

DELEVERAGING A 1031 EXCHANGE

# Building Long-Term Flexibility and Strength

A thoughtful approach to reducing leverage during a 1031 exchange can improve cash flow, lower risk, and support your long-term goals.

Many investors use leverage to grow their real estate portfolios—and over time, that debt can limit flexibility. A 1031 exchange provides an opportunity not just to defer taxes, but also to rethink your capital structure.

By intentionally reducing debt as part of your exchange strategy, you can strengthen your balance sheet, increase financial options, and create a more resilient portfolio for the future.



## LOWER RISK

Reducing debt can decrease exposure to market volatility and interest rate changes.



## STRONGER CASH FLOW

Less debt means more of your income stays in your pocket.



## GREATER FLEXIBILITY

A stronger balance sheet opens doors to future opportunities.



## BUILT FOR THE LONG TERM

Position your portfolio for sustainable growth and generational wealth transfer.



## THE CHALLENGE OF

# Debt Replacement

When you sell an investment property, the debt doesn't go away—it must be replaced to fully defer your taxes.



**\$1,000,000**  
PROPERTY SALE



**\$500,000**  
EXISTING DEBT



**MUST REPLACE DEBT**  
TO COMPLETE YOUR 1031 EXCHANGE



### THE RESULT:

You replace debt with more debt—keeping you exposed to financial risk and limiting your cash flow potential.

