What is a DST

While many Exchangers are content to use their local real estate professional to find a property in their own area, others desire a more diversified selection of property types and geographic locations. Some also desire to transition from an active ownership and management role into a more passive one. If that is the case, Breakwater Capital can help you build a diversified portfolio of several different types of like-kind investment properties (multi-family, healthcare, retail, industrial, etc.).

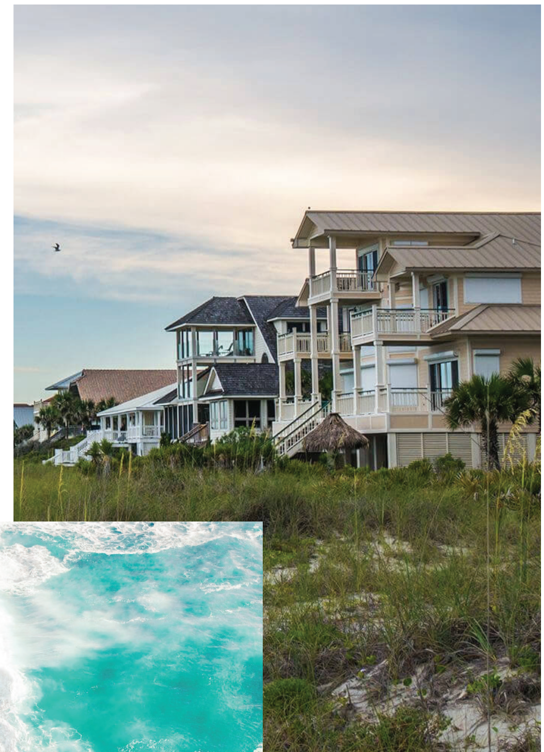
The Ideal 1031 Replacement Property Alternative

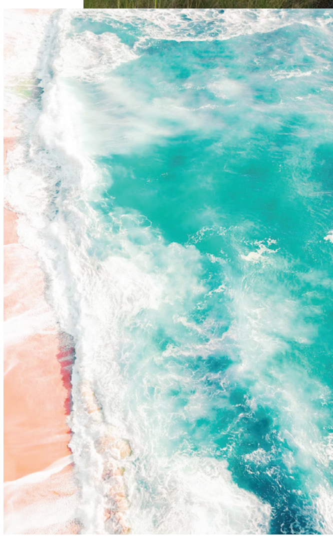
The 45-day identification period moves very quickly and often creates needless stress. Our experienced team of securities and real estate professionals monitors the DST market daily. This means that at any time you have access to a fully-vetted, turnkey 1031 exchange solution where the loan, tenants and cash flow are already in place for a seamless 1031. And our streamlined process makes for both a simple and straightforward process.

A Replacement Property that meets the financial requirements of your exchange

One of the greatest benefits of selecting a Delaware Statutory Trust as a 1031 Replacement Property is being able to select the exact undivided interest which meets the financial requirements of your exchange. You determine how much you want to invest as well as how much debt you want the DST sponsor to assign to you. Obviously this means that you will be owning the property with other similarly situated investors and you will be receiving your portion of any property rents every month as well as the tax benefits.

We offer a seamless solution for your 1031 exchange. The 45-day identification period moves very quickly and often creates needless stress. Our experienced team of securities and real estate professionals monitor daily the available Delaware Statutory Trusts in the marketplace. This means that at any time you can have access to a fully-vetted, investment grade real estate alternative. And our streamlined process makes for both a simple and straightforward 1031 exchange.





BREAKWATER
1031

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DST 101

What is a Delaware Statutory Trust?

A Delaware Statutory Trust, or DST, is a legally recognized real estate investment trust in which investors can purchase ownership interest. Investors who own fractional ownership are known as beneficiaries of the trust. DSTs, unlike many other co-ownership real estate investment structures, are 1031-eligible.

For many exchangers, DSTs are a better option than a traditional "whole property" exchange, where the investor sources and acquires 100% of a property (a "whole property") and actively manages that property.

