BREAKWATER
1031

Exchange with DSTs Case Study

One of the single greatest advantages of utilizing DSTs in a 1031 exchange is the power to diversify your investment. In the example below, we took an investor exchanging their single-family rental into multiple DSTs. They are still taking on similar real estate risk, but are now more diversified in several aspects: Number of properties & tenants, multiple geographic locations and a balanced mix of asset classes and strategies.

A Hypothetical Client Allocation

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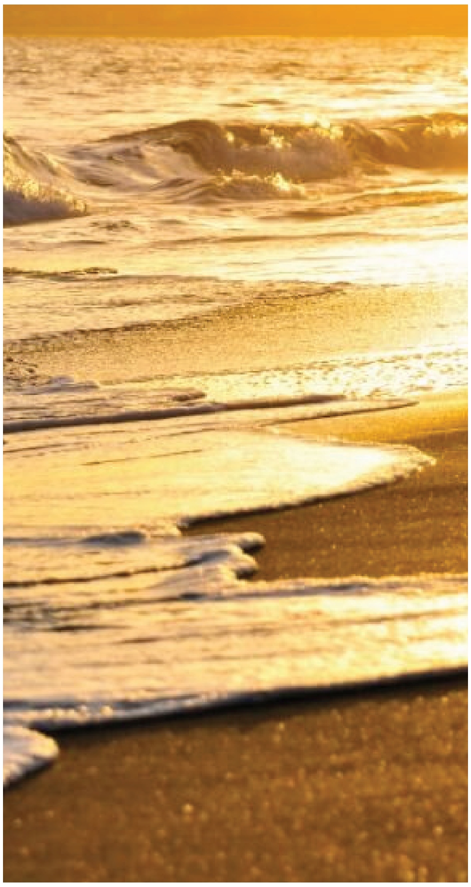
Hypothetical Case Study

The IRS allows individuals to bypass the capital gains tax on the sale of real estate if they invest the proceeds into a “like kind” investment, effectively creating a exit strategy for assets that are highly appreciated. However, actually pulling this off is no easy feat and requires a considerable amount of timing and knowledge. Affluent families have been using this tactic for decades as a means to avoid capital gains and minimize the tax impact of their real estate holdings to their heirs. Like our hypothetical outcome as expressed below, we can show you how to take advantage of this rule, and provide turnkey 1031 exchange solutions that take away the complexity typically associated with this type of transaction.

Client Background, Goals & Challenges

John & Cindy, a married couple in their 60’s, owned several rental properties in Southern California that had done quite well. Even though they were making a good income, one property in particular was aging and needed some work in order to attract the quality tenant that John & Cindy were accustomed to. Now a decision had to be made; either spend a considerable amount to make the improvements, or sell the property and pay massive capital gains taxes. John was aware of the concept of a 1031 exchange, but the complexities and timing issues were preventing him from taking full advantage of it.



Solutions & Plan Improvement

By utilizing a 1031 exchange we were able to reinvest the proceeds from the sale of their property into three different DSTs. Each of these properties were institutional quality assets utilizing different strategies located in multiple states. Furthermore, their was no 1031 exchange risk or an interruption in rental income for John & Cindy.

Results / Outcomes

John & Cindy were very satisfied with the fact that they were now much more diversified investors and not having to rely on just a handful on tenants. In addition, their after-tax net income from the property increased from approximately $45,000 annually to over $60,000 annually. John & Cindy also loved that they no longer had to manage the day to day issues that came with the property and had more time to enjoy their retirement together.

The hypothetical scenarios provided herein are meant only to demonstrate mathematical principals. There can be no guarantee of performance or that any investment will achieve its stated objectives.

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.

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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