## THE TRADITIONAL PATH: LEVERAGE NEW ACQUISITIONS



**MOST INVESTORS REPLACE DEBT**  
They take on new financing to acquire replacement properties.



**CREATES FINANCING RISK**  
Dependent on lender approval, credit markets, and loan terms.



**CREATES FORECLOSURE RISK**  
Debt obligations create exposure to cash flow shortfalls and defaults.



**CREATES REFINANCING RISK**  
Future refinancing may be required when debt matures.



LOAN AGREEMENT

| Year 1    | Year 2    | Year 3    | Year 4    | Year 5    |
|-----------|-----------|-----------|-----------|-----------|
| 2,230.00  | 2,350.00  | 2,470.00  | 2,590.00  | 2,710.00  |
| 2,350.00  | 2,470.00  | 2,590.00  | 2,710.00  | 2,830.00  |
| 2,470.00  | 2,590.00  | 2,710.00  | 2,830.00  | 2,950.00  |
| 2,590.00  | 2,710.00  | 2,830.00  | 2,950.00  | 3,070.00  |
| 2,710.00  | 2,830.00  | 2,950.00  | 3,070.00  | 3,190.00  |
| 2,830.00  | 2,950.00  | 3,070.00  | 3,190.00  | 3,310.00  |
| 2,950.00  | 3,070.00  | 3,190.00  | 3,310.00  | 3,430.00  |
| 3,070.00  | 3,190.00  | 3,310.00  | 3,430.00  | 3,550.00  |
| 3,190.00  | 3,310.00  | 3,430.00  | 3,550.00  | 3,670.00  |
| 3,310.00  | 3,430.00  | 3,550.00  | 3,670.00  | 3,790.00  |
| 3,430.00  | 3,550.00  | 3,670.00  | 3,790.00  | 3,910.00  |
| 3,550.00  | 3,670.00  | 3,790.00  | 3,910.00  | 4,030.00  |
| 3,670.00  | 3,790.00  | 3,910.00  | 4,030.00  | 4,150.00  |
| 3,790.00  | 3,910.00  | 4,030.00  | 4,150.00  | 4,270.00  |
| 3,910.00  | 4,030.00  | 4,150.00  | 4,270.00  | 4,390.00  |
| 4,030.00  | 4,150.00  | 4,270.00  | 4,390.00  | 4,510.00  |
| 4,150.00  | 4,270.00  | 4,390.00  | 4,510.00  | 4,630.00  |
| 4,270.00  | 4,390.00  | 4,510.00  | 4,630.00  | 4,750.00  |
| 4,390.00  | 4,510.00  | 4,630.00  | 4,750.00  | 4,870.00  |
| 4,510.00  | 4,630.00  | 4,750.00  | 4,870.00  | 4,990.00  |
| 4,630.00  | 4,750.00  | 4,870.00  | 4,990.00  | 5,110.00  |
| 4,750.00  | 4,870.00  | 4,990.00  | 5,110.00  | 5,230.00  |
| 4,870.00  | 4,990.00  | 5,110.00  | 5,230.00  | 5,350.00  |
| 4,990.00  | 5,110.00  | 5,230.00  | 5,350.00  | 5,470.00  |
| 5,110.00  | 5,230.00  | 5,350.00  | 5,470.00  | 5,590.00  |
| 5,230.00  | 5,350.00  | 5,470.00  | 5,590.00  | 5,710.00  |
| 5,350.00  | 5,470.00  | 5,590.00  | 5,710.00  | 5,830.00  |
| 5,470.00  | 5,590.00  | 5,710.00  | 5,830.00  | 5,950.00  |
| 5,590.00  | 5,710.00  | 5,830.00  | 5,950.00  | 6,070.00  |
| 5,710.00  | 5,830.00  | 5,950.00  | 6,070.00  | 6,190.00  |
| 5,830.00  | 5,950.00  | 6,070.00  | 6,190.00  | 6,310.00  |
| 5,950.00  | 6,070.00  | 6,190.00  | 6,310.00  | 6,430.00  |
| 6,070.00  | 6,190.00  | 6,310.00  | 6,430.00  | 6,550.00  |
| 6,190.00  | 6,310.00  | 6,430.00  | 6,550.00  | 6,670.00  |
| 6,310.00  | 6,430.00  | 6,550.00  | 6,670.00  | 6,790.00  |
| 6,430.00  | 6,550.00  | 6,670.00  | 6,790.00  | 6,910.00  |
| 6,550.00  | 6,670.00  | 6,790.00  | 6,910.00  | 7,030.00  |
| 6,670.00  | 6,790.00  | 6,910.00  | 7,030.00  | 7,150.00  |
| 6,790.00  | 6,910.00  | 7,030.00  | 7,150.00  | 7,270.00  |
| 6,910.00  | 7,030.00  | 7,150.00  | 7,270.00  | 7,390.00  |
| 7,030.00  | 7,150.00  | 7,270.00  | 7,390.00  | 7,510.00  |
| 7,150.00  | 7,270.00  | 7,390.00  | 7,510.00  | 7,630.00  |
| 7,270.00  | 7,390.00  | 7,510.00  | 7,630.00  | 7,750.00  |
| 7,390.00  | 7,510.00  | 7,630.00  | 7,750.00  | 7,870.00  |
| 7,510.00  | 7,630.00  | 7,750.00  | 7,870.00  | 7,990.00  |
