A REAL ESTATE INVESTOR'S GUIDE TO

DST 1031 Exchanges

THE KEY TO UNLOCKING PASSIVE PROPERTY INCOME!

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Clear Direction INVESTMENTS
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INTRODUCTION

So, you've decided to sell a property you own. Congratulations! There are a number of reasons why you want to sell. In the long run, though, property sales could play a major role in helping you achieve your financial goals.

Many real estate investors use a 1031 exchange to swap their property for another so they can defer capital gains taxes and recapture depreciation.

Unfortunately, many investors run into one of two problems when executing a standard 1031 exchange – both of which could have an adverse effect on your finances.

PROBLEM 1: LACK OF HIGH-QUALITY PROPERTY OPTIONS. There may be a dearth of real estate choices that you are comfortable with or that accord with your financial goals when swapping your previous property for one of "like kind", which a 1031 exchange requires.

PROBLEM 2: NO DESIRE – OR ABILITY – TO CONTINUE MANAGING A PROPERTY. let's face it: While investing in real estate can be lucrative, *managing* real estate can be exhausting, time-consuming, and a drain on your resources. That's especially true during the age of COVID-19!

1031 exchanges are complicated enough without having to add either of these problems on top. After all, 1031s involve a lot of moving parts and a myriad of rules and tax implications to navigate. The last thing a real estate investor needs is another headache.

Fortunately, there is a solution. In recent years, more and more investors have been turning to a *different* type of 1031 exchange. One that still allows you to defer taxes while reducing the stress of owning property.

Introducing the DST 1031 Exchange: *Landlord-style assets without the landlord-style hassle!*

In this short guide, we'll look at what a DST is, how it helps real estate investors defer taxes, diversify their portfolio, and reduce property-related headaches.

WHAT IS A DST?

A **Delaware Statutory Trust**, or **DST**, is a type of legal entity that enables investors to own **fractional interest** in a property rather than buy it outright.

With a DST, the investor takes a **passive ownership** of the property while handing off the day-to-day operations to someone else – usually a professional real estate management firm.

Conducting a 1031 exchange via DST essentially solves both the problems mentioned above. First, because a DST involves fractional ownership, you get access to more real estate options. This includes investment-grade properties that may be too expensive for most individuals to buy.

DST 1031 properties are only available to accredited investors. (See disclosure on page 12.)

(Examples include "A-Grade" apartments or long-term net leased properties.)

Second, a DST eliminates the hassle of owning a rental property like a house, apartment complex, or commercial building. Instead, you can take advantage of the passive income that results from capital appreciation *without* the stress of actually managing or overseeing the property.

A DST is also useful for cases when, after a 1031 exchange, you still have money left over that you want to defer taxes on. Through a DST, you can potentially invest that money into other types of assets if you so choose.

But that's just the tip of the iceberg. DSTs come with other benefits, too, which you'll see on the next page!

There are material risks associated with investing in DST properties and real estate securities, including liquidity, tenant vacancies, general market conditions and competition, lack of operating history, interest rate risks, the risk of new supply coming to market, and softening rental rates, general risks of owning/operating commercial and multi-family properties, short term leases associated with multi-family properties, financial risks, potential adverse tax consequences, general economic risks, development risks, long hold periods, and potential loss of the entire investment principal.

BENEFITS OF USING DSTs

PASSIVE INCOME

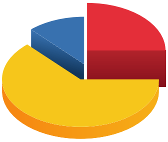
Since the day-to-day property management is overseen by a sponsor, DSTs can provide genuine passive income if the property value appreciates.

LIABILITY PROTECTION

With DSTs, the investor holds fractional ownership in a *trust* as opposed to owning the property outright. This helps shield the investor from liability.

LOWER MINIMUM INVESTMENT

DSTs can provide access to higher quality properties with a lower minimum investment, giving investors real estate options they otherwise might not have.



