CORCAPA 1031 ADVISORS

Specialists in 1031 Exchange Replacement Property

# The 1031 Exchange Solution

**Utilizing DSTs and TICs for passive, diversified, real estate investing.**

# Defer Capital Gains Tax with 1031 Exchange

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## IRC Section 1031 Exchange

The IRS allows investors to sell rental properties, business properties, and land that was purchased for investment purposes and defer all capital gains taxes via IRC Section 1031. This is one of the most effective tax strategies available in the tax code and can allow investors to grow wealth using continual 1031 Exchange tax deferral strategies.

IRC 1031 is defined as: No gain or loss shall be recognized on the exchange of property held for productive use in a trade or business or for investment if such property is exchanged solely for property of like-kind which is to be held either for productive use in a trade or business or for investment.

Many assume that like-kind exchange means you must exchange from the same type of property to another property of the same type. However, as long as the relinquished property was held for investment, an exchanger could sell their property and reinvest the proceeds in an apartment community, industrial building, storage units, or any real property being used for business or investment purposes. For example, one can exchange farmland for

## 1031 Exchange Timeline

There are specific timelines and procedures that must be followed to take advantage of the benefits of a 1031 exchange. Time limits cannot be extended for any circumstance or hardship except in the case of presidentially declared disasters.

Exchangers have 45 days from the date they sell the relinquished property to identify potential replacement properties. Replacement properties must be clearly described in the written identification, signed by the exchanger and delivered to the qualified intermediary.

Identification can be under three methods: The Three Property Rule, The 200% Rule and The 95% Rule - Please inquire with your tax advisors or Corcapa 1031 Advisors for details on evaluating identification methods.

Replacement property must be received and the exchange completed no later than 180 days after the sale of the exchanged property or the due date (with extensions) of the income tax return for the tax year in which the relinquished property was sold, whichever is earlier.

The replacement property received must be substantially the same as property identified within the 45-day limit described above.


**180 DAY TIMELINE**

All days are calendar days, regardless of whether the day falls on a holiday or weekend.

# Evaluating Capital Gains Taxes

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| | OPTION 1<br>Sells Property & Pays Capital Gains Taxes | OPTION 2<br>Completes 1031 Exchange & Defers Capital Gains Taxes |
|---|---|---|
| Purchase Price | $500,000 | $500,000 |
| Depreciation | $350,000 | $350,000 |
| Adjusted Cost Basis | $150,000 | $150,000 |
| Sales Price | $1,500,000 | $1,500,000 |
| Total Taxable Gain | $1,350,000 | $1,350,000 |
| Federal Long-Term Capital Gain Liablity (20% of $1 Million) | $200,000 | $0 |
| State Tax (California's would be 13.3% of $1 million, Your state tax may vary) | $133,000 | $0 |
| Net Investment Income Tax (3.8% of $1,350,000) *Consult your tax advisor to see if your property is subject to the 3.8% tax | $51,300 | $0 |
| Depreciation Recapture Tax (25% of $350,000 depreciation) | $87,500 | $0 |
| Total Taxes Due | $471,800 | $0 |
| Net Proceeds for Investment | $1,028,200 | $1,500,000 |

**The Net Result is tax-defferal of $471,800, allowing for reinvestment of the full $1,500,000.**

*Corcapa does not provide tax advice, so please confirm your specific tax scenario with your tax and legal advisor.

## Holdings of IRS Revenue Ruling 2004-86

*"(1) The Delaware Statutory Trust is an investment trust, under § 301.7701-4(c), that will be classified as a trust for federal tax purposes. (2) A taxpayer may exchange real property for an interest in the Delaware Statutory Trust without recognition of gain or loss under Section 1031, if the other requirements of Section 1031 are satisfied."*

# Three Basic Steps for Investors with a Property to Exchange

For a fully deferred tax free exchange, one needs to purchase a replacement property of equal or greater value, reinvest all net proceeds/equity, and obtain debt that is equal or greater to the value of the debt on the relinquished property (or add cash to offset any debt reduction).

**1**

Exchanger sells property, known as the relinquished property, and proceeds are escrowed with a Qualified Intermediary (QI)

**2**

Qualified Intermediary, through a written agreement with the investor, transfers funds for purchase of replacement property

**3**

Exchanger receives beneficial interest in a DST

# Like-Kind Real Estate

The property you sell and the replacement property you purchase must meet certain requirements to qualify for a 1031 Exchange. Both properties must be held for use in a trade or business or for investment. Both properties must be similar enough to qualify as "Like-Kind."

Property types that are considered to be "Like-Kind" properties and are eligible for 1031 Exchange are:

- Multifamily Apartments
- Healthcare
- Self-Storage Facilities
- Retail Centers
- Industrial Warehouses
- Student Housing
- Oil and Gas
- Agriculture/Farmland

Any real estate held for productive use in a trade or business or for investment purposes is considered like-kind. A primary residence would not fall into this category, however, vacation homes or rental properties may qualify.

# 1031 Exchange Property Types

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## Commercial

Investors can 1031 exchange into commercial properties such as industrial and manufacturing facilities like an Amazon Distribution Facility, a self-storage facility, a retail shopping center, or an office building.

## Residential

Investors can 1031 exchange into residential multifamily properties such as 300-unit class A luxury multifamily facilities, 55+ active living communities, or student housing properties.

## Agricultural

Investors can 1031 exchange from farmland into residential multifamily properties or the reverse, where farm owners can sell farmland and reinvest proceeds into residential multifamily communities.

## Oil & Gas

Investors can 1031 exchange from traditional property into oil and gas investments as working interests or royalty interests. We have had clients sell inherited royalty interest owned for decades and reinvest in income-producing multifamily properties.

## DST
(Delaware Statutory Trusts)

Investors can 1031 exchange from traditional property into DSTs of any type of asset class such as multifamily or self-storage.

## TIC
(Tenant-in-Common)

Investors can 1031 exchange into TIC ownership of properties in a variety of asset classes such as self-storage, Amazon or Costco tenanted industrial facilities, or even senior care facilities.

# 1031 Exchange Frequently Asked Questions

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## 1031 Exchange FAQs

### Q HOW DO I COMPLETE A 1031 EXCHANGE?

**A** To accomplish a full tax deferral on the sale of rental property you must follow the IRS Section 1031 Guidelines. Corcapa 1031 Advisors recommends the following:

- Be in communication with your Corcapa 1031 Advisors representative well ahead of your proposed relinquished property sale closing date so we can begin to research and identify potential replacement property.
- Be sure to select and assign a Qualified Intermediary "QI" or Accommodator to receive the sale proceeds from escrow. Corcapa can recommend experienced QIs for you, but if you would like to select your own, be sure to research their financial stability, as they are in receipt of your exchange proceeds until reinvestment. Be especially careful to NOT take personal receipt of the funds or your exchange will be invalidated.

  From the day you close your relinquished property, you will have 45 days to identify your replacement property(ies). This identification must be in writing, and can follow one of three possible identification rules:

  - **3-Property Rule:** Up to three properties are identified no matter what their value.
  - **200 Percent Rule:** Any number of properties can be identified as long as their combined fair market value (FMV) does not exceed 200% of the FMV of the relinquished properties.
  - **95 Percent Rule:** Any number of properties are identified no matter what the aggregate FMV, provided 95% of the value of the identified properties is acquired. Be cautious in utilizing this identification rule, since if you do not acquire 95% of what you identified, the entire exchange may fail.
- The investor must close on the identified replacement property(s) within 180 days from the close date of the relinquished property. This is an additional 135 days from the end of the 45 day period in which to close on your replacement property(ies).
- Additionally, for full tax deferral you must purchase equal or greater purchase price, equal or greater debt and reinvest all cash.
- Please review the IRS publication here for further details: http://www.irs.gov/uac/Like-Kind-Exchanges-Under-IRC-Code-Section-1031

### Q ARE YOU AN ACCOMMODATOR?

**A** While Corcapa is happy to refer you to accommodators, we cannot provide accommodator/QI services. We specialize in the replacement properties for our clients' 1031 exchanges.