| 7,630.00  | 7,750.00  | 7,870.00  | 7,990.00  | 8,110.00  |
| 7,750.00  | 7,870.00  | 7,990.00  | 8,110.00  | 8,230.00  |
| 7,870.00  | 7,990.00  | 8,110.00  | 8,230.00  | 8,350.00  |
| 7,990.00  | 8,110.00  | 8,230.00  | 8,350.00  | 8,470.00  |
| 8,110.00  | 8,230.00  | 8,350.00  | 8,470.00  | 8,590.00  |
| 8,230.00  | 8,350.00  | 8,470.00  | 8,590.00  | 8,710.00  |
| 8,350.00  | 8,470.00  | 8,590.00  | 8,710.00  | 8,830.00  |
| 8,470.00  | 8,590.00  | 8,710.00  | 8,830.00  | 8,950.00  |
| 8,590.00  | 8,710.00  | 8,830.00  | 8,950.00  | 9,070.00  |
| 8,710.00  | 8,830.00  | 8,950.00  | 9,070.00  | 9,190.00  |
| 8,830.00  | 8,950.00  | 9,070.00  | 9,190.00  | 9,310.00  |
| 8,950.00  | 9,070.00  | 9,190.00  | 9,310.00  | 9,430.00  |
| 9,070.00  | 9,190.00  | 9,310.00  | 9,430.00  | 9,550.00  |
| 9,190.00  | 9,310.00  | 9,430.00  | 9,550.00  | 9,670.00  |
| 9,310.00  | 9,430.00  | 9,550.00  | 9,670.00  | 9,790.00  |
| 9,430.00  | 9,550.00  | 9,670.00  | 9,790.00  | 9,910.00  |
| 9,550.00  | 9,670.00  | 9,790.00  | 9,910.00  | 10,030.00 |
| 9,670.00  | 9,790.00  | 9,910.00  | 10,030.00 | 10,150.00 |
| 9,790.00  | 9,910.00  | 10,030.00 | 10,150.00 | 10,270.00 |
| 9,910.00  | 10,030.00 | 10,150.00 | 10,270.00 | 10,390.00 |
| 10,030.00 | 10,150.00 | 10,270.00 | 10,390.00 | 10,510.00 |
| 10,150.00 | 10,270.00 | 10,390.00 | 10,510.00 | 10,630.00 |
| 10,270.00 | 10,390.00 | 10,510.00 | 10,630.00 | 10,750.00 |
| 10,390.00 | 10,510.00 | 10,630.00 | 10,750.00 | 10,870.00 |
| 10,510.00 | 10,630.00 | 10,750.00 | 10,870.00 | 10,990.00 |
| 10,630.00 | 10,750.00 | 10,870.00 | 10,990.00 | 11,110.00 |
| 10,750.00 | 10,870.00 | 10,990.00 | 11,110.00 | 11,230.00 |
| 10,870.00 | 10,990.00 | 11,110.00 | 11,230.00 | 11,350.00 |
| 10,990.00 | 11,110.00 | 11,230.00 | 11,350.00 | 11,470.00 |
| 11,110.00 | 11,230.00 | 11,350.00 | 11,470.00 | 11,590.00 |
| 11,230.00 | 11,350.00 | 11,470.00 | 11,590.00 | 11,710.00 |
| 11,350.00 | 11,470.00 | 11,590.00 | 11,710.00 | 11,830.00 |
| 11,470.00 | 11,590.00 | 11,710.00 | 11,830.00 | 11,950.00 |
| 11,590.00 | 11,710.00 | 11,830.00 | 11,950.00 | 12,070.00 |
| 11,710.00 | 11,830.00 | 11,950.00 | 12,070.00 | 12,190.00 |
| 11,830.00 | 11,950.00 | 12,070.00 | 12,190.00 | 12,310.00 |
| 11,950.00 | 12,070.00 | 12,190.00 | 12,310.00 | 12,430.00 |
| 12,070.00 | 12,190.00 | 12,310.00 | 12,430.00 | 12,550.00 |
| 12,190.00 | 12,310.00 | 12,430.00 | 12,550.00 | 12,670.00 |
| 12,310.00 | 12,430.00 | 12,550.00 | 12,670.00 | 12,790.00 |
| 12,430.00 | 12,550.00 | 12,670.00 | 12,790.00 | 12,910.00 |
| 12,550.00 | 12,670.00 | 12,790.00 | 12,910.00 | 13,030.00 |
| 12,670.00 | 12,790.00 | 12,910.00 | 13,030.00 | 13,150.00 |
| 12,790.00 | 12,910.00 | 13,030.00 | 13,150.00 | 13,270.00 |
| 12,910.00 | 13,030.00 | 13,150.00 | 13,270.00 | 13,390.00 |
| 13,030.00 | 13,150.00 | 13,270.00 | 13,390.00 | 13,510.00 |
| 13,150.00 | 13,270.00 | 13,390.00 | 13,510.00 | 13,630.00 |
| 13,270.00 | 13,390.00 | 13,510.00 | 13,630.00 | 13,750.00 |
| 13,390.00 | 13,510.00 | 13,630.00 | 13,750.00 | 13,870.00 |
| 13,510.00 | 13,630.00 | 13,750.00 | 13,870.00 | 13,990.00 |
| 13,630.00 | 13,750.00 | 13,870.00 | 13,990.00 | 14,110.00 |
| 13,750.00 | 13,870.00 | 13,990.00 | 14,110.00 | 14,230.00 |
| 13,870.00 | 13,990.00 | 14,110.00 | 14,230.00 | 14,350.00 |
| 13,990.00 | 14,110.00 | 14,230.00 | 14,350.00 | 14,470.00 |
| 14,110.00 | 14,230.00 | 14,350.00 | 14,470.00 | 14,590.00 |