Timing Consideration of a 1031 Exchange

Timing is one of the most challenging aspects of a Section 1031 exchange. The taxpayer has only 45 days from the sale of their relinquished property to identify potential replacement properties, and up to 180 days to close the acquisition of one or more replacement properties. In addition to the time constraints, other factors can make exchanges very difficult to accomplish, including:

- complexity of the tax rules
- limited supply of replacement properties
- debt requirements

DSTs Solve These Challenges

DSTs are structured to satisfy the like-kind requirement and provide the same tax benefits as direct ownership of real estate. Combined with impressive returns generated by skillful and experienced sponsors, the simplified investment process makes DSTs a superior option for many exchangers. DST sponsors, such as Capital Square, have an inventory of qualifying DST replacement properties, solving the 1031 timing issues.

These properties have already been acquired by the DST; if the DST is leveraged, the loan is in place with no personal liability to the investors; and all due diligence has been completed, with investors given electronic access to documents and reports (title, survey, appraisal, environmental report, property condition report, roof report, etc.).

Benefitting Your Heirs

You can continue to defer capital gains taxes using the 1031 exchange process until you pass assets onto your heirs. DST shares can be evenly divided and passed on to multiple heirs, greatly simplifying investors' estate planning.

When real property is passed to your heirs, whether held directly or through a DST, the basis by which the capital gains are determined steps up to the current market value at the time of inheritance. After your heirs inherit the property, they may sell it for its current value and bypass any capital gains you amassed within your lifetime.

INHERENT DST QUALITIES

DSTs were created specifically for those seeking to perform a 1031 exchange, but also in mind for investors preferring to place their funds into an asset with the potential for stable, income producing properties.

These investments were designed for the tax sensitive investor seeking income, capital preservation and a more conservative approach (with appreciation secondary).

01

Low Leverage

Most DSTs employ an LTV between 0% to 60%

02

Fully Stabilized

The property must meet certain occupancy thresholds before it comes out to investors.

03

Less Speculative Investment Strategy

Sponsors cannot employ high-speculation tactics like ground-up developments or deep value-adds

PROS AND CONS OF DSTS

Benefits of DSTs

NO MANAGEMENT RESPONSIBILITIES

The DST is the single owner and agile decision maker on behalf of investors.

INSTITUTIONAL QUALITY PROPERTY

DSTs allow investors to acquire partial ownership in properties that otherwise would be out-of-reach.

LIMITED PERSONAL LIABILITY

Loans are nonrecourse to the investor. The DST is the sole borrower.

DIVERSIFICATION

Investors can divide their investment among multiple DSTs, which may provide for a more diversified real estate portfolio across geography and property types.

SWAP TIL YOU DROP

The DST structure allows the investor to continue to exchange real properties over and over again until th investor's death.

POTENTIAL FOR QUICK CLOSE

Can close in as little as 3-5 business days with no interaction with a bank and possibly continue your cash flow uninterrupted as soon as the following month.

CERTAINTY OF MEETING 1031 DEADLINES

As long as there is available equity, exchangers can make reservations in a given DST until their sale closes. Should they change their mind or if their sale doesn't close, the investor is not obligated to the sponsor, nor will they be charged any penalties.

Drawbacks of DSTs

AGGRESIVE INVESTORS

Not for those seeking outsized returns in a short amount of time or are pursuing aggressive growth strategies (developing or deep value adds).

LACK OF CONTROL

Not for investors who need 100% control.

ILLIQUID

Interests of a DST should be considered illiquid just like any other real estate, especially if you invest via a 1031 exchange.

DST DIVERSIFICATION

Attempting to reduce risk in real estate real estate investments is possible by practicing diversification. Instead of investing in a single property with concentration risk, prudence dictates investing in a number of properties with different investment and risk parameters.

By investing in different asset classes, different locations and properties leased by different tenants, you may be able to mitigate certain risks associated with investing in a concentrated investment. By diversifying your holding periods, all of your investments will not mature and have to be sold at the same time. If you invest in Delaware Statutory Trusts, it also is practical to diversify by sponsorship so that your assets are not all managed by the same real estate firm.

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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

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