### Q WHAT IS A DST?

**A** A DST is an acronym for a Delaware Statutory Trust which is fractional ownership which is a separate legal entity created as a trust under the laws of Delaware in which each owner has a beneficial interest in the DST for federal income tax purposes and is treated as owning an undivided fractional interest in the property. In 2004 the IRS issued a Revenue Ruling clarifying the terms on structuring a DST investment for 1031 purposes. Please review the IRS Revenue Ruling 2004-86.

# 1031 Exchange FAQs

## Q WILL A DST OR TIC QUALIFY FOR A 1031 EXCHANGE?

**A** The Revenue Ruling 2004-86 issued by the IRS governs how the DST should be structured so that the real estate program is likely to fit within the guidelines of a 1031 exchange. TICs have a Revenue Procedure 2002-22 that discusses the 15 structure points TIC programs should have in order to receive a "should level" tax opinion. Corcapa works with sponsors of DST and TIC offerings who structure the offerings with a legal opinion from experienced industry attorneys for 1031 exchange purchases. We recommend that you discuss this with your tax and legal advisors and we will provide all documentation to these advisors to use in analyzing your replacement property options.

## Q WHAT IS THE TIME FRAME FOR PURCHASING AND CLOSING ON A DST?

**A** This depends on the velocity of the real estate market. There is currently a significant upswing in 1031 exchange activity and also an upswing in the purchase of DST properties. More attractive DST offerings can sell out quickly so it's important to alert your Corcapa representative early on and let them know you have a pending 1031 exchange. This way we can be very proactive in finding the replacement properties that fit your needs. Most clients prefer to have a closing on their replacement properties sooner so as to begin earning income. It's possible to have a closing on your DST within ten business days or sooner. Alternatively, clients may prefer to wait a few weeks to close escrow on their replacement property and this can easily be arranged.

## Q HOW IS THE DST INCOME PAID? FREQUENCY?

**A** Projected cash flow begins the very next month after investment. For example, if you close on your DST purchase on August 15th, you will typically receive a distribution on September 15th for all the days you were invested in August. The October distribution would be a full month distribution for all of September and so forth. Investors can elect to receive the distributions via direct deposit or a mailed check, although almost all investors choose direct deposit. A projected cash flow of a 1031 property is not a certain or guaranteed payment and payment is not assured.

For most of the DST investments, you do not need to wait for the entire property to sell out the equity raise in order to begin receiving distributions. For example, if the property is raising $35,000,000 of equity and you are an early purchaser before all $35,000,000 is raised, the cash flow is likely to start the very next month based on the number of days you have been closed on your investment. Tenant-in-Common offerings may pay after a couple of months of ownership rather than the very next month.

## Q DO I STILL RECEIVE TRADITIONAL REAL ESTATE DEPRECIATION ON THE INCOME?

**A** Yes, DST ownership is similar to traditional real estate ownership and the year-end tax reporting will detail your share of the depreciation expenses.

## Q HOW FREQUENTLY WILL I RECEIVE REPORTING ON MY DST?

**A** The DST sponsor will provide quarterly reporting delivered either electronically or via mail. There is also a comprehensive year-end report provided which details the tax reporting information you would give your accountant to complete your taxes.

## Q IS THERE A LOAN ON MY PROPERTY?

**A** Most of the DSTs have loans associated with the properties to help the clients meet the debt needs of their relinquished property. These loans are typically Non-Recourse which means the investor does not sign off on guarantees of the loan. The Lender makes a loan to the Trust, who is the sole borrower. If the Trust should ever default on the loan, the only liability is your initial investment.

We also have no debt – all cash – properties for investors who do not have debt to replace on their exchange or who simply choose to maintain an all cash DST ownership.

# 1031 Exchange FAQs

## Q WHY DO INVESTORS CHOOSE DSTS OR TICS FOR 1031 EXCHANGE PROPERTY?

**A** The most common reasons that investors select DSTs are:

- **Potentially Greater Cash Flow Than They Are Currently Receiving:** Most DSTs have between a 4.00% – 5.50% projected cash flow based on the anticipated rental income less expenses. For example, if you invest $1,000,000 of equity into a DST with a 4.5% projected cash flow, this would provide a projected net annual income of $45,000. This could be a higher net cash flow than you are currently receiving on your rental property. As with all real estate the income cannot be guaranteed because the rental income and expenses can increase or decrease unexpectedly.
- **Ability to Diversify:** You can reinvest your relinquished property sale proceeds into multiple investments in different cities, states, and asset classes such as apartments and net lease retail.
- **Non-Recourse Loans:** Virtually all the loans within the DSTs that are approved by DAI Securities, LLC are non-recourse which means the investor does not personally guarantee them.
- **Easier Financing:** Access to financing for investors needing debt on their replacement property.
- **Passive Ownership Structure:** Many investors desire to reduce their active property management as they grow older and DSTs offer passive ownership.

We recommend that all clients review each PPM in detail and consult their tax and legal advisors to full understand the benefits and risks of the investment. Corcapa 1031 Advisors is happy to attend a meeting with your tax and legal advisors or have a conference call to answer all questions.

## Q WHAT IS THE FEE STRUCTURE?

**A** Each offering has a detailed Private Placement Memorandum (PPM) to review which clearly explains the fee structure. Every offering is slightly different, but you can review the specific fees which are generally found in the Estimated Use of Proceeds table. You do not pay an outside check or fee to Corcapa upon purchase. Should you choose to buy a DST offering through Corcapa the sponsor pays us a commission based on the equity you invest. Fees are paid by the buyer, so most offerings are marked up approximately 6-10% to cover the expenses of the transaction. Despite these fees, if the projected cash flow is 4.5% on a $1,000,000 equity investment, the annual income is anticipated to be $45,000.

## Q BENEFITS OF CHOOSING A DST STRUCTURE OVER A TIC STRUCTURE

**A** With DSTs and TICs, one structure is not necessarily better than the other, but depending on each investor's unique situation and goals, one type of offering may be a more attractive choice than the other. For the same reason a DST or TIC may be appealing to one investor, it could be disadvantageous to another. In a DST structure, investors are not required to be borrowers under a loan, and the amount of purchasers allowed to participate is not limited to 35, reducing the potential obstacle of higher minimums. Additionally, DSTs do not require the formation of single-purpose entities such as LLCs as they, the trust, are already an entity and subsequently do not require annual maintenance fees or decision making on the part of the investors.

## Q BENEFITS OF CHOOSING A TIC STRUCTURE OVER A DST STRUCTURE

**A** A TIC structure has a maximum of 35 owners and each owner will vote on major decisions associated with the property, such as major lease approval, a refinance, or a sale. The tenant-in-common agreement states that you must have 100% approval from ownership for these major decisions. To avoid issues with dissenting investors, typically the agreement reads that as long as you have 66 2/3 approval for these major decisions, the TIC owners could buy out a dissenter at fair market value (FMV) using an appraisal process. TIC offerings provide more control in the management of the assets, but some investors prefer a professional management company to make decisions for all the owners, as is the case in a Delaware Statutory Trust investment.

## Q WHAT IS CORCAPA? WHAT IS DAI SECURITIES, LLC?

**A** Corcapa 1031 Advisors is a FINRA www.finra.org registered branch office located in Costa Mesa, CA and New York, NY. All registered representatives such as Christina Nielson must be affiliated with a registered broker dealer, and our broker dealer is DAI Securities, LLC. Member FINRA/SiPC. DSTs and TICs must be approved through the due diligence process at DAI before we can present offerings to investors.

# 1031 Exchange FAQs

## Q CAN I 1031 INTO A REIT OR CAN I 721 EXCHANGE INTO A REIT?

**A** No, you cannot directly invest into a REIT with your 1031 proceeds. Your accommodator will only wire funds to the purchase of real property, as a REIT will not qualify for like-kind exchange.