| 14,230.00 | 14,350.00 | 14,470.00 | 14,590.00 | 14,710.00 |
| 14,350.00 | 14,470.00 | 14,590.00 | 14,710.00 | 14,830.00 |
| 14,470.00 | 14,590.00 | 14,710.00 | 14,830.00 | 14,950.00 |
| 14,590.00 | 14,710.00 | 14,830.00 | 14,950.00 | 15,070.00 |
| 14,710.00 | 14,830.00 | 14,950.00 | 15,070.00 | 15,190.00 |
| 14,830.00 | 14,950.00 | 15,070.00 | 15,190.00 | 15,310.00 |
| 14,950.00 | 15,070.00 | 15,190.00 | 15,310.00 | 15,430.00 |
| 15,070.00 | 15,190.00 | 15,310.00 | 15,430.00 | 15,550.00 |
| 15,190.00 | 15,310.00 | 15,430.00 | 15,550.00 | 15,670.00 |
| 15,310.00 | 15,430.00 | 15,550.00 | 15,670.00 | 15,790.00 |
| 15,430.00 | 15,550.00 | 15,670.00 | 15,790.00 | 15,910.00 |
| 15,550.00 | 15,670.00 | 15,790.00 | 15,910.00 | 16,030.00 |
| 15,670.00 | 15,790.00 | 15,910.00 | 16,030.00 | 16,150.00 |
| 15,790.00 | 15,910.00 | 16,030.00 | 16,150.00 | 16,270.00 |
| 15,910.00 | 16,030.00 | 16,150.00 | 16,270.00 | 16,390.00 |
| 16,030.00 | 16,150.00 | 16,270.00 | 16,390.00 | 16,510.00 |
| 16,150.00 | 16,270.00 | 16,390.00 | 16,510.00 | 16,630.00 |
| 16,270.00 | 16,390.00 | 16,510.00 | 16,630.00 | 16,750.00 |
| 16,390.00 | 16,510.00 | 16,630.00 | 16,750.00 | 16,870.00 |
| 16,510.00 | 16,630.00 | 16,750.00 | 16,870.00 | 16,990.00 |
| 16,630.00 | 16,750.00 | 16,870.00 | 16,990.00 | 17,110.00 |
| 16,750.00 | 16,870.00 | 16,990.00 | 17,110.00 | 17,230.00 |
| 16,870.00 | 16,990.00 | 17,110.00 | 17,230.00 | 17,350.00 |
| 16,990.00 | 17,110.00 | 17,230.00 | 17,350.00 | 17,470.00 |
| 17,110.00 | 17,230.00 | 17,350.00 | 17,470.00 | 17,590.00 |
| 17,230.00 | 17,350.00 | 17,470.00 | 17,590.00 | 17,710.00 |
| 17,350.00 | 17,470.00 | 17,590.00 | 17,710.00 | 17,830.00 |
| 17,470.00 | 17,590.00 | 17,710.00 | 17,830.00 | 17,950.00 |
| 17,590.00 | 17,710.00 | 17,830.00 | 17,950.00 | 18,070.00 |
| 17,710.00 | 17,830.00 | 17,950.00 | 18,070.00 | 18,190.00 |
| 17,830.00 | 17,950.00 | 18,070.00 | 18,190.00 | 18,310.00 |
| 17,950.00 | 18,070.00 | 18,190.00 | 18,310.00 | 18,430.00 |
| 18,070.00 | 18,190.00 | 18,310.00 | 18,430.00 | 18,550.00 |
| 18,190.00 | 18,310.00 | 18,430.00 | 18,550.00 | 18,670.00 |
| 18,310.00 | 18,430.00 | 18,550.00 | 18,670.00 | 18,790.00 |
| 18,430.00 | 18,550.00 | 18,670.00 | 18,790.00 | 18,910.00 |
| 18,550.00 | 18,670.00 | 18,790.00 | 18,910.00 | 19,030.00 |
| 18,670.00 | 18,790.00 | 18,910.00 | 19,030.00 | 19,150.00 |
| 18,790.00 | 18,910.00 | 19,030.00 | 19,150.00 | 19,270.00 |
| 18,910.00 | 19,030.00 | 19,150.00 | 19,270.00 | 19,390.00 |
| 19,030.00 | 19,150.00 | 19,270.00 | 19,390.00 | 19,510.00 |
| 19,150.00 | 19,270.00 | 19,390.00 | 19,510.00 | 19,630.00 |
| 19,270.00 | 19,390.00 | 19,510.00 | 19,630.00 | 19,750.00 |
| 19,390.00 | 19,510.00 | 19,630.00 | 19,750.00 | 19,870.00 |
| 19,510.00 | 19,630.00 | 19,750.00 | 19,870.00 | 19,990.00 |
| 19,630.00 | 19,750.00 | 19,870.00 | 19,990.00 | 20,110.00 |
| 19,750.00 | 19,870.00 | 19,990.00 | 20,110.00 | 20,230.00 |
| 19,870.00 | 19,990.00 | 20,110.00 | 20,230.00 | 20,350.00 |
| 19,990.00 | 20,110.00 | 20,230.00 | 20,350.00 | 20,470.00 |
| 20,110.00 | 20,230.00 | 20,350.00 | 20,470.00 | 20,590.00 |
| 20,230.00 | 20,350.00 | 20,470.00 | 20,590.00 | 20,710.00 |
| 20,350.00 | 20,470.00 | 20,590.00 | 20,710.00 | 20,830.00 |
| 20,470.00 | 20,590.00 | 20,710.00 | 20,830.00 | 20,950.00 |
| 20,590.00 | 20,710.00 | 20,830.00 | 20,950.00 | 21,070.00 |
| 20,710.00 | 20,830.00 | 20,950.00 | 21,070.00 | 21,       |



