BREAKWATER
1031

Reasons to Consider DSTs

Breakwater Capital is an industry leader in offering replacement properties, typically through a Delaware Statutory Trust (DST), for Section 1031 exchange transactions, as well as quality, multiple-owner real estate solutions. **Here are 10 reasons to consider DSTs.**

01 *Avoid Financing Obstacles*

In a 1031 exchange transaction, the debt placed or assumed on the replacement property must be equal to or greater than the debt relieved in the relinquished property. Property owners may run into a road block when they try to get financing on their replacement properties. For example, a property owner may wish to sell an apartment building worth $5 million with $2.5 million in debt, or 50% loan-to-value (LTV). If that property owner cannot get approved for a $2.5 million loan on their replacement property, then most likely the owner will not sell.

The majority of programs are structured so that the replacement property is owned by a Delaware Statutory Trust, or DST. The DST is a pass-through entity that owns the real estate assets. When a replacement property is owned by a DST, the DST will be the borrower of any loan and investors in that DST will not need to be individually qualified with a lender.

02 *DSTs Make Great Back-Up Properties*

A common strategy to identify replacement properties is the “3 Property Rule,” where an exchanger may identify up to three properties, without regard to their fair market value, within 45 days. Identifying only one property may be dangerous because a property can fall out of escrow for many reasons: financing, inspections, etc. To secure an opportunity to execute a successful 1031 exchange, the exchanger could identify the first property as defined by the investor/commercial real estate broker. The exchanger can then identify two additional properties owned by DSTs. It costs the exchanger no extra money to identify additional properties. Taking this precaution insures that the exchanger has adequate choices.

PROPERTY #1: PROPERTY IDENTIFIED BY INVESTOR/BROKER
PROPERTY #2: PROPERTY OWNED BY DST
PROPERTY #3: PROPERTY OWNED BY DST

03 *Avoid Taxable Gains on Boot*

The exact dollar amount of the replacement property is a common challenge in 1031 transactions. In one example, the relinquished property sells for $2.0 million and the exchanger identifies a replacement property for $1.8 million. The difference in the price of the relinquished property and the price of the replacement property results in a taxable amount on the remaining $200,000. Under the “3 Property Rule,” DSTs provide a solution:

SALE PRICE OF RELINQUISHED PROPERTY:	**$2.0 MILLION**
REPLACEMENT PROPERTY #1:	**$1.8 MILLION PROPERTY IDENTIFIED BY INVESTOR/BROKER**
REPLACEMENT PROPERTY #2:	**$100,000 INVESTMENT IN PROPERTY OWNED BY DST**
REPLACEMENT PROPERTY #3:	**$100,000 INVESTMENT IN PROPERTY OWNED BY DST**

Result: All $2.0 million is exchanged with no taxable income.

BREAKWATER
1031

BREAKWATER1031.COM
(310) 940-9430

9940 RESEARCH DR. SUITE 200
IRVINE, CA 92618

04 *No Property Management Headaches*

Property is professionally managed by a third party in a DST-structured 1031 exchange. Professional managers handle the Terrible T's: Tenants, Toilets, Trash, Turmoil, Termites. The investor enjoys the Terrific T's: Travel, Time, Tennis. DST programs offer additional benefits, including the direct deposit of distributions, if any, and reporting through Substitute 1098/1099s.

05 *Diversification Benefits*

Investing in a DST can provide portfolio diversification. For instance, an investment could be made in a single DST that owns multiple properties in several states. It would be almost impossible for a broker to identify three replacement properties in three different states within the allowed 45-day timeframe. So DSTs are an optimal way to achieve diversification.

06 *Don't Get Sidelined*

Many realtors have clients that will not sell until they find the "right" property. Having the option to invest in institutional-grade properties owned by professionally managed DSTs may get investors off the sidelines, and the realtor receives their commission.

07 *Swap Till You Drop*

A DST is different than a 721 Exchange (UPREIT) transaction where the investor's exchange journey ends with the sale of the UPREIT. The DST structure allows the investor to continue to exchange properties over and over again until the investor's death. Upon the death of the investor, under current tax laws, the heirs would get a "step up" in basis, thereby avoiding capital gains taxes on the original and subsequent properties.

08 *Estate Planning Tool*

Everyone wants the best possible scenario for their heirs before they pass. Investing in a DST eliminates the opportunity for heirs to argue over what to do with an investment property when the owner passes away. The heirs continue to receive distributions from the investment, if any, and upon the sale of the property owned by the DST, each of the heirs can choose what to do with their inherited portion. One heir can continue to exchange the investment, while another can sell and receive cash proceeds.

09 *Quality Properties and Leverage Options*

We maintain a diversified portfolio of properties across the United States, and a wide variety of property types and leverage options. This wide range of opportunities enables investors to select a high-quality, institutional-grade private placement program that best suits their needs.

10 *Low Minimums*

An investor can exchange as little as $100,000 into a DST. This can include the remaining assets leftover from a property exchange.