However, there is an indirect way to invest into a REIT. Some DSTs are meant to be held for a couple of years and then the entire DST property will be contributed to a large REIT via the 721 UpREIT exchange. Going from the DST to the REIT is a non-taxable transfer. Technically, you will receive operating partnership units (OP Units), which are one-for-one value to REIT shares. If you choose to sell some of your OP units, or REIT shares, this will be a taxable event. Many investors like the diversification of a REIT and plan to hold the shares long-term, collecting the income stream. They often do not plan to sell their OP units/shares, but instead plan to allow their beneficiaries to inherit the investment.

## Q WHAT IS THE DIFFERENCE BETWEEN A REIT AND A DST?

**A** A REIT is a Real Estate Investment Trust which is often comprised of dozens or hundreds of properties with a total value of several hundred million to several billion. REITs do not qualify for 1031 exchange unless you meet the guidelines of a 721 UpREIT exchange.

A DST is often a single property, although some DSTs are comprised of two or more properties, all included in the one DST. DSTs, single-property or multi-property, qualify for 1031 exchange per revenue ruling 2004-86.

### Who Qualifies for the Section 1031 Exchange?

*Owners of investment and business property may qualify for a Section 1031 deferral. Individuals, C corporations, S corporations, partnerships (general or limited), limited liability companies, trusts and any other taxpaying entity may set up an exchange of business or investment properties for business or investment properties under Section 1031.*

# 1031 Exchange Guidelines

## Q WHAT IS A SIMULTANEOUS, DEFERRED, OR REVERSE EXCHANGE?

**A** To accomplish a Section 1031 exchange, there must be an exchange of properties. The simplest type of Section 1031 exchange is a simultaneous swap of one property for another.

Deferred exchanges are more complex but allow flexibility. They allow you to dispose of property and subsequently acquire one or more other like-kind replacement properties.

To qualify as a Section 1031 exchange, a deferred exchange must be distinguished from the case of a taxpayer simply selling one property and using the proceeds to purchase another property (which is a taxable transaction). Rather, in a deferred exchange, the disposition of the relinquished property and acquisition of the replacement property must be mutually dependent parts of an integrated transaction constituting an exchange of property. Taxpayers engaging in deferred exchanges generally use exchange facilitators under exchange agreements pursuant to rules provided in the Income Tax Regulations.

A reverse exchange is somewhat more complex than a deferred exchange. It involves the acquisition of replacement property through an exchange accommodation titleholder, with whom it is parked for no more than 180 days. During this parking period the taxpayer disposes of its relinquished property to close the exchange.

# 1031 Exchange Guidelines

## Q WHAT PROPERTY QUALIFIES FOR A LIKE-KIND EXCHANGE?

**A** Both the relinquished property you sell and the replacement property you buy must meet certain requirements.

Both properties must be held for use in a trade or business or for investment. Property used primarily for personal use, like a primary residence or a second home or vacation home, does not qualify for like-kind exchange treatment. There are some instances where a vacation home can qualify for 1031 if specific rules are met. Please confirm with your tax advisor.

Both properties must be similar enough to qualify as "like-kind." Like-kind property is property of the same nature, character or class. Quality or grade does not matter. Most real estate will be like-kind to other real estate. For example, real property that is improved with a residential rental house is like-kind to vacant land. One exception for real estate is that property within the United States is not like-kind to property outside of the United States. Also, improvements that are conveyed without land are not of like kind to land.

Finally, certain types of property are specifically excluded from Section 1031 treatment. Section 1031 does not apply to most personal property, exchanges of inventory or stock in trade, stocks, bonds, or notes, other securities or debt, partnership interests, or certificates of trust.

## Q WHAT ARE THE TIME LIMITS TO COMPLETE SECTION 1031 DEFERRED LIKE-KIND EXCHANGE?

**A** While a like-kind exchange does not have to be a simultaneous swap of properties, you must meet two time limits or the entire gain will be taxable. These limits cannot be extended for any circumstance or hardship except in the case of presidentially declared disasters.

The first limit is that you have 45 days from the date you sell the relinquished property to identify potential replacement properties. The identification must be in writing, signed by you and delivered to a person involved in the exchange like the seller of the replacement property or the qualified intermediary. However, notice to your attorney, real estate agent, accountant or similar persons acting as your agent is not sufficient.

Replacement properties must be clearly described in the written identification. In the case of real estate, this means a legal description, street address or distinguishable name. Follow the IRS guidelines for the maximum number and value of properties that can be identified.

The second limit is that the replacement property must be received and the exchange completed no later than 180 days after the sale of the exchanged property or the due date (with extensions) of the income tax return for the tax year in which the relinquished property was sold, whichever is earlier. The replacement property received must be substantially the same as property identified within the 45-day limit described above.

## Q ARE THERE RESTRICTIONS FOR DEFERRED AND REVERSE EXCHANGES?

**A** 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.

If cash or other proceeds that are not like-kind property are received at the conclusion of the exchange, the transaction will still qualify as a like-kind exchange. Gain may be taxable, but only to the extent of the proceeds that are not like-kind property.

One way to avoid premature receipt of cash or other proceeds is to use a qualified intermediary or other exchange facilitator to hold those proceeds until the exchange is complete.

You cannot act as your own facilitator. In addition, your agent (including your real estate agent or broker, investment banker or broker, accountant, attorney, employee or anyone who has worked for you in those capacities within the previous two years) cannot act as your facilitator.

Be careful in your selection of a qualified intermediary as there have been recent incidents of intermediaries declaring bankruptcy or otherwise being unable to meet their contractual obligations to the taxpayer. These situations have resulted in taxpayers not meeting the strict timelines set for a deferred or reverse exchange, thereby disqualifying the transaction from Section 1031 deferral of gain. The gain may be taxable in the current year while any losses the taxpayer suffered would be considered under separate code sections.

# 1031 Exchange Guidelines

## Q WHAT IS LTV OR LOAN TO VALUE?

**A** LTV is Loan to Value, which means the amount of loan associated with the property. If a property is 50% loan to value (also called 50% leveraged) this means there is a 50% cash down payment and a 50% loan associated with the property. DST loans are non-recourse which means investors are not required to provide personal guarantees. Debt adds risk to any property but the newly assumed non-recourse debt may add to your depreciation basis, which may shelter a significant amount of cash flow from taxation.

## Q HOW DO YOU COMPUTE BASIS?

**A** Basis from the relinquished (sold) property to the replacement (new) property must be carefully tracked and calculated by your tax professional to ensure a successful 1031 exchange. In 1031 exchange your gain is deferred until a sale occurs or there is a step up in basis. A very simple basis can look something like this: the price you paid for the property, less depreciation claimed over the years of ownership, plus any improvements to the property, plus any additional adjustments.

One way to garner additional depreciable basis, and subsequently shelter cash flow, is to acquire debt with leveraged DSTs. This debt brings risk that would not occur in an all cash property but the benefit is the potential shelter of income.

When the new replacement property is sold in the future (assuming no further 1031 exchange), the original deferred

## Q HOW DO YOU REPORT SECTION 1031 LIKE-KIND EXCHANGES TO THE IRS?

**A** You must report an exchange to the IRS on Form 8824, Like-Kind Exchanges and file it with your tax return for the year in which the exchange occurred. Form 8824 asks for:

- Descriptions of the properties exchanged
- Dates that properties were identified and transferred
- Any relationship between the parties to the exchange
- Value of the like-kind and other property received
- Gain or loss on sale of other (non-like-kind) property given up
- Cash received or paid; liabilities relieved or assumed
- Adjusted basis of like-kind property given up; realized gain

## Q IS MY FAMILY TRUST ELIGIBLE TO PURCHASE DSTS? I READ THAT A TRUST NEEDS TO HAVE A NET WORTH OF $5,000,000 OR GREATER. DOES THIS APPLY TO ME?

**A** Revocable living trusts are considered individual investors for the purpose of accreditation and therefore only need the traditional $1,000,000 total net worth (excluding the value of your primary residence) to be eligible to purchase DSTs.