# Traditional vs DeLeveraging

Two approaches to managing debt. Two very different outcomes.  
The strategy you choose today shapes your financial future tomorrow.

## TRADITIONAL APPROACH

Replace debt with debt.



### PAY OFF EXISTING DEBT

Proceeds are used to pay off existing debt and incur new debt.



### MORE LEVERAGE

Higher loan-to-value results in greater overall leverage.



### FINANCING RISK

Exposure to lender requirements, covenants, and market conditions.



### LOWER INCOME

Higher debt service typically results in lower cash flow.



### REFINANCING RISK

Future refinancing may be required when debt matures.

VS



### PAY OFF DEBT

Utilize a Zero DST to generate the debt relief you need.



### LESS LEVERAGE

Lower loan-to-value results in reduced overall leverage.



### REDUCED FINANCING RISK

Non-recourse debt structure reduces financing risk.



### HIGHER INCOME

Lower or no debt service supports higher cash flow.



### NO REFINANCING ON INCOME DSTs

Long-term, non-recourse debt eliminates refinancing risk.

VS

VS

VS

VS



# What Is a Zero DST?

## A SPECIALIZED 1031 EXCHANGE STRUCTURE DESIGNED FOR DEBT REPLACEMENT

A Zero DST (Delaware Statutory Trust) is built for investors who need to replace debt as part of a 1031 exchange.



**The goal of a Zero DST is not to generate current income.**

Instead, cash flow is directed toward paying down the loan and growing the long-term value of the property—creating potential upside for investors over time.



**For investors with substantial debt replacement requirements,**

a Zero DST can play a unique and effective role within a comprehensive exchange strategy.



Zero DSTs are generally used as one component of a broader 1031 exchange strategy and may not be appropriate for all investors.





