Income Distribution: Regular monthly income distributions provide a steady cash flow to investors.

End of Life Cycle: At the end of the DST's term, the property is sold, potentially resulting in profit distribution to investors. The typical life cycle is 5-7 years.

DSTs are securities: shares in a real estate-related investment, available ONLY to “accredited investors”.

Tax-deferment: DSTs follow the 1031 Exchange rules to qualify.

Professional Control: Management decisions rest with the Trust Sponsor, not individual investors.

No Ongoing Costs: No ongoing expenses, as is common when you manage real estate directly.

No Liability: Limited to the amount invested, with no responsibility for property debt or property liabilities.

Shielded Ownership:

EXAMPLE OF A FUNDED DST

Engagement: Traditional Real Estate vs. DSTs in a 1031 Exchange

TRADITIONAL REAL ESTATE INVESTMENT

1. **Active Management:** Directly involved in such tasks as tenant screening, lease management, and regular property maintenance.
2. **Decision Making:** You frequently make decisions regarding property upgrades, tenant issues, and finances.
3. **Problem Resolution:** You handle emergencies and unexpected issues such as repairs or tenant disputes.
4. **Time Commitment:** You invest significant time, especially if managing multiple properties or dealing with high-maintenance units.

1. **Initial Capital Outlay:** You are typically required to invest a substantial amount up front for down payments, closing costs, and potential renovations.
2. **Ongoing Costs:** Your increasing expenses include annually rising property taxes and insurance, and possibly high maintenance and management fees.
3. **Variable Income:** Your rental income can be unstable, influenced by market conditions, vacancy rates, and tenant reliability.
4. **Resale Considerations:** You have the potential for good returns upon a sale, but this is subject to market conditions, timing, and closing costs.

DST INVESTMENT

1. **Passive**
 2. **None**
 3. **None**
 4. **None**
-
1. **Fixed Initial Investment**

Personal Engagement:

Financial Engagement:

WHICH IS RIGHT FOR YOU? PROPERTY VS. DST



Real Estate: The Tried and True Investment

DIRECT OWNERSHIP:

You have complete control over your property, from management decisions to renovations.

DIVERSE OPTIONS:

Choose from a wide range of property types, including residential, commercial, and industrial.

POTENTIAL FOR APPRECIATION:

Real estate can increase in value over time, leading to significant gains.

CASH FLOW:

Rental properties can provide a steady stream of income.

INHERITANCE:

Pass properties to your heirs, with a step-up in basis.

FRACTIONAL OWNERSHIP:

You can buy shares in trusts that own high-quality, institutional-grade properties.

ELIMINATE THE MANAGEMENT BURDEN:

The DST Sponsor handles management and the day-to-day operations, so you can sit back and relax.

DIVERSIFICATION:

You can invest in multiple DSTs; residential, commercial, or

WHAT IS MEANT BY “LIKE-KIND” PROPERTY?

In a 1031 Exchange, “like-kind” does NOT mean replacing a rental duplex with another duplex in the same city, in other words, similar real estate... this confuses people! Rather, it is legal language that refers to the nature or character of the property rather than its grade or quality. Take a look at this list, illustrating the variety of exchanges, considered “like-kind” for your property:

1. **Commercial Office Buildings**
2. **Retail Properties:** Includes shopping centers, retail strip malls, or standalone stores.
3. **Industrial Facilities:** Warehouses, distribution centers, or manufacturing plants.
4. **Residential Rental Properties:** Apartment buildings, duplexes, or

any other property rented out to tenants.

5. **Raw Land**
6. **Agricultural Land:** Farms, vineyards, or ranches
7. **Special-Purpose Properties:** Like-kind exchanges can also include properties like hotels, hospitals, parking lots, storage units, and more.
8. **Mineral Rights and Water Rights:** Yes, even these can be exchanged, provided they are held for investment purposes.
9. **Delaware Statutory Trusts (DSTs):** Investors can exchange real estate for an interest in a DST, allowing for investment in larger,

BEGIN YOUR DST INVESTMENT JOURNEY TODAY



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