Irrevocable trusts, such as specialized family trusts with dynastic characteristics or irrevocable life insurance trusts, require the $5,000,000 or greater gross asset value in order to be eligible to purchase DSTs.

## Q IF I HAVE NO DEBT ON MY RELINQUISHED PROPERTY, WHAT ARE THE DISADVANTAGES OF ACQUIRING DEBT ON MY REPLACEMENT PROPERTY DST OR TIC?

**A** We offer both all-cash/no-debt replacement properties as well as leveraged replacement properties, but the vast majority of the investment opportunities do have debt associated with them. If you purchase a property with debt, when that property sells, whatever the debt payoff is at the time, you will need to have equal or greater debt in the following replacement property to avoid debt boot. This has been easy to do historically, as most of the DSTs do have debt associated with them. If you plan to reinvest in only all-cash properties, then you do not want to acquire leveraged DSTs and TICs.

One benefit of the debt on leveraged DSTs and TICs is that you will renew depreciation deductions to help shelter cash flow. However, debt brings risk. All multifamily properties have loans associated with them because the Freddie/Fannie Government Multifamily Loan Program is very attractive and often has lower interest rates than available on commercial property.

# 1031 Exchange Guidelines

**Q CAN I SELL MY INTERESTS IN THE DST?**

**A** There is not a well-established secondary market for most fractional investments in real estate, so if an investor anticipates selling their interests before the sale of the DST property (typically 5-10 years), making alternative investments may be a better option. However, if the investor obtains consent from the Manager, they can first offer up their interests to the other Beneficial Owners and Manager for the right to purchase.

**Q ARE INVESTORS RESPONSIBLE FOR ADDITIONAL COSTS IN THE PROCESS OF PURCHASING OF INTERESTS?**

**A** Most DSTs are structured so all the costs and expenses are included in the purchase price, requiring no additional capital. Each investor is responsible for any costs incurred through consulting with their respective tax advisors, attorneys, or other financial advisors.

**Q CAN A FAMILY TRUST, LLC, S-CORPORATION, OR PARTNERSHIP DO A 1031 EXCHANGE INTO DSTS OR TICS?**

**A** Yes. All of these structures can qualify for 1031 exchange, and Corcapa has assisted clients exchanging into both DSTs and TICs. If you are investing through these entities, please communicate this to us early on so we can verify 1031 exchange eligibility and accreditation along with your tax and legal counsel.

**Q CAN INVESTORS KEEP SOME OF THEIR EXCHANGE PROCEEDS OR DO A PARTIAL 1031 EXCHANGE?**

**A** Yes. If the proceeds from the sale of the investor's relinquished property are greater than the value of the replacement property, the investor can choose to pocket the resulting leftover proceeds. However, the cash that is kept (boot), will be subject to taxes.

**Q WHAT HAPPENS IF I PASS AWAY WHILE OWNING A TIC OR DST? WILL THE INVESTMENT TRANSFER TO MY HEIRS AND WILL THEY RECEIVE A STEP-UP BASIS IN VALUE?**

**A** If an investor passes away during ownership, the sponsor will look to the entity or trust documentation as to transferring the ownership interests to the new beneficiaries or heirs. The investment is technically still illiquid unless there is a buyer found for the interest. Normally, the new beneficiary provides their banking information and the cash flow is then sent to the beneficiary's bank account.

Currently, DSTs and TICs receive a step-up basis in value so the heir or beneficiary may not be subject to capital gains or estate taxes as long as the value of the estate is under the federal thresholds at that time. The new Biden administration proposes eliminating step-up in basis, so an investor would want to carefully consult their tax advisor for guidance on investment transfer and possible taxes.

**Q SHOULD I BEWARE OF SCHEMES?**

**A** Taxpayers should be wary of individuals promoting improper use of like-kind exchanges. Typically they are not tax professionals. Sales pitches may encourage taxpayers to exchange non-qualifying vacation or second homes. Many promoters of like-kind exchanges refer to them as "tax-free" exchanges not "tax-deferred" exchanges. Taxpayers may also be advised to claim an exchange despite the fact that they have taken possession of cash proceeds from the sale.

**Q HOW CAN I FIND A QUALIFIED INTERMEDIARY?**

**A** If investors do not already have a Qualified Intermediary (QI) or accommodator, they can request referrals from Corcapa 1031 Advisors/1031 DST Solution as we have worked with most of the firms across the country.

# 1031 Tax FAQs

## Q PAYING THE TAXES VERSUS "SWAP UNTIL YOU DROP".

**A** Some investors choose to pay the taxes on the sale of their property feeling that the tax will eventually be due so why not now. However, many investors take the "Swap Until You Drop" approach which means they will continually 1031 exchange their real estate until they pass away allowing their heirs to receive the "stepped-up" basis in value and significantly reducing or eliminating any federal and state tax burden.

## Q DO I STILL RECEIVE A DEPRECIATION ON THE INCOME LIKE TRADITIONAL PROPERTY OWNERSHIP?

**A** Yes, DST ownership is similar to traditional real estate ownership in that you will receive year-end tax reporting with your share of the depreciation expenses.


### Section 1031 of the IRC

*"No gain or loss shall be recognized on the exchange of property held for productive use in a trade or business or for investment if such property is exchanged solely for property of like-kind which is to be held either for productive use in a trade or business or for investment."*

## Q WHAT IS MY TAX BILL IF I DO NOT 1031 EXCHANGE?

**A** Corcapa does not provide individual tax advice but total tax can exceed 40% depending on how long the property has been owned, depreciation claimed and remaining basis. If you are a resident of a tax-free state then your tax bill is often less than 40%.

**Federal Taxes:**
15 – 20% tax on capital gain. Capital gain tax rate increases from 15 – 20% when Adjusted Gross Income (AGI) exceeds $418,400 per 2017 tax reform.

And/Or

Depreciation is taxed at 25%. The gain from sale is primarily capital gain as described above but some will be taxed at 25% federal rates.

And

3.8% Medicare Surcharge, often referred to as Obamacare tax.

**State Taxes:**
The gain and/or depreciation described above is also taxed by the states at the individual state level.

Corcapa strongly recommends that you discuss the actual tax bill with your tax advisor.

## Q WILL I RECEIVE A K-1 OR A 1099? WHAT IS THE NAME OF THE TAX DOCUMENT?

**A** Investors will receive either a 1099 or Substitute 1099, a Profit and Loss statement (PnL), or some receive a grantor letter that contains the information for your tax advisor to input on schedule E of the 1040 tax return. You will not receive a K-1 as K-1s report partnership income and partnerships are not eligible for 1031 exchange. Each separate DST or TIC will have its own 1099 or Profit and Loss document. If you invest in five different DSTs, you will receive five separate year-end tax documents.

See this Inland video on understanding the tax document: http://go.inland-investments.com/Substitute-1099-1098

# 1031 Tax FAQs

**Q ONE MULTIFAMILY DST PORTFOLIO INVOLVES FOUR DIFFERENT STATES – DOES THAT REQUIRE A TAX RETURN FROM ALL OF THOSE STATES?**

A Yes, you have to file tax returns in all states where you earn income unless it's a tax-free state, such as Florida, Nevada, Tennessee, Washington ect. Its possible that one would be under the income threshold for filing in some states too, so verify with your tax advisor.

**Q DOES THIS MEAN I WILL BE PAYING DOUBLE STATE TAXES?**

A No. If you pay one state taxes due, then typically your home state will give you a credit on what may be owed in that state. For example, California taxes can be 9 - 13.3%. If you pay 4.00% tax to Colorado, then the difference between 9.00% - 13.3% and the 4.00% would be due to the California Franchise Tax Board (approximately 5.00% - 9.30%).

**Q IS THE DST PROPERTY'S TAXABLE INCOME CONSIDERED PASSIVE AND WILL I RECEIVE DEPRECIATION BENEFITS?**

A DST income is considered passive income and can be offset by property expenses, depreciation deductions, and other passive losses. There are limitations to passive loss deductions that you will want to discuss with your tax and legal advisors.