## ZERO DST

# Key Characteristics of a Zero DST

### A SPECIALIZED STRUCTURE DESIGNED FOR DEBT REPLACEMENT

A Zero DST is a specialized 1031 exchange structure designed to help investors satisfy debt replacement requirements without taking on new personal liability.

Rather than generating current income, the property's cash flow is directed toward paying down debt and building long-term equity within the investment.

For investors with significant debt replacement needs, a Zero DST can serve as an effective tool for completing an exchange while preserving flexibility for other investment objectives.



### THE STRUCTURE



#### INSTITUTIONAL-QUALITY PROPERTY

Tangible real estate assets in markets with strong fundamentals and long-term demand drivers.



#### INVESTMENT GRADE TENANT

Backed by strong, creditworthy tenants on long-term, triple-net leases for predictable cash flow.



#### HIGH LEVERAGE (80–90% LTV)

Structured with substantial non-recourse financing, allowing investors to generate significant debt replacement credit with a relatively small equity investment.



### HOW VALUE IS CREATED



#### NO CURRENT DISTRIBUTIONS

All cash flow is used to service and amortize any debt—resulting in no current distributions.



#### NON-RECOURSE DEBT

Financing is secured by the property alone, with no recourse to investors' personal assets.



#### RETURN GENERATED THROUGH AMORTIZATION & APPRECIATION

Debt amortization over time builds equity, while potential property appreciation enhances long-term value.

## IN ACTION

# De-Leveraging a 1031 Exchange

*Replace debt, create income, defer taxes.*

This example shows how a Zero DST and an Income DST portfolio work together to meet a 1031 exchange requirement—while unlocking debt-free income potential.

It's a thoughtful way to reduce leverage, simplify ownership, and strengthen cash flow for the long term.



### SAMPLE ASSUMPTIONS

This example is based on a \$1,000,000 property sale and \$500,000 of existing debt to be replaced.



### DEBT REQUIREMENT

**\$500,000**

Must be replaced  
to complete  
the exchange.

### 1 ZERO DST (REPLACES DEBT)



### INVESTMENT

**\$100,000**

In Zero DST

### DEBT CREDIT CREATED

**\$570,000**

(Non-Recourse)

### TOTAL VALUE

**\$670,000**

- ✓ Replaces and exceeds the \$500,000 debt requirement.

**ZERO DST STRUCTURE**  
85% Loan-to-Value (LTV)  
Non-Recourse Debt

### 2 INCOME DST PORTFOLIO (GENERATES INCOME)



### INVESTMENT

**\$400,000**

In Debt-Free Income DSTs

### RESULT

**\$400,000**

### DEBT-FREE INCOME PROPERTIES

- ✓ Higher income potential
- ✓ No refinancing risk
- ✓ No foreclosure risk to the Income DST portfolio.



### OUTCOME

### TOTAL VALUE REPLACED

**\$1,070,000**

Replaces \$500,000 debt  
and creates debt-free  
income potential.



**\$670,000**

Debt Replacement  
(Zero DST +  
Debt Credit)



**\$400,000**

Debt-Free Income  
Properties

*This material is for illustrative purposes only. Results will vary based on individual circumstances and market conditions.*



THE BENEFITS OF

# De-Leveraging a 1031 Exchange

By combining a Zero DST with a portfolio of income-producing DSTs, you can replace debt, reduce risk, and create a foundation for long-term financial strength.

1



## SATISFY 1031 DEBT REQUIREMENT

Replace the required debt with a Zero DST debt credit (up to 85% LTV) and successfully complete your exchange.

2



## ELIMINATE FINANCING RISK

Remove reliance on future financing, lender requirements, and refinancing risk.

3



## NON-RECOURSE FINANCING

Convert recourse debt to non-recourse debt, eliminating personal liability and exposing you to the asset—not the debt.

4



## INCREASE CURRENT INCOME

Invest remaining equity into debt-free income properties designed to generate consistent, stable cash flow.

5



## BUILD LONG-TERM STABILITY

Create a more resilient, income-focused portfolio positioned to withstand changing market conditions.

