14 REASONS

FOR OWNERS OF A HIGHLY APPRECIATED PROPERTY TO USE A DELAWARE STATUTORY TRUST

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Tax planning, retirement planning, investment positioning, 1031 Exchanges, and estate preservation are the core focuses of Berry Financial Group. This allows us to integrate all aspects of your financial life into a comprehensive plan.

Real Estate investing can be extremely rewarding financially. If you have succeeded in your prior real estate investment activities, you may be faced with a new challenge; how do you sell your property without paying income taxes, continue to receive monthly rental income and eventually any appreciation, yet not have to continue taking on the responsibility of property management? The following are examples of when, if you are an "Accredited Investor", a DST may be the solution you are looking for. Currently, REITs, partnerships and LLCs do not qualify for tax-deferral, but DSTs do qualify.

1. RETIREMENT STRATEGY

Most investment property is currently owned by baby-boomers, or those 55+. Many of these investors need an exit strategy to fully retire and trade the Terrible T's *(tenants, toilets, trash, turmoil)* for the Terrific T's *(travel, time, tax savings)*. DSTs provide a solution that enables the investor to list their investment properties for sale, where previously they thought they were stuck due to income tax consequences.

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2. AVOID FINANCING OBSTACLES

Many investment properties currently have debt. This can create a problem if the investor doesn't want to or cannot qualify for a loan.

EXAMPLE: Mary owed $500k on the her four rental houses. The full $1 million needs to be reinvested, with at least $500k in new debt. Or, DSTs can be selected with underlying debt in place and the investor will not need to be individually qualified with a lender, won't have to take out a loan, and is not personally liable for any of the debt. This liability is assumed by the DST sponsor.

3. SCRAPS APPROACH

Investor wants to do an exchange as in the previous example, but the office building replacement property is being purchased for $850k, not the $1 million needed for full replacement.

EXAMPLE: By placing the remaining $150k into a DST, the issue is solved.

4. BACKUP PLAN

In a very hot real estate market, it is easier to find buyers than it is to find suitable replacement properties. But what if that deal falls through in an attempted 1031 exchange? Mary could have identified up to three properties, one being a DST, as a backup plan.

EXAMPLE: Mary found a small office building selling for $1 million as a suitable replacement. Within 45 days of the sale of the rental houses, she identifies this building. She also identifies one more property, a DST just in case the deal falls through.

5. MAINTENANCE COSTS

Generally, highly appreciated investment property has been held many years, and the structure may be old. Old structures often are saddled with high periodic repair costs, potentially causing risk to owner cash flow.

EXAMPLE: 80-year old Frank has questions on his older 69-unit apartment. He keeps $6k cash flow per month, but in reality it was zero due to high repair costs. With a DST comes newer properties, which could offer initial cash flow of over $12k per month, with repair reserve monies already in place.

6. UNPRODUCTIVE REAL ESTATE

1031 exchanges work in situations involving "investment real estate" for "investment real estate" of any kinds.

EXAMPLE: Frank and Susan own raw land worth $1 million, and pay $15k per year in property taxes, with no rental income. They use a DST to exchange into an apartment building, medical office buildings, and some fully rented self-storage locations. Annual cash flow before appreciation gains are now in excess of $40k per year, instead of losing $15k per year.

7. SWAP TIL YOU DROP

As we know, using 1031 exchanges simply defers income tax from the sale of real estate. However, there are situations where income tax can be permanently eliminated, and as a side benefit, additional current deductions can be taken.

EXAMPLE A: Tom and Teresa are 80 years old and do a $1 million DST to defer a $900k taxable gain. Eight years later, this DST is sold, and their share of the proceeds was $1.25 million, which they rolled into another DST. Tom passed away in the 6th year. In the 7th year, the DST was sold, yielding $1.5 million for Teresa. She can claim the step-up in basis, and eliminate virtually all-taxable gains from this property, as well as depreciation recapture taxes, permanently. She can put the $1.5 million in the bank, tax-free, or she can do another DST and be eligible to use the new high basis for large depreciation deductions.

EXAMPLE B: In addition, while they owned the DST, additional accelerated depreciation was taken, reducing their taxes. The sponsor of the DST providing the accelerated depreciation used a"cost segregation study".

8. ONLY ONE LANDLORD IN HOUSEHOLD

Often, married couples are not both wanting to be a landlord. In our example, Fred likes doing it, but knows his 75-year-old wife would not want to deal with rental houses.

EXAMPLE: Rather than run the risk of his wife having to inherit property management duties, a DST could take them both out of the property management business, eliminating that risk.

9. DIVERSIFY, DIVERSIFY, DIVERSIFY

Owning rental real estate can be great for one person, a financial disaster to another, depending on where that real estate is located. We've witnessed real estate empires tumble due to poor local economies.

EXAMPLE: Bill felt good about the area where his rental house empire was situated but concerned having all his eggs in a 10-block radius. In addition, prices had appreciated greatly, so he was concerned about being in a new real estate bubble. Using the DST, he could be partially invested in apartment buildings and medical office buildings in five different states.

10. ESTATE PLANNING TOOL

Often, beneficiaries of an estate cannot agree on what to do with income properties. In this case, Tom and Teresa have three children; one has a drug problem and wants the cash, the other two like the income and underlying assets.

EXAMPLE: Once a DST is funded, it's so much easier to take away the liquidation temptation, and potentially manage affairs through the use of trusts for years to come.

11. A RETIREMENT PLAN

Mike feels like he has two houses that are a landlord's dream, never a problem, but two other houses are where all his problems originate.

EXAMPLE: Rather than DST all four rental houses, he sells only his two "dogs", and keeps the remaining two. He will sell the two "dog" properties as the current renters move out.

12. INVESTING LIKE BUFFETT

The local real estate market has been on fire and Mike feels like it may be close to topping out. He originally bought low, now he wants to sell high like Buffett does.

EXAMPLE: Even if the market continues to rise, an investor may see similar appreciation in his new, more diversified real estate portfolio located in other parts of the country.

13. IMMINENT DOMAIN OR CASUALTIES

Rather than doing a 1031 exchange, IRS Code Section 1033 allows for deferral of gains in these cases.

EXAMPLE: Tony had his property forcibly purchased by the county transit authority; another house was lost due to fire. Each of these could use a DST to defer the income tax.

14. GOLDEN YEARS

You have more equity and cash flow than you can spend in your remaining lifetime. What you don't have enough of is time.

EXAMPLE: William has used 1031 exchanges into various DSTs to clear his plate from obligations, improve asset diversification, solidify cash flow, defer or avoid income taxes, and provided a great legacy asset for his spouse and eventually their kids though the use of the DST.

HOW CAN WE HELP?

Like any investment in Real Estate, there are good DSTs and some that aren't so good. We work with others that are uniquely qualified to analyze financials from potential DST providers. Through them, we have the ability to vet companies, and the individual real estate investments. The investments are run through multiple data points for analysis such as yield, liquidity, debt to equity, property type, demographics, property age, exit strategy, etc. To invest in a DST, you need to use a licensed investment advisor representative. We are aligned with your interest to find the best solution in selecting a DST.

MEET OUR CONTRIBUTORS

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14 Reasons for Owners of Highly Appreciated Property to Use a Delaware Statutory Trust was provided to DST Sherpa as a courtesy from Brian Evans, CPA/PFS.

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Top 30 Advisor Under the Age of 30 by ThinkAdvisor Magazine, Specializes in Developing Strategies That Create Tax-Free Money For Clients

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All examples are for hypothetical purposes only. Results may vary.