DIVERSIFICATION

Owning property helps diversify your portfolio, and DSTs are no exception. Additionally, DSTs enable you to invest any "leftover" money into other assets.

SHORT TIME PERIOD

The same exchange rules apply to DSTs as other investment properties; i.e. 45 day ID period/180 days to close.

This investment is speculative, is illiquid, and carries a high degree of risk, including the potential loss of the entire investment.

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HOW A DST WORKS

STEP ONE

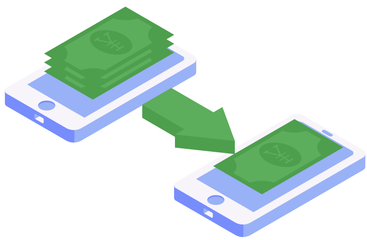
The investor agrees to a property exchange with a qualified intermediary

STEP TWO

Investor sells current property & closes thru same escrow channels as other real estate transactions.

STEP THREE

Funds from the sale are transferred to qualified intermediary



STEP FOUR

Intermediary uses funds to purchase new property on investor's behalf

STEP FIVE

When process is complete, investor owns passive, fractional interest in a trust (DST) that wholly owns the new property

THINGS TO KNOW

As you can see, DSTs can be a powerful way to complete a 1031 exchange. But they aren't for everyone, and there are definitely things to watch out for.

First of all, *any* form of 1031 exchange can be complicated to execute, and that's definitely true of DSTs as well. So, before you commit, it's critical that you do your due diligence and work with a qualified, experienced professional. Failure to do this might result in unintended tax consequences.

Second, *all* investments involve some element of risk, and DSTs are no exception. Real estate investors should know going in that there are different liquidity timelines with DSTs.

Finally, it's always possible the tax code could change in the future, which might affect the tax benefits of a 1031 exchange. For that reason, always consult with a tax professional before making a decision!

SUMMARY

With a DST, the investor can 1031 an existing property in exchange for fractional ownership of a new one through a trust.

DSTs enable the investor to earn passive income through a hard asset *without* the time, stress, or expense of managing a property.

As with a standard 1031 exchange, the investor can defer taxes on the proceeds of the sale.

DSTs give the investor more options thanks to lower minimum investments and access to investment-grade properties.

DSTs can be complicated, requiring the help of a licensed, experienced professional.

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WANT TO LEARN MORE?

Looking to 1031 exchange a property in the near future? Interested in earning passive income from investment-grade properties *without* the hassle of being a landlord? Let's talk! We've helped many real estate investors execute 1031 exchanges via DSTs, and we'd be happy to help you.

Call or visit our website to schedule a free consultation today!

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The information herein has been prepared for educational purposes only and does not constitute an offer to purchase or sell securitized real estate investments. DST 1031 properties are only available to accredited investors (typically defined as having a $1 million net worth excluding primary residence or $200,000 income individually/$300,000 jointly of the last three years; or have an active Series 7 General Securities, Series 82 Private Securities representative, or Series 65 Uniform Investment Advisor Law. Individuals holding a Series 66 Uniform Combined State Law do not fall under this definition) and accredited entities only. If you are unsure if you are an accredited investor and/or an accredited entity, please verify with your CPA and Attorney.

There are risks associated with investing in real estate and Delaware Statutory Trust (DST) properties including, but not limited to, loss of entire investment principal, declining market values, tenant vacancies and illiquidity. Potential cash flows/returns/appreciation are not guaranteed and could be lower than anticipated. 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. This does not constitute as tax or legal advice. Securities offered through Concorde Investment Services, LLC (CIS), member FINRA/SIPC. Advisory services through Concorde Asset Management, LLC (CAM), an SEC registered investment adviser. Clear Direction Investments is independent of CIS and CAM.

IRC Section 1031, IRC Section 1033 and IRC Section 721 are complex tax concepts, therefore you should consult your legal or tax professional regarding the specifics of your particular situation.