## CLIENT PROFILE

# Is This Right for You?

A Zero DST strategy is designed for investors who want to reduce risk, replace debt, and preserve more of their capital—while positioning themselves for long-term financial flexibility.

If the statements on this page reflect your goals, a Zero DST may be the right fit.



### YOU WANT TO REDUCE INVESTMENT RISK

You prefer conservative investments backed by strong tenants and long-term leases.



### YOU HAVE DEBT TO REPLACE

You're completing a 1031 exchange and need to replace existing debt in order to fully defer your taxes.



### YOU PRIORITIZE CAPITAL PRESERVATION

You want to protect your wealth with institutional-quality real estate and a focus on long-term stability.



### YOU SEEK RELIABLE INCOME

You want consistent, predictable income from high-quality real estate without the responsibilities of management.



CASE STUDY

# De-Leveraging a 1031 Exchange

*How One Investor Reduced Debt Exposure While Preserving Income Potential*

Following the sale of a highly leveraged investment property, the client faced a challenge common among many 1031 exchange investors: how to satisfy debt replacement requirements without taking on more leverage than they were comfortable carrying long term.

While the exchange generated substantial proceeds, the client's priorities had evolved. Rather than maximizing borrowing capacity, he wanted to reduce financing exposure, increase portfolio stability, and improve the predictability of future income.

The goal was not simply to complete the exchange. The goal was to reposition a significant portion of his net worth into investments that better aligned with his long-term objectives while maintaining full tax deferral.



## CLIENT BACKGROUND

- Completing a 1031 exchange following the sale of a leveraged property
- Investment priorities had shifted toward stability and income
- Desired less financing exposure and simpler ownership
- Sought greater predictability and long-term portfolio resilience



## THE CHALLENGE

- Approximately \$2 million of debt needed to be replaced to satisfy exchange requirements
- Many debt-free income-producing options did not provide sufficient leverage
- The client wanted to avoid unnecessary debt while preserving full tax deferral
- A solution was needed that addressed the debt requirement without increasing overall portfolio risk



## TRANSACTION SUMMARY



SALE PRICE  
\$5,000,000



EQUITY  
\$3,000,000



EXISTING DEBT  
\$2,000,000

## CASE STUDY

# Strategy Implementation & Outcome

## THE STRATEGY



**\$250,000**  
ZERO DST

Small allocation to  
debt replacement



**\$2,000,000**  
DEBT CREDIT

Generated approximately  
\$2 million of debt  
replacement credit



**\$2,750,000**  
DEBT-FREE DSTS

Majority of exchange  
equity remained in  
income-focused  
properties

## THE OUTCOME

The debt replacement requirement was fully satisfied while allowing most of the exchange proceeds to remain invested in lower-leverage, income-focused properties.

Instead of carrying financing risk across the entire portfolio, leverage was concentrated in a relatively small portion of the exchange structure.

The result was a portfolio more closely aligned with the investor's actual priorities rather than the mechanical requirements of the exchange.

## THE RESULT

- ✓ Debt replacement requirement satisfied
- ✓ Greater allocation to debt-free properties
- ✓ Reduced financing exposure
- ✓ Improved income potential
- ✓ Simplified ownership structure
- ✓ Portfolio aligned with long-term objectives



## INVESTOR INSIGHT

*A 1031 exchange does not always require replacing debt throughout an entire portfolio. In certain situations, a relatively small allocation to a debt replacement solution can allow the majority of capital to remain invested in properties that better align with an investor's income goals, risk tolerance, and long-term objectives.*





## GENERAL DISCLOSURE:

All investing involves risk of loss of some or all principal invested. Past performance is not indicative of future performance. There can be no guarantee that any investment or strategy will achieve its stated objectives. Speak to your tax and/or financial professional prior to investing. Securities and advisory services through Emerson Equity LLC, member FINRA and SIPC and a registered investment adviser. Emerson is not affiliated with any other entity identified herein.



## REAL ESTATE / 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** — These assets 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.
- **Stated tax benefits** — Any stated tax benefits are not guaranteed and are subject to changes in the tax code. Speak to your tax professional prior to investing.