



GRACE CAPITAL MANAGEMENT
GCM



**CPA, ESTATE PLANNER,
FINANCIAL PLANNER?**

**Provide Options to Your
Clients Who Will Sell
Investment Properties in
1031 Exchange Transactions**

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

1031WITHGRACEDST.COM

STORY: THE TYPICAL DST INVESTOR

Overcoming Property Challenges with DSTs: A Solution for Older Investors

John and Mary Thompson are tired and looking for freedom from the day-to-day burden of their real estate. They share a common dilemma with other landlords: their investment property has appreciated significantly, but selling it will mean substantial capital gains taxes.

Their estate planner, Sarah, proposed a 1031 Exchange to defer capital gains taxes by reinvesting the proceeds into “like-kind” properties. However, the Thompsons were reluctant to take on the difficulties of finding suitable replacement properties, securing mortgages, and meeting the tight 45-day identification period. More importantly, this plan still wouldn’t free them from property management burdens.

Then, Sarah introduced them to Delaware Statutory Trusts (DSTs) as a solution. With DSTs, investors can defer capital gains taxes by buying shares in a professionally managed real estate trust,

eliminating the need for active property management. DSTs can also provide monthly income distributions and potential profits from the eventual sales of the Trust properties.

For the Thompsons’ estate planning goals, Sarah highlighted that DSTs also offer a step-up in basis, eliminating deferred taxes and simplifying wealth transfer to their heirs. In this way, DSTs can foster peace where inheriting real estate can sometimes cause family squabbles.

Reassured by this approach, John and Mary embraced DSTs as a preferred way to defer taxes, potentially generate passive income and returns, and ensure a smooth estate transition—



UNDERSTANDING 1031 EXCHANGES



PLAN AHEAD

SELL YOUR PROPERTY

**IDENTIFY REPLACEMENT
PROPERTY**

REPORT TO IRS

**COMPLETE THE
EXCHANGE**

**MATCH OR EXCEED
DEBT LOAD**

**PURCHASE
REPLACEMENT
PROPERTY**

THE PLANNING CHALLENGES OF THE REAL ESTATE OPTION

Direct Real Estate Investment: Unpredictable Outcomes

Navigating the intricacies of a 1031 Exchange can be challenging, and there are potential pitfalls that you should be aware of. Identifying DSTs provides a safety net for the “boot”.

Identifying Replacement Property:

One of the biggest challenges is identifying suitable replacement property within the short 45-day identification period. Fully covering the boot, and matching debt load doesn't always come together. This can add stress and pricing pressure. Adding DSTs to the list provides a back-up plan.

Securing Financing:

There is a limit of 180 days to close, so locking down financing early in the process is important. Note that taking on more debt for the replacement property can help defer more capital gains taxes, but this also increases your clients' 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 your client cannot have direct access to the sale proceeds at any point during the exchange process. The QI holds the funds in escrow until they are used to purchase the replacement property(s) and/or DSTs. Make sure they choose a

INTRODUCTION TO DSTS

Delaware Statutory Trusts (DSTs): Simplifying 1031 Exchange Transactions

Why a Delaware Statutory Trust?

1. Simplify clients' portfolios and streamline estate plans for heirs, by giving them the option to move from active property management to passive income, passing along shares with a step-up in basis to heirs.
2. Mitigate risk inherent in the 1031 Exchange with backup options, and have the ability to reinvest the "boot" (leftover funds not used in the Exchange, subject to capital gains taxes).



Key DST Considerations:

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

End of Life Cycle: At the end of the DST's term, the property is sold, potentially resulting in profit distribution to your clients. The typical life cycle is 5-7 years. Then, 1031 again... "swap 'til you drop!"

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:

EXAMPLE OF A FUNDED DST

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

TRADITIONAL REAL ESTATE INVESTMENT

DST INVESTMENT

Unlock the Power of Tax Deferral with a 1031 Exchange

Here's the story:

When Academy Sports & Outdoors was gearing up to go public, their brand new headquarters in Katy, TX, was clearly a financial burden due to its high tax liabilities. The creative resolution? They sold the huge facilities to a DST sponsor while securing a leaseback agreement. This pivotal strategy converted a major taxable asset into a deductible office expense, refining the company's financials and boosting its attractiveness to the stock market. For DST investors, this maneuver created a dependable and lucrative income source throughout the life of the trust, a great illustration of the stability and profitability of investing in DSTs.

Facts:

210,300 square feet of corporate office space in West Houston.
Maximize rental revenue and distribute annual cash flows.

Anticipated Debt: \$35,500,000

Equity from investors: \$27,475,000

Anticipated Leverage: 56.4%

Amortization: 10 Years Interest Only

Estimated Distribution for Years 1-5: 6.0%; Years 6-10: 6.61%



WHICH IS RIGHT FOR YOU? PROPERTY VS. DST

Real Estate: The Tried and True Investment

DIRECT OWNERSHIP:

Owner has complete control over their property, from management decisions to renovations.

DIVERSE OPTIONS:

They can choose from a wide range of property types, including residential, commercial, and industrial.

POTENTIAL FOR APPRECIATION:

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

CASH FLOW:

Rental properties could provide a steady stream of income to your client.

INHERITANCE:

They can pass properties to their heirs, with a step-up in basis.

FRACTIONAL OWNERSHIP:

They 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 your Investor can sit back and relax.

DIVERSIFICATION:

Clients can invest in multiple DSTs; residential, commercial, or industrial in different markets, reducing risk.

RETURNS

Potential monthly cash flow, as well as the potential for a share in the profits when the property is sold.

ESTATE PLANNING:

Simplify inheritance, passing down shares with a step-up in basis, eliminating capital gains taxes deferred up to that point.

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



Earl Proeger

DST@GRACE-CAP.COM | 512-293-7731

11651 JOLLYVILLE RD., #300 AUSTIN, TX 78759



Greg Lehrmann

GREG@EXCEL1031EXCHANGE.ORG | 512-213-9571

9600 ESCARPMENT BLVD., SUITE 226 AUSTIN, TX 78749



1031WITHGRACEDST.COM

THIS BOOKLET IS FOR INFORMATIONAL PURPOSES ONLY AND SHOULD NOT BE CONSTRUED AS INVESTMENT, LEGAL, TAX, OR OTHER PROFESSIONAL ADVICE. CONSULT YOUR PROFESSIONAL ADVISORS BEFORE