BREAKWATER1031.COM
(310) 940-9430
9940 RESEARCH DR. SUITE 200
IRVINE, CA 92618

KEY ADVANTAGES

Navigating the complexities of the real estate market during a 1031 exchange can be daunting, but by leveraging Delaware Statutory Trusts (DSTs), investors may simplify their experience. DSTs can act as a safety net during real estate exchanges, helping to ensure transactions close. They offer several potential benefits including the assurance of a prompt closing, the capacity to invest "left over" exchange proceeds, and the flexibility to exchange back into active property ownership. Combined, these key advantages make DSTs a powerful tool for 1031 exchange investors.

Reason 1: The Assurance Your Exchange Will Close

By identifying a DST as one of your replacement properties, you may significantly reduce the risk of blowing your exchange. There are a myriad of reasons why the like-kind property purchase you are making may not close. Since the property held by a DST is typically acquired prior to offering interests to investors, in the event your purchase does not go through, you can invest your sale proceeds into a DST – deferring your taxable gain and potentially generating predictable income. DST investments are generally admitted into the Trust within 24-48 hours, helping to ensure a prompt closing.

Reason 2: Opportunity to Invest "Left Over" Exchange Proceeds

When the 1031 exchange proceeds exceed the purchase price of your like-kind property, DSTs can offer a tax-deferred solution for those left over exchange proceeds. With a minimum investment typically starting at $50,000, DSTs provide an excellent option to invest the remaining funds from your exchange. This allows you to defer the capital gain on your entire 1031 Exchange and help ensure every dollar is working for you.

Before investing, real estate investors may find it helpful to consider the pros and cons of multifamily properties. The benefits of multifamily investing can potentially outweigh the risks, depending on an individual's situation. Here are a few multifamily investment pros and cons to consider:

Reason 3: Ability to Exchange Back into Active Property Ownership

DSTs provide access to institutional-grade property across a variety of asset types and geographic locations. This enables you to invest in properties with credit-rated tenants and long-term leases, offering stability and potential appreciation. You also have the flexibility to exchange back into active property ownership at the end of your DST hold period, which is typically 10-years, should you choose to do so in the future.

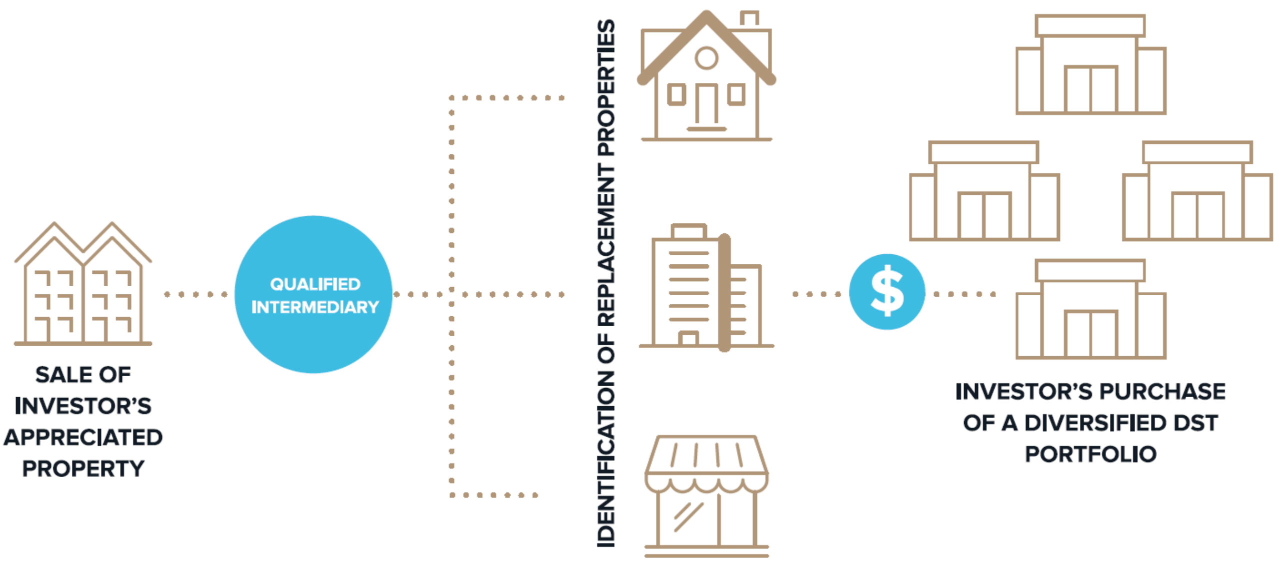
DST BENEFITS

Discover the benefits of identifying a Delaware Statutory Trust (DST) in your 1031 Exchange. By reducing the risk of exchange failure, providing a solution for leftover exchange proceeds, and offering opportunities for institu-tional-grade investments, DSTs has the potential to enhance your tax-deferred investment strategy. Learn more about incorporating DSTs into your 1031 Exchange plan by talking with your registered representative.

What Is a Delaware Statutory Trust (DST) Exchange?