In practice, clients who sell fully depreciated rental property and 1031 exchange into DSTs with leverage, will see attractive sheltering to the cash flow via depreciation benefits. If the client reinvests into another all-cash, no-debt property, depreciation deductions may be minimal. If a client is looking for substantial depreciation benefits, larger amounts of depreciation are associated with leveraged multifamily investments, particularly in areas with lower land value and higher building value, as only structures can be depreciated. Commercial assets such as storage and office depreciate on a 39-year schedule whereas multifamily depreciates on a 27.5-year schedule. Even more deductions can be achieved through cost segregation studies.

**Q ARE INVESTORS SUBJECT TO STATE INCOME TAX FOR EACH OF THEIR PROPERTIES?**

A Each state has its own filing requirements, but generally if the property is located in Alaska, Florida, Nevada, South Dakota, Texas, Washington, Wyoming, New Hampshire or Tennessee, the investor will not have to file for those states. Further, some states do not require filing if you don't hit the thresholds of income. Your depreciation benefits can be useful in that the DST or TIC income is sheltered and may mean no state tax filing. It is important to consult with a tax advisor on the specifics of each individual state's tax code.

**Q DOES CALIFORNIA REQUIRE "TRACKING" ANNUALLY OF MY 1031 EXCHANGE ACTIVITY?**

A Yes. California and other states require an annual filing regarding your 1031 exchange to see if you have sold the property in the future so they can capture the previously deferred state capital gains taxes. If you do not sell your property and continue to exchange, most tax advisors feel no state tax is due.

**Q WILL I HAVE TO FILE AN 8824 FORM WITH MY FEDERAL TAX RETURN?**

A Yes. All 1031 exchanges require calculating basis of your relinquished property and your replacement property to be put on the 8824 form of the federal 1040 tax return. Calculating basis is a complicated task in the year of the exchange, and it is recommended that you seek competent tax advice so form 8824 is completed properly.

* All information provided on this page is time sensitive and subject to change.

# Delaware Statutory Trusts (DST)

CORCAPA 1031 ADVISORS
Specialists in 1031 Exchange Replacement Property

## Delaware Statutory Trusts (DSTs) are the Partial Ownership Structure of Choice

A Delaware Statutory Trust (DST) is an undivided fractional ownership interest in a trust. DSTs have low minimum investment amounts and therefore create an ability to diversify your current rental property into multiple investments in different cities, states, and asset classes such as apartments and net lease retail.

DSTs are completely passive real estate ownership with no property management issues, such as managing tenants or making repairs, as a professional property and asset management team handles the day to day.

Limited listings in today's real estate market can make it difficult to find suitable 1031 exchange replacement properties. DSTs are prearranged replacement properties that can close in as little as three business days.

Many DSTs are new construction multifamily properties reducing the likelihood of significant deferred maintenance. Exchange from older, higher maintenance properties into new construction.

## Key Benefits of DST 1031 Exchanges

**DST 1031 EXCHANGES ARE ATTRACTIVE FOR THE FOLLOWING REASONS:**

### DIVERSIFICATION

Investors can select multiple DST properties as part of their 1031 exchange allowing diversification of asset classes, cities and level of needed non-recourse debt.

### LOWER MINIMUM INVESTMENTS

DSTs have lower minimum investments often as low as $100,000 of equity. If you require a lower investment amount than the stated minimum, let your Corcapa 1031 Advisors representative know and we may be
able to negotiate a reduction in certain circumstances.

### NO INDIVIDUAL ANNUAL LLC FILINGS

Potentially lower fees in DST investments than TIC investments. The DST investment does not require a special purpose LLC entity that needs to be annually maintained and paid for.

### NON-RECOURSE LOANS

Virtually all the loans within the available DSTs are non-recourse which means the investor does not personally guarantee them.

### POTENTIALLY GREATER CASH FLOW

The most common reason that investors select DSTs is for a potentially greater cash flow than they are currently receiving. Most DSTs have between a 4.00% – 5.50% projected cash flow based on the anticipated rental income less expenses. For example, if you invest $1,000,000 of equity into a DST with a 4.5% projected cash flow, this would provide a projected net annual income of $45,000. This could be a higher net cash flow than you are currently receiving on your rental property. As with all real estate, the income cannot be guaranteed because the rental income and expenses can increase or decrease unexpectedly.

### LARGER PROPERTY ACCESS

Access to Institutional Grade properties which are typically larger commercial properties that previously required significant capital to purchase.

### FINANCING ACCESS

Easier access to financing for investors needing debt on their replacement property and potentially quicker closings.

# Important Risk Factors to Consider

**AS WITH ANY INVESTMENT, DST 1031 EXCHANGES HAVE CERTAIN RISKS:**

### NO ASSURANCE

General real estate and market risks also apply to DSTs. There can be no assurance that a property will perform as projected and DSTs are subject to economic volatility, tenants not paying their rent timely, and other traditional risks of owning, selling, and operating real estate.

### INVESTORS DO NOT HOLD TITLE

DST investors do not hold title to the property but rather own beneficial interests in the trust and the sponsor controls the selling and managing of the property. The DST owners have limited control over the investment and are reliant on the sponsor.

### ILLIQUIDITY

A DST interest is an illiquid investment and there is no current active secondary market for selling your interest.

### ADDITIONAL EXPENSES

Fees and Expenses of each offering should be carefully evaluated. Multiple owner offerings typically have additional expenses to owning real estate on your own and these fees should be weighed against specific capital gains tax liability. All investors are encouraged to have their tax and legal counsel advise them on taxes including any federal and state capital gains taxes, depreciation recapture and the recent 3.8% Medicare tax, which could be applicable.

### TAX STATUS

DSTs are structured according to Revenue Ruling 2004-86. Corcapa typically works with sponsors and properties that have “should” level tax opinions regarding 1031 exchange tax compliance but it is possible the IRS would rule unfavorably on a DST offering and this could result in back and immediate tax liability.

### POTENTIAL FOR PROPERTY VALUE LOSS

All real estate investments have the potential to lose value during the life of the investment.

### POTENTIAL FOR FORECLOSURE

All financed real estate investments have the potential for foreclosure.

## 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 a potential for suspension of cash flow distributions.

## SEVEN DEADLY SINS

The enabling IRS revenue ruling which forms the basis for a DST transaction in a Section 1031 exchange program has prohibitions on the powers of the trustee, which are built into the Trust Agreement and have become known as the “seven deadly sins”.

1. Once the offering is closed, there can be no future contributions to the DST by either current or new beneficiaries.

2. The Trustee cannot renegotiate the terms of the existing loans nor can it borrow any new funds from any party unless a loan default exists as a result of a tenant bankruptcy or insolvency.

3. The Trustee cannot reinvest the proceeds from the sale of its real estate.

4. The Trustee is limited to making capital expenditures with respect to the property to those for (a) normal repair and maintenance, (b) minor non-structural capital improvements and (c) those required by law.

5. Any reserves or cash held between distribution dates can only be invested in short term debt obligations.

6. All cash, other than necessary reserves, must be distributed on a current basis, and

7. The Trustee cannot enter into new leases or renegotiate the current leases, unless there is a tenant bankruptcy or insolvency.

## DST RESTRICTIONS

Because of the DST restrictions the best types of real estate for a DST are Master Lease transactions where the Master Tenant takes on all the operating responsibilities or a Triple Net/Net Long Term Lease with a financially stable tenant. Additionally, it is prudent with DSTs to have sufficient upfront and ongoing reserves, as well as a plan for a sale prior to the maturity of a loan.

## SPRINGING LLC

Additionally, there is a “Springing LLC” provision option which could convert the trust to a limited liability company to solve property issues. However, this could prevent future 1031 ability and adversely affect the value of their investment.


