



Tax Deferral Solutions for Selling Real Estate





TABLE OF CONTENTS

- 1 **about** Reef Asset Advisors
- 2 **what is** a 1031 Exchange?
Key 1031 **guidelines**
- 3 The 1031 **made easy** through
the Delaware Statutory Trust
- 4 **why** consider a 1031 Exchange
into a Delaware Statutory Trust?
- 5-7 **hypothetical**
DST 1031 Exchange examples
- 8 What are the **key steps**
in a 1031 Exchange?
- 9 Risks and Disclosures

about US



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At Reef Asset Advisors, we concentrate on customized solutions to 1031 exchanges through non-management properties that focus on tax deferral, income and wealth preservation. We provide the knowledge, strategies and relationships needed by our clients to allow us to guide them from start to finish in their exchange. We emphasize the deferral of your tax burden, preservation of your capital and creating or replacing retirement income. Our personalized guidance allows you to make what we feel are the best decisions for your long and short term goals.

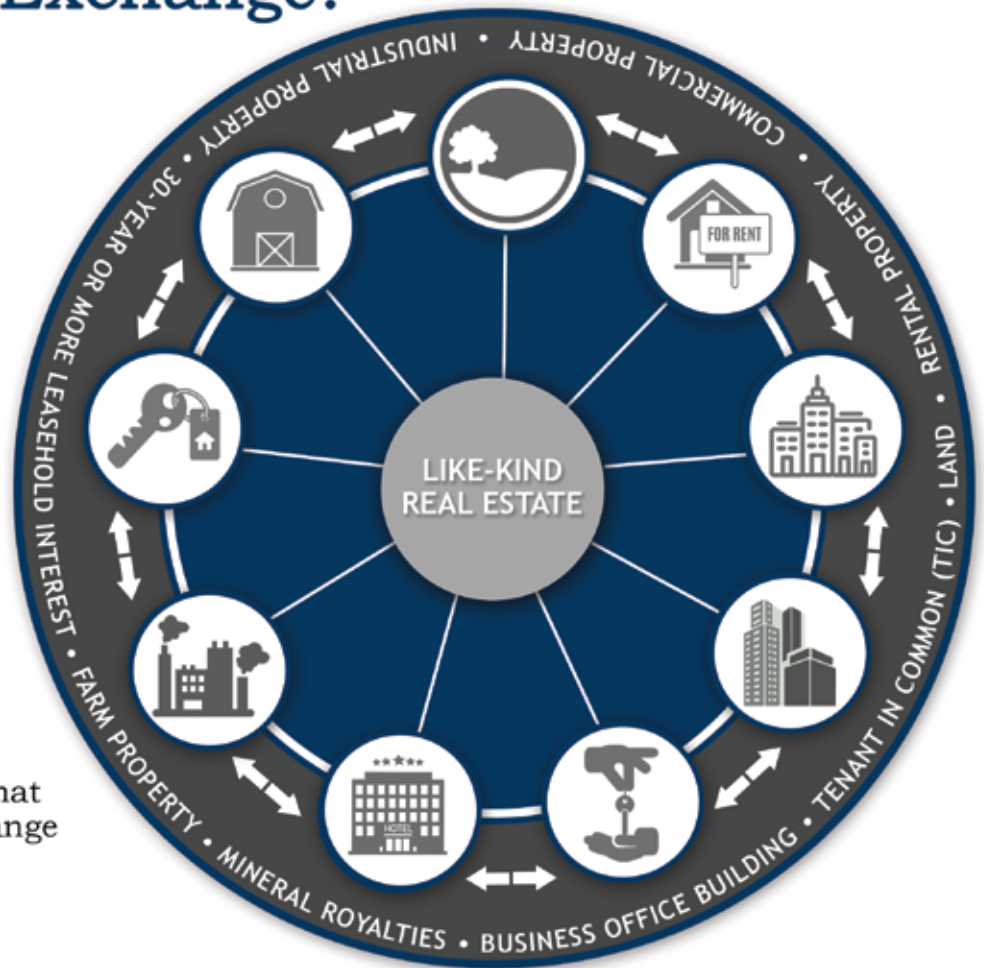


what is a
1031

Exchange?

