



GRACE CAPITAL MANAGEMENT
GCM



**LOAN OFFICER,
REALTOR, BROKER?**

**Master DSTs to
Shake Loose Listings &
Put a Safety Net Under Your
1031 Exchange Transactions**

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

1031WITHGRACEDST.COM

STORY: THE HESITANT PROPERTY SELLER

Increase Listings with DSTs: A Strategic Tool for Realtors

Bill and Nancy Coffman, a retired couple, owned a highly appreciated investment property. Giving a Realtor the listing had, so far, been out of the question, as they didn't want to pay capital gains taxes or manage replacement property from a 1031 Exchange. The real goal was freedom. In this situation, Todd was equipped to help.

Todd explained that a 1031 Exchange could defer their taxes and he introduced an alternative to buying more property; Delaware Statutory Trusts (DSTs). With DSTs, they could invest passively in Trusts that hold professionally managed, institution grade real estate.

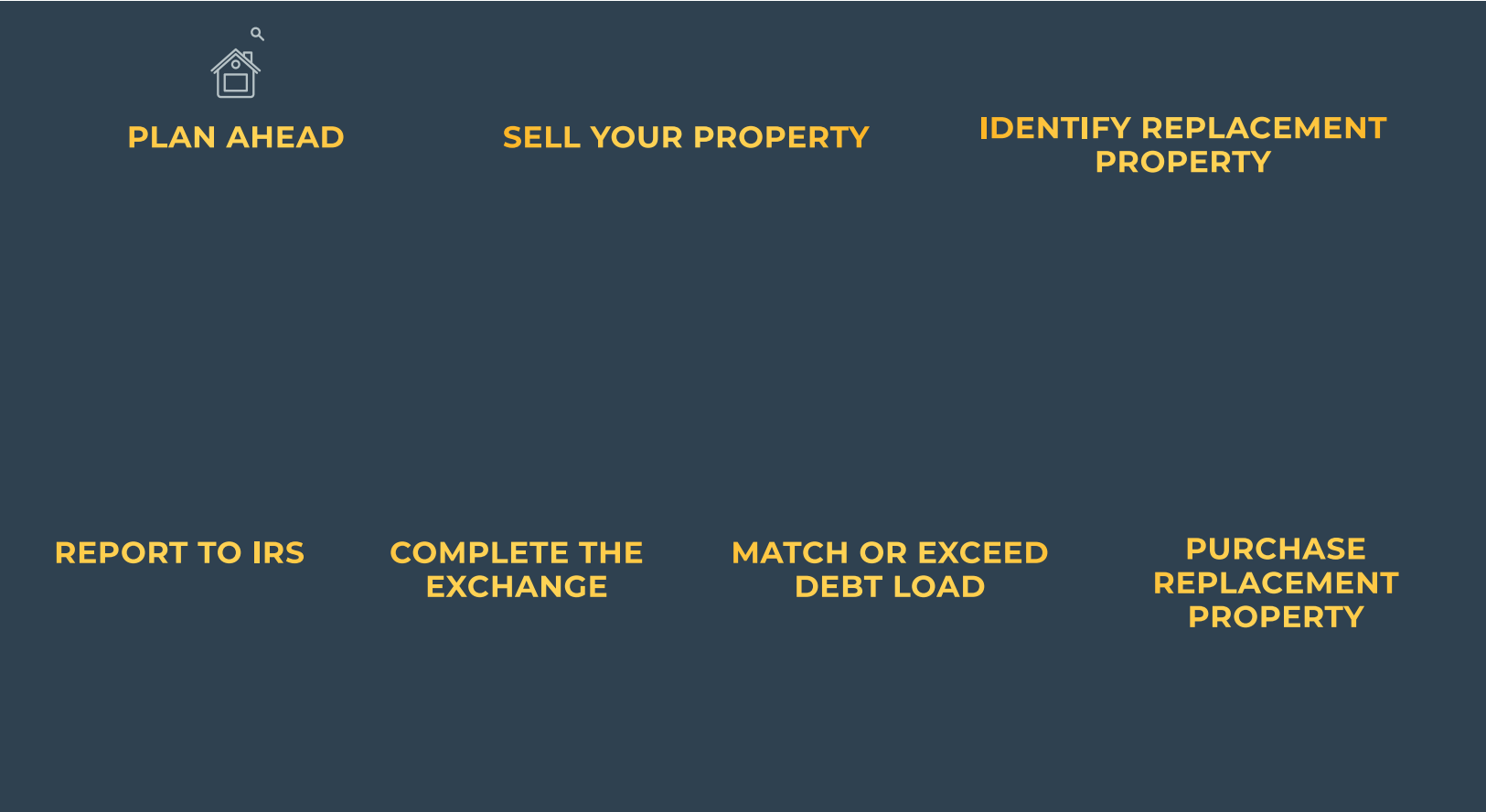
Todd's deep knowledge of DSTs differentiated him from other Realtors and reassured the Coffmans. They were drawn to the idea of potential monthly income distributions and returns.

By offering DSTs as an option, Todd addressed the Coffmans' concerns, transforming hesitant sellers into confident investors. They appreciated the benefits of passive income and simplified estate planning. Todd highlighted that DSTs offer a step-up in basis, eliminating deferred taxes and simplifying wealth transfer to heirs. DSTs foster peace where sometimes there are family squabbles and feuds over property.

Through this process, Todd secured the listing and strengthened his reputation as a knowledgeable and trustworthy advisor, illustrating how DSTs can unlock new



UNDERSTANDING 1031 EXCHANGES



THE SAFETY NET STRATEGY

Direct Real Estate Investment: Mitigate Some of the Challenges

Navigating the intricacies of a 1031 Exchange can be challenging, and there are potential pitfalls that you should be aware of. Identifying DSTs as replacement property provides a safety net for when things don't go as planned.

Identifying Replacement Property:

One of the biggest challenges is identifying suitable replacement property within the short 45-day identification period. Fully covering the book, and matching debt load doesn't always come together. This can add stress and pricing pressure. Adding DSTs to the list provide 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 that your seller 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

INTRODUCTION TO DSTS

Delaware Statutory Trusts (DSTs): Simplifying 1031 Exchange Transactions

Why a Delaware Statutory Trust?

1. Shake loose a listing, by giving your client the option to move from active property management to passive income (as well as streamlining estate planning)
2. Reduce 1031 Exchange hesitancy with backup options, and have the option 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 to your sellers.

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.

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

DIRECT OWNERSHIP:

Buyer 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 Buyers.

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 Buyer can sit back and relax.

DIVERSIFICATION:

Buyers 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



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