# From 1031 Sale to DST

CORCAPA 1031 ADVISORS
Specialists in 1031 Exchange Replacement Property

## Start

Consult your tax and financial advisors before selling your property to make sure a 1031 exchange is right for you.

## Find a Qualified Intermediary (QI)

- Choose a QI before you close escrow. They will hold your exchange proceeds during the transaction process.
- Do not take receipt of funds - all proceeds must go to the QI or 1031 is invalidated.

## Choose Replacement Property

- You have 45 days to "identify" replacement property, and 180 days to close on the relinquished property.
- Corcapa specializes in locating like-kind replacement property at equal or greater value for full tax-deferral.

## Debt or No Debt?

- The IRS requires matching the debt from your relinquished property with equal or greater debt in the replacement property.
- Don't need debt? You can buy properties with debt or without.
- Debt always brings some risk to real estate ownership, but can provide the benefit of increasing depreciable basis and sheltering some cash flow from taxation.

## Processing & Payment

- After you select your replacement property, Corcapa prepares your purchase documents and sends them to you for signature.
- Next, sign paperwork with your QI releasing your sale proceeds to the DST escrow account.

## Receive Distributions

After you've closed on the replacement property, cash flow distributions are typically made monthly and deposited directly into your bank account.

*Please see Corcapa FAQs for further explanations and details.

# DST
# Frequently Asked Questions

CORCAPA 1031 ADVISORS
Specialists in 1031 Exchange Replacement Property

## Delaware Statutory Trust FAQs

### Q WHAT IS A DST?

**A** A DST is an acronym for a Delaware Statutory Trust which is fractional ownership in a separate legal entity created as a trust under the laws of Delaware in which each owner has a beneficial interest in the DST for federal income tax purposes and is treated as owning an undivided fractional interest in the property. In 2004 the IRS issued a Revenue Ruling clarifying the terms on structuring a DST investment for 1031 purposes. Please review the IRS Revenue Ruling 2004-86.

### Q HOW DO I KNOW IF I AM ACCREDITED AND ELIGIBLE TO PURCHASE A DST?

**A** An accredited investor is an individual, or Revocable Living Trust, with a net worth of at least $1,000,000 (excluding the equity in your home) OR net income the last two years of $200,000 or greater ($300,000 if joint income with spouse) with an expectation of equal or greater earnings in the current year.

Entities such as Corporations and LLCs require a $5,000,000 minimum net worth or you can do a "pass-thru" test to qualify if all the individual members of the entity are accredited with a net worth of at least $1,000,000 (excluding the equity in your home) OR net income the last two years of $200,000 or greater ($300,000 if joint income with spouse) with an expectation of equal or greater earnings in the current year.

Irrevocable Living Trusts must have at least $5,000,000 gross net worth.

### Q WILL A DELAWARE STATUTORY TRUST (DST) QUALIFY FOR A 1031 EXCHANGE?

**A** The Revenue Ruling 2004-86 issued by the IRS governs how the DST should be structured so that the real estate program is likely to fit within the guidelines of a 1031 exchange. Corcapa works with sponsors of DST offerings who structure the offerings with a legal opinion from experienced industry attorneys for 1031 exchange purchases. We recommend that you discuss this with your tax and legal advisors and we will provide all documentation to these advisors to use in analyzing your replacement property options. Learn more about potential DST benefits and DST risks.

### Q HOW QUICKLY CAN I CLOSE ESCROW ON MY DST?

**A** This depends on the velocity of the real estate market. Currently there is a significant upswing in 1031 exchange activity and also an upswing in the purchase of DST properties. More attractive DST offerings can sell out quickly so its important to alert your Corcapa representative early on and let them know you have a pending 1031 exchange. This way we can be very proactive in finding the replacement properties that fit your needs.

Most clients prefer to have a closing on their replacement properties sooner so as to begin earning income. It's possible to have a closing on your DST within three to ten business days. Alternatively, clients may prefer to wait a few weeks to close escrow on their replacement property and this can easily be arranged.

One advantage of closing escrow sooner on your Delaware Statutory Trust purchase is that the cash flow begins to accumulate immediately after closing and is paid with the first distribution the following month.

# DST FAQs

## Q WHAT ARE THE DEADLINE DATES TO COMPLETE A SUCCESSFUL 1031 EXCHANGE?

**A** To accomplish a full tax deferral on the sale of rental property you must follow the IRS Section 1031 Guidelines. Corcapa 1031 Advisors recommends the following:

- Be in communication with your Corcapa 1031 Advisor representative well ahead of your proposed relinquished property closing so we can begin to research and identify potential replacement property.
- Be sure to select and assign a Qualified Intermediary "QI" or Accommodator to receive the sale proceeds from escrow. Corcapa can recommend QIs for you. Be sure to research the financial backing of QIs before selecting them. Be especially careful to NOT take personal receipt of the funds or your exchange will be invalidated.
- From the day you close your relinquished property, you will have 45 days to identify your replacement property(ies) and can use one of three rules: The three property ID rule, the 200% rule, or the 95% rule.
- You have an additional 135 days from the end of the 45 day period in which to close on your replacement property(ies).
- Additionally, for full tax deferral you must purchase equal or greater purchase price, equal or greater debt and reinvest all cash.

## Q MUST ALL MY DSTS BE PURCHASED AND CLOSE AT THE SAME TIME?

**A** No. Historically most exchanges were simultaneous but now the most common form is now a delayed or deferred exchange. A delayed or deferred exchange means you sell your property and the net proceeds go to the accomodator, and then you have 45 days in which to identify replacement property(ies) and then another 135 days to close (for a total of 180 days).

## Q WHAT IS CASH ON CASH RETURN?

**A** Cash on cash return is the projected cash flow of the property. For example, an equity investment of $500,000 in a DST property that has a 5% projected cash on cash return, then you can anticipate receiving a projected annual cash flow of $25,000 or $2,083 per month direct deposited into the bank account of your choice. A projected cash flow of a 1031 property is not a certain or guaranteed payment and payment is not assured.

## Q HOW LONG IS THE TYPICAL HOLD PERIOD FOR A DST INVESTMENT?

**A** Most Delaware Statutory Trusts have a ten-year fixed rate financing associated with them. The sponsor will be mindful of this and generally does all they can to watch the market for the best time to sell the property, which is ideally before year ten. However, no guarantee can be made as to when the property will sell.

Historically, the sponsors of DSTs that we work with have a holding period of approximately six years. Some of the DSTs have sold within two to four years if they were in strong, growing markets.

However, given the current elevated pricing for quality properties around the country, Corcapa anticipates that many DSTs will go a full eight to ten-year hold period.

## Q WHAT IS A DST SPONSOR?

**A** The Sponsor is the real estate firm that has sourced and structured the 1031 Exchange DST investment and will serve as the property manager (if not outsourced) and the asset manager. The sponsor will send the quarterly reporting, host conference calls about property performance and send year-end tax information.

## Q IF I MEET THE SPECIFIED MINIMUM OF $100,000 CAN I PURCHASE AN ODD AMOUNT SUCH AS $186,500?

**A** Yes. Once you meet the $100,000 minimum you can invest any amount.

# DST FAQs

## Q WHAT HAPPENS WHEN MY DST SELLS OR GOES FULL CYCLE? DO I HAVE TO REINVEST IN ANOTHER DST?

**A** A DST sponsor seeks to optimize sales price for the investors, and will communicate to you approximately 60 days before a possible sale that the DST is to be sold. You will receive details regarding the sale, and estimated net sales proceeds along with estimated debt payoff numbers so that we can research reinvestment opportunities which defer all capital gains taxes and avoid debt boot. Sponsors would like to re-earn your business and often have a property available that matches your debt and equity needs. You are not obligated to reinvest with the
same sponsor. Also, you can choose to purchase traditional real estate again or go back into a DST. Corcapa 1031 Advisors has historically had a very high DST reinvestment rate, as clients enjoy passive ownership and

## Q WHEN CAN A DST INVESTOR GET THEIR MONEY BACK OUT IF THEY FIND A PROPERTY THEY WANT TO BUY?

**A** DSTs should be considered as longer-term hold investments and investors should be prepared to stay in the investment until the entire property sells. Whereas it is possible to find a buyer for your specific interest, very few investors do this and there is no active secondary market, thus DSTs should not be considered "parking vehicles" that you could liquidate rapidly in order to purchase another property. Our clients almost always choose to remain in the investment until it is sold and then reinvest in a replacement property DST.