Section 1031 of the IRS code provides an alternative strategy for deferring the capital gains tax that may arise from an investor's business/investment property sale. By exchanging the property for a like-kind real estate, property owners may defer their Federal taxes and use all of the proceeds for the purchase of a replacement property.

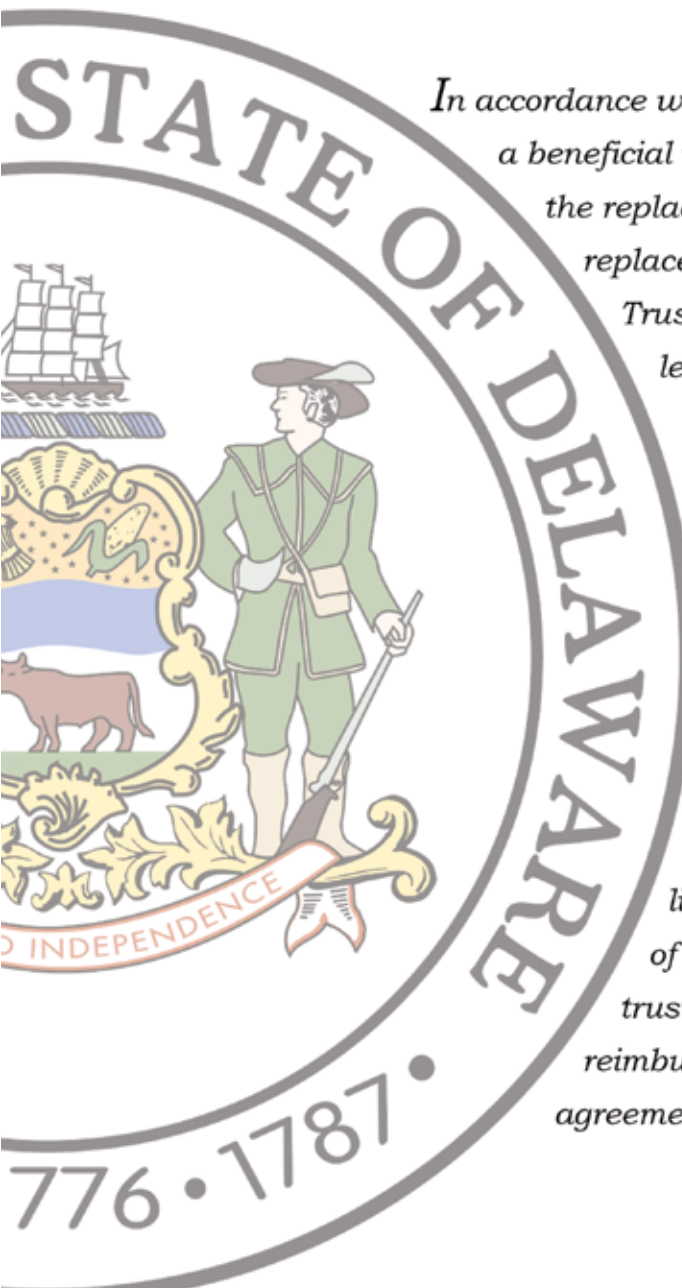
It is important to remember that you can NOT do a 1031 exchange with your primary residence.



Key 1031 Guidelines

- Seller cannot receive or control the net sale proceeds—the proceeds must be deposited with a qualified intermediary
- Replacement property must be like-kind to the relinquished property
- The replacement property must be identified within 45 days from the sale of the original property
- The replacement property must be acquired within 180 days from the sale of the original property
- The cash invested in the replacement property must be equal to or greater than the cash received from the sale of the relinquished property
- The debt placed or assumed on the replacement property must be equal to or greater than the debt received from the relinquished property

“The 1031 Made Easy Through the Delaware Statutory Trust (DST)”



*In accordance with the Internal Revenue Service’s Revenue Ruling 2004-86, a beneficial interest in the **Delaware Statutory Trust**, which holds the replacement property, can be considered **“like-kind”** replacement property in an exchange. The Delaware Statutory Trust, also referred to by its nickname **DST**, is a separate legal entity drafted as a trust under the laws of the state of Delaware. The DST is also known as a **Delaware Business Trust**. The Delaware Statutory Trust is considered to be an **investment trust** that will be classified as a **“pass thru”** entity and a **“disregarded”** entity so that any and all income tax consequences will “pass thru” to the investor’s individual income tax return. The rights and obligations of the investors in a DST will be governed by the DST’s trust agreement. Typically, investors have limited voting rights over the operation and ownership of any properties owned by the DST. In addition, the trustees of the DST will be entitled to certain fees and reimbursements, as set forth in the applicable trust agreement.*

Why consider a 1031 Exchange into a Delaware Statutory *Trust*?