The main difference between a 1031 Exchange and a DST Exchange is that in a 1031 Exchange, the investor actively manages the property. In a DST Exchange, the investor is passive – investing the proceeds from the sale of their appreciated asset into a fund where properties are profes-sionally managed.

EXAMPLE OF A 1031 DST EXCHANGE



Potential Benefits to Investing in DSTs

There are many potential benefits to investing in a DST, several of which are outlined below:

- Capital preservation tool: As noted above, DSTs are a great way for investors to defer paying capital gains tax on the proceeds of the sale of their other real property. Rather than doing a "whole property" 1031 exchange, they can reap the same benefits by investing in a DST. Under current law., once the DST program concludes or the asset is sold, investors can reinvest in another DST or sole-ownership property to continue deferring paying capital gains taxes in perpetuity.

- Ability to move quickly: The biggest limitation to those trying to conduct a traditional 1031 exchange is generally identifying a suitable like-kind property to purchase within tight IRS timelines. This is particularly true in today's competitive real estate environment, where there are fewer "deals" to be had. Investors still need to conduct thorough due diligence on every prospective opportunity, and finding a property that meets their investment criteria within the allotted time can oftentimes be quite challenging. DSTs offer real estate that has already been thoroughly vetted and is ready for investment. This allows sellers to move quickly while still taking advantage of the tax benefits associated with doing a 1031 exchange.

- More inventory to consider: Many investors seeking to do a 1031 exchange find themselves pressured into trading up into a property that they might not otherwise purchase if it were not for the 1031-time constraints. Investing in a DST provides access to greater inventory-including real estate that has been carefully vetted by some of the industry's leading players. This can help reduce the likelihood of making a "bad" investment for those who might otherwise make a snap decision given timeline pressures.

- No active management required: Those who trade-up into a higher value asset with a traditional 1031 exchange still take on the burden of actively managing the real estate. Instead, those who invest the proceeds of their sale into a DST will hand over management responsibilities to the sponsor of the DST, who oversees the real estate holdings on the investors' behalf. This allows an investor to cash out of a property they actively own and manage into real estate that is 100% passive in nature.

- Easier to finance and no personal liability for DST debt: Unlike TICs, those who invest in DSTs are not liable for any debt associated with the property. Instead, the sponsor is solely responsible to lenders. Real estate held in DSTs is also easier to finance because the lender is only underwriting the sponsor, usually a large and reputable institutional real estate company with a verified track record, and not each individual investor, as is the case with TICs.

- Access to institutional-quality assets: Those who invest in property directly are often limited to assets of a certain caliber simply due to the costs and financing associated with investing in higher-quality real estate. Those looking to invest in institutional-quality assets can do so by invest through a DST given its fractional ownership model. Through a DST, an individual investor can own a small share of a high-quality asset that would otherwise have high barriers to entry.

- Diversification: There are multiple DST real estate investments available to investors from various DST sponsors, including multifamily, storage space, office, and NNN leases. And not only can you invest in a particular type of DST, such as multifamily, you can do so in several different geographic regions of the country, so that even if one area of the country was to experience a downturn in their local economy, chances are greater that other locations do not, or at least, those odds are lessened by diversification.

Conclusion

As you can see, there are many reasons why an investor should consider investing in real estate through a DST. The DST model provides tremendous flexibility, opportunity, and investment diversity for those looking to take full advantage of benefits typically associated with traditional 1031 exchanges.

What's more, DST investments can be closed upon quickly by investors - often in a matter of days. So whether you're an accredited investor looking to put your cash to work for the first time, or someone who is under a tight deadline to deploy the proceeds from a 1031 sale, investing in a DST can be a great option.

GENERAL DISCLOSURE

Not an offer to buy, nor a solicitation to sell securities. Information herein is provided for information purposes only, and should not be relied upon to make an investment decision.

All investing involves risk of loss of some or all principal invested. Past performance is not indicative of future results. Speak to your finance and/or tax professional prior to investing.

Securities offered through Emerson Equity LLC Member: FINRA/SIPC. Only available in states where Emerson Equity LLC is registered. Emerson Equity LLC is not affiliated with any other entities identified in this communication.

1031 RISK DISCLOSURE

• There is no guarantee that any strategy will be successful or achieve investment objectives;

• Potential for property value loss – All real estate investments have the potential to lose value during the life of the investments;

• Change of tax status – The income stream and depreciation schedule for any investment property may affect the property owner's income bracket and/or tax status. An unfavorable tax ruling may cancel deferral of capital gains and result in immediate tax liabilities;

• Potential for foreclosure – All financed real estate investments have potential for foreclosure;

• Illiquidity – Because 1031 exchanges are commonly offered through private placement offerings and are illiquid securities. There is no secondary market for these investments.

• Reduction or Elimination of Monthly Cash Flow Distributions – Like any investment in real estate, if a property unexpectedly loses tenants or sustains substantial damage, there is potential for suspension of cash flow distributions; Impact of fees/expenses

• Costs associated with the transaction may impact investors' returns and may outweigh the tax benefits