## Q WHAT IS THE TYPICAL RETURN EXPECTATION OF A DST?

**A** Currently, most DSTs are projecting cash flow between the 4.5% to 5% initial cash-on-cash return. The range of cash flow can be 4-6%. Each individual DST has a specific proforma and anticipated, but not guaranteed, cash flow projections for the full ten years.

Note that this is the cash flow component and does not include potential appreciation upon sale of the property. Corcapa recommends investors purchase DSTs from long-term track record sponsors, which will have a prior performance summary in their PPMS that investors should review along with their tax and legal advisors. Our regulatory body, FINRA, has recently limited how projected cash flow and possible total return is shown in each offering. Investors should look to the Excel spreadsheets in the back of each PPM to see the full 10-year projections of both income and cap-rate analysis of possible total returns.

## Q WHAT IS THE MAXIMUM AN INVESTOR CAN PUT IN A DST? CAN THEY SPLIT THEIR PROCEEDS INTO MULTIPLE DSTS?

**A** Typically the lender will not allow an investor to own more than 51% of an offering and minimum investments are often $100,000. Whereas an investor can do very large investments in one DST, we believe one of the best benefits of DST investing is the ability to diversify into multiple investments and therefore diversify exposure to different asset classes and cities.

## Q CAN I 1031 EXCHANGE INTO A SYNDICATION?

**A** Yes. Delaware Statutory Trusts (DSTs) and Tenant-in-Common (TICs) can be considered syndications by real estate sponsors and are likely to qualify for 1031 exchange. The DST is guided by revenue ruling 2004-86 and TICs by revenue procedure 2002-22.

## Q WHAT IS THE SPRINGING LLC RISK ASSOCIATED WITH DST INVESTMENTS?

**A** In the revenue ruling 2004-86, the IRS allowed for DSTs to qualify for 1031 exchange. However, the IRS put limitations to the trust, including but not limited to, refinancing the property, adding additional capital, making significant structural modifications to the property, or modifying the master lease. If the investment encounters significant difficulties, and the only remedy is one of the prohibited actions above, the sponsor may recommend "springing" the DST into an LLC structure so that the issue can be remedied.

# DST FAQs

## Q WILL I BE TAXED IF MY DST SPRINGS TO AN LLC?

**A** Going from a DST ownership to an LLC ownership is unlikely to create a taxable event, as you have not sold the property, creating a capital gain. If the property sells while in an LLC structure, the entire property must 1031 exchange into a new property to defer all capital gains taxes. It is possible after holding in an LLC structure to then convert back into a DST structure, but you will want to discuss this with your tax advisor.

## Q DO DST INVESTORS HAVE VOTING RIGHTS?

**A** No, DST investors do not have voting rights. When you purchase a beneficial interest in the trust you are not responsible for the day to day management or voting on decisions involved with the operation of the DST. All decisions are based on the Trust Agreement laid out beforehand, and handled by an affiliate of the sponsor, the Manager.

## Q ARE MASTER LEASES CAPITALIZED?

**A** The Sponsor provides the Master Lease with capitalization according to the initial working capital needs through a demand note. In a DST, the Sponsor and its Affiliates intentionally capitalize the Master Lease with funding, so as to avoid seeking additional cash from the Master Lessee/Investor later on. As with all real estate, this capitalization could prove to be insufficient depending on unforeseen circumstances.

## Q HOW DO I IDENTIFY A MULTI-PROPERTY DST?

**A** Some Accommodators/Qualified Intermediaries (QI) feel if the multi-property DST is all in the same closing, that it can be identified in one line of the three-property identification rule. However, Corcapa 1031 Advisors, particularly for California clients, recommends consulting with your tax advisor and strongly considering identifying using the 200% rule so that all addresses can be properly identified. The concern is that upon an audit, the auditor will determine each property address require its own line of identification, thereby potentially exceeding the three-property identification rule.

## Q IS A DST CONSIDERED TO BE A SECURITY OR REAL ESTATE?

**A** Both. Most experts believe DSTs to be a security and therefore governed by United States securities laws and generally sold through financial advisors. However, the investment is real estate as shown in the 1031 guidance from the IRS in the revenue ruling 2004-86 for DSTs and revenue procedure 2002-22 for TICs.

## Q WHAT IS THE DIFFERENCE BETWEEN CORCAPA AND A SPONSOR?

**A** Corcapa 1031 Advisors is the California Branch Office and New York City, New York Branch Office of DAI Securities, LLC and can be registered to do business in all 50 states and US territories. We broker your 1031 Exchange DST transaction but are not the sponsor.

The Sponsor is the real estate firm that has sourced and structured the 1031 Exchange DST investment and will serve as the property manager (if not outsourced) and the asset manager. The sponsor will send the quarterly

## Q ARE YOU AN ACCOMMODATOR?

**A** While Corcapa is happy to refer you to accommodators, we cannot provide accommodator/Qualified Intermediary services. We specialize in the replacement properties for our clients' 1031 exchanges.

* All information provided on this page is time sensitive and subject to change.

# Tenant-in-Common (TIC)

CORCAPA 1031 ADVISORS
Specialists in 1031 Exchange Replacement Property

## Tenant-in-Common Fractional Ownership Real Estate

Tenant-in-Common (TIC) became popular in 2002 after the IRS issued Revenue Ruling 2002-22 governing the needed structure of TIC real estate. In a TIC structure an investor owns an undivided fractional interest in real property and shares pro-rata in all the expenses and income of the property as well as depreciation benefits. TIC investors receive a recorded deed for their fractional interests in the property.

1031 exchange investors may find suitable replacement property in the form of Tenant-in-Common ownership. TIC offerings are often pre-arranged with financing allowing for a simpler and faster closing of 1031 exchange replacement property.

The acronym "TIC", which stands for tenancy-in-common and tenant-in-common, refers to arrangements under which two or more people co-own a parcel of real estate without a "right of survivorship". This type of co-ownership allows each co-owner to choose who will inherit his/her ownership interest upon death. By contrast, the type of co-ownership called "joint tenancy" requires that each co-owner's interest pass to the other co-owners upon death. The broader terms "fractional ownership," "shared ownership," and "co-ownership" encompass all arrangements involving two or more owners, including tenancy-in-common and joint tenancy.

## Key Benefits of TIC Exchanges

**TENANT-IN-COMMON EXCHANGES ARE ATTRACTIVE FOR THE FOLLOWING REASONS:**

### DIVERSIFICATION

Investors can select multiple Tenant-in-Common properties as part of their 1031 exchange allowing diversification of asset classes, cities and the level of non-recourse debt needed.

### LOWER MINIMUM INVESTMENTS

TICs may have minimum investments often as low as $250,000 – $750,000 of equity allowing investors to diversify instead of buying one larger property. If you require a lower investment amount, let your Corcapa 1031 Exchange representative know and we may be able to negotiate a reduction in certain circumstances.

### NON-RECOURSE LOANS

Virtually all the loans within the TICs that are approved by DAI Securities, LLC are non-recourse which means the investor does not personally guarantee them.

### POTENTIALLY GREATER CASH FLOW

Most Tenant-in-Common offerings have a projected cash flow based on the anticipated rental income less expenses. For example, if you invest $1,000,000 of equity into a TIC with a 4.5% projected cash flow, this would provide a projected net annual income of $45,000. This could be a higher net cash flow than you are currently receiving on your rental property. As with all real estate the income cannot be guaranteed.

### LARGER PROPERTY ACCESS

Access to Institutional Grade properties which are typically larger commercial properties that previously required significant capital to purchase.