- Defer capital gains tax
- Relieve the burden of active real estate ownership and management
- Exchange a non-cash flow producing property into a cash flow producing property
- Diversify into a portfolio of properties
- Diversify by geographical location and property type
- Obtain ownership in higher-grade commercial properties
- Replace recourse debt with non-recourse debt
- Facilitate estate planning

Delaware Statutory Trusts (DST)

Often used in multiple-owner, securitized programs, benefits of the DST structure exist for both the investor (exchanger) and, if a property is financed, the lender. Among these benefits are the following:

- The lender makes only one loan to one borrower (the DST).
- The trust agreement is written to prevent creditors of the investor from reaching the DST's property, therefore making it bankruptcy remote.
- The DST shields the investor from any liabilities with respect to the property.
- Investors have no operational control over the management of the DST or its property. Investors can invest as little as \$100,000.
- Because investors have no operational control over the DST, the lender has no need to perform due diligence on individual investors.
- Because investors have no operational control over the DST, investors should not be required to sign any indemnifications or guarantees.



Multi-Family Apartment Complex

[\$6,000,000]



Tom and Megan owned their apartment complex for 19 years, originally purchased for \$2,000,000. They are now in their sixties and are tired of dealing with the “tenants, toilets and trash.” They are ready to retire and no longer want the burden of managing real estate. Over the years they have taken some equity out of the property and now have a loan of \$3,000,000. Tom and Megan want to sell their complex but do not want to have to pay the large capital gain upon sale. They enjoy the income from the property and want it to continue during their retirement.

Tom and Megan’s SOLUTION: Tom and Megan sell their property and diversify their proceeds into 3 Delaware Statutory Trusts. The DSTs hold multiple asset classes which allow them to diversify their real estate portfolio. They are able to defer their large capital gains, replace their debt requirement without any underwriting or personal guarantees and do not have the burden of managing real estate. The DST income replaced their apartment complex income which is deposited directly into their bank account each month. Tom and Megan can now enjoy their retirement without the burden of managing the multi-family complex while still receiving income and deferring their taxes.



	Triple Net Lease DST 3 Separate Single Credit Tenant Buildings	Storage Unit DST 5 Facility Locations 2,500 Total Units	Multi-Family DST 3 Complex Portfolio 1,450 Total Units	Totals
1031 Exchange Equity	\$1,000,000	\$1,000,000	\$1,000,000	\$3,000,000
DST Loan to Value %	55%	50%	44%	
Replacement Debt	\$1,222,222	\$1,000,000	\$ 785,714	\$3,007,936
Total Purchase	\$2,222,222	\$2,000,000	\$1,785,714	\$6,007,936
Projected Cash on Cash Return	5.50%	6%	5%	
Cash Flow to Investor	\$55,000	\$60,000	\$50,000	\$165,000



Rental *Beach House*

[\$1,500,000]

Patrick and Kelsey purchased their beach house on the west coast over 15 years ago. Through the years their 2 children moved to the east coast for jobs. Patrick and Kelsey retired 3 years ago and have been renting the beach house out due to lack of use and enjoying the extra rental income. They want to be closer to their children and grandchildren and plan to move to the east coast and sell their beach house. Patrick and Kelsey do not have any debt on the property and are worried about the tax burden since they have a substantial gain.

Patrick and Kelsey's Solution: *Patrick and Kelsey sell their beach house and the proceeds go directly to their qualified intermediary while they look for a Delaware Statutory Trust options. They like medical office properties due to the long term leases, steady cash flow and growing age of the baby boomer population. Patrick and Kelsey decide to perform a 1031 exchange and invest their proceeds from the sale into a DST with 4 medical office properties. The DST has no debt and is diversified across 4 different tenants in 4 separate locations. Patrick and Kelsey move to the east coast to be with their children and grandchildren, defer the taxes on their sale and now receive monthly income deposited directly into their bank account.*



*Medical Office DST
4 Separate Tenants
Across 4 Locations*

1031 Exchange Equity	\$1,500,000
Replacement Debt	No Debt
Projected Cash on Cash Return	5.2%
Cash Flow to Investor	\$78,000

Highly Leveraged Warehouse

[\$3,000,000]



Joe has owned a very successful distribution company for over 20 years and has been approached by a larger competitor to buy his company. Joe has been interested in retiring and sees this as a perfect opportunity to exit. His one concern is the warehouse he owns that he will sell with the company. Joe has taken equity out over the years to successfully expand his company and would owe significant taxes upon sale due to the capital gain and depreciation he has taken over the years. Joe does not want pay the large tax liability or go through the process of obtaining new debt in order to buy a replacement property to successfully complete a 1031 exchange.

Joe's Solution: *Joe sells his company and his warehouse to his larger competitor so he can slow down and retire. He exchanges his proceeds from the sale of the warehouse into a highly leveraged pharmacy DST that has 8 credit tenants with the leases backed by their national company.*

The DST pays Joe monthly income deposited directly into his bank account. However, most of the cash flow coming off of the properties concentrate on paying down the loan on the properties. Joe did not have to go through any underwriting by a bank to replace the debt in his 1031 exchange, the debt is non-recourse, he is receiving some monthly cash flow and he is building equity in the DST due to cash flow paying down the debt.



Pharmacy Portfolio DST

Highly Leveraged
8 Separate Pharmacies

1031 Exchange Equity	\$750,000
DST Loan to Value %	75%
Replacement Debt	\$2,250,000
Total Purchase	\$3,000,000
Current Yield	8.00%
Projected Cash on Cash Return	4.00%
Cash Flow to Investor	\$30,000

What are the Key Steps in a 1031 Exchange?

Step 1: Identify a Qualified Intermediary

A Qualified Intermediary, or "QI" is a company that is in the full-time business of facilitating Section 1031 tax-deferred exchanges.

The use of an experienced QI can significantly reduce the complexity of an exchange by assuring the proper execution of required documentation. It is important and required to work with a QI before close on your relinquished property. The QI will help facilitate the sale of the relinquished property, identify a replacement property and purchase the replacement property. The QI is responsible for providing guidance on the critical time lines during the exchange.

Step 2: Close on Your Property

The Seller cannot receive or control the net proceeds

At the closing the sale proceeds will be transferred to the Qualified Intermediary. During the exchange it is imperative that the seller does not take control of the proceeds. It is important to know that taking control of cash or other proceeds before the exchange is complete may disqualify the entire transaction from like-kind exchange treatment and make ALL gain immediately taxable.

Step 3: Identify One or More Like-Kind Replacement Properties

The replacement property must be identified within 45 days from the sale of the original property.

Property Identification is done through the Qualified Intermediary. The replacement property must be identified in a written document, known as the "Identification Notice."

Step 4: Acquire One or More Replacement Properties

The replacement property must be acquired within 180 days from the sale of the original property.

The cash invested in the replacement property must be equal to or greater than the cash received from the sale of the relinquished property. The debt placed or assumed on the replacement property must be equal to or greater than the debt on the relinquished property.



RISKS & DISCLOSURES

DST 1031 properties are only available to accredited investors (generally described as having a net worth of over \$1 million dollars exclusive of primary residence) and accredited entities only. There are material risks associated with the ownership of real estate and Delaware Statutory Trust (DST) properties, including but not limited to, tenant vacancies, loss of entire principal amount invested, and that distributions, potential cash flows, returns, and appreciation are not guaranteed. Diversification does not guarantee profits or guarantee protection against losses. Because investors situations and objectives vary this information is not intended to indicate suitability for any particular investor. All information provided is for informational purposes only. The material contained herein does not constitute an offer to sell and is not an offer to buy real estate properties or securities. This material does not constitute tax or legal advice. All investors should speak with their own tax and legal advisors before considering any real estate investments. Securities products offered through Concorde Investment Services, LLC (CIS), member FINRA/SIPC. Advisory Services through Concorde Asset Management, LLC (CAM), an SEC Registered investment adviser. Reef Asset Advisors and 1031 Exchange DST are independent of CIS and CAM.



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