### FINANCING ACCESS

Easier access to financing for investors needing debt on their replacement property.

# Important Risk Factors to Consider

**AS WITH ANY INVESTMENT, TIC INVESTMENTS HAVE CERTAIN RISKS:**

### ILLIQUIDITY
A TIC interest is an illiquid investment and there is no current active secondary market for selling your interest.

### SPONSOR PERFORMANCE
While Tenant-in-Common owners have voting rights on major activities such as leasing, sales and refinance, there is dependence on the performance of the sponsor.

### TAX STATUS
TICs are structured according to the Revenue Procedure 2002-22. Corcapa and DAI Securities, LLC typically work with sponsors and properties that have "should" level tax opinions regarding 1031 exchange tax compliance, but it's possible the IRS would rule unfavorably on a TIC offering and this could result in back taxes and immediate tax liability.

### POTENTIAL FOR PROPERTY VALUE LOSS
All real estate investments have the potential to lose value during the life of the investment.

### POTENTIAL FOR FORECLOSURE
All financed real estate investments have the potential for foreclosure.

### 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 a potential for suspension of cash flow distributions.

### ADDITIONAL EXPENSES
The fees and expenses of each offering should be carefully evaluated. Multiple owner offerings typically have additional expenses to owning real estate on your own and these fees should be weighed against specific capital gains tax liability. All investors are encouraged to have their tax and legal counsel advise them on taxes including any federal and state capital gains taxes, depreciation recapture and the recent 3.8% Medicare tax which could be applicable.

### CONFLICTS OF INTEREST
Conflicts of interest may affect a TIC investment and should be evaluated.

### PAST PERFORMANCE
Past performance of investments is not indicative of future performance and doesn't ensure earnings or appreciation. Principal loss or reduction could occur based on real estate performance and market conditions.

# TICs vs. DSTs:
## Which One Is Right For You?

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The IRS allows investors to sell rental properties and pay no capital gains taxes via IRC Section 1031 Exchange. This is one of the most effective tax strategies available in the tax code and can allow investors to grow wealth using continual 1031 Exchange tax deferral strategies.

IRC 1031 is defined as: No gain or loss shall be recognized on the exchange of property held for productive use in a trade or business or for investment if such property is exchanged solely for property of like-kind which is to be held either for productive use in a trade or business or for investment.

Many assume that like-kind exchange means you must exchange from the same type of property to another property of the same type. However, as long as the relinquished property was held for investment, one can trade a rental home for a multi-unit apartment complex. Or, one can exchange farmland for industrial property.

### Shared Traits:

Both TICs and DSTs provide an opportunity for fractional investment by allowing a group of investors to pool their equity and acquire higher quality replacement property than one could buy on their own.

TICs and DSTs can work with 1031 exchanges because they both qualify for "like-kind" purposes and when they are sold, investors can transfer the proceedings into another 1031 exchange.

### Differences:

| | DSTs | TICs |
|---|---|---|
| Investment Management | DSTs are passive investments. They give investors the freedom to step away from the day-to-day maintenance of their properties and investment buildings.<br>In this case, the sponsor and property manager take over management responsibilities, and investors have no vote or say in operations of the property, as the Trustee manages this on their behalf. | TICs are partially passive Investments.<br>TIC co-owners are still required to vote on major decisions such as leases, sales, or refinances. Because TICs require unanimous consent in these cases, the TIC agreement often has the ability to buy out dissenting investors as long as 66 and 2/3rds of the investors agree to a specific action.<br>Thankfully, the sponsor assumes responsibility for the toils of day-to-day property management in this structure as well. |
| Number of Investors | All aboard. The sponsor may limit total investors to 99, which means smaller minimums, although the total number of DST investors is often far less than 99. | For TICs, there is a limit of 35 investors that can participate, and if financing is involved, the TIC lender may restrict the number even further. |
| Financing | Debt taken on by the DST does not appear as investor debt because the DST shows up as the single borrower and holds the title to the property.<br>Debt allocated to the DST investor is all non-recourse, and they do not have a mortgage on their balance sheet.<br>In the event of the purchase of a larger property, a DST can include more investors to help leverage the amount each investor will have to pay, meaning that the minimums can be much lower. | Each TIC investor does hold title to the property and the loan is very likely to be non-recourse. Because they hold title, a mortgage may show up on a credit report, but in many cases it does not if the loan is non-recourse.<br>Financing can be trickier for TIC investors because lenders may view a potential 35-member co-ownership as riskier.<br>If there is a smaller number of TIC investors involved in a larger property, each investor may have to individually purchase more of the property, resulting in higher minimums.<br>TIC structures can be refinanced during the hold, including possible cash-out financing. |
| Diversification | DST investors can take advantage of the lower minimums by investing their equity into multiple different properties and buildings. | Because of the potential for higher minimums, it may be more difficult for TIC investors to diversify since most of their equity may have to be allocated into one property. |
| Additional Entities | None required. A DST is already a separate legal entity created as a trust which is likely to provide the protection an LLC would.<br>In the trust, each owner only has a "beneficial interest" in the DST and owns an undivided fractional interest in the property.<br>If a DST experiences significant economic challenges, they have the option to convert the DST into an LLC, known as a Springing LLC (subject to preexisting agreed upon terms). The act of converting to an LLC should not create a taxable event, but every effort may be made to convert the LLC back into a DST for a period of time before selling. | Because of the significant individual financing responsibilities specific to TICs, TIC co-owners need to set up an LLC.<br>Generally, the state the investment entity is set up in will require an annual LLC maintenance fee (often less than $1,000 per year).<br>The LLC acts as a wrapper around their personal assets, protecting them from any potential legal issues, or if the TIC has to file for bankruptcy. |
| Closing Time | Typically, DSTs can close in as soon as 3-5 business days because they are prearranged replacement properties and investors do not have to spend time signing loan documents or hassling with a lender. | TICs can potentially take anywhere from 30-60 days to close, depending on how many co-owners are financing and need to sign loan paperwork, as well as pass the lender's underwriting process. |

Overall, selecting a DST or TIC depends on your goals for the investment. If you want to refinance the property during the hold, perhaps gaining some liquidity or having more say and control over the investment, then the TIC is the best option. If you want a completely passive and simpler investment with more diversification, then the DST is a better choice. Both TICs and DSTs allow investors to have access to higher-quality institutional grade properties and both are likely to qualify for 1031 exchange. Ultimately, our clients often choose to invest in both DSTs and TICs so as to have diversification and a variety of strategies.

# About Us

Corcapa 1031 Advisors is an alternative real estate advisory firm with an exclusive focus on the alternative real estate product. We specialize in 1031 Exchange Replacement Property in the form of Delaware Statutory Trust (DST) or Tenant-in-Common (TIC) investments which are appropriate for 1031 tax deferred exchanges. Corcapa's goal in working with our clients is to find solutions which meet your investment objectives and defer capital gains taxes.

CORCAPA 1031 ADVISORS
Specialists in 1031 Exchange Replacement Property

# Meet Christina Nielson

**PRESIDENT, CORCAPA 1031 ADVISORS**

Christina Nielson is the President of Corcapa 1031 Advisors/1031 DST Solution and has exclusively focused on Delaware Statutory Trust (DST) /Tenant-in-Common (TIC) investments for 1031 tax deferred exchanges and Direct Investment programs since 2004. She works closely with national investor clients to find solutions which meet their investment objectives. Christina has helped investors residing in 27 states close over 500 real estate transactions in her 16 year career, totaling over $500,000,000 in gross sales. Corcapa 1031 has offices in Southern California as well as New York City to serve clients throughout the United States.

Ms. Nielson is a General Securities Principal (Series 24 Registration) along with holding the Series 7 and Series 63 Registrations. Additionally, she is a licensed California Real Estate Broker, an active member of the Alternative Direct Investment Securities Association (ADISA) and was nominated for the ACE Award, the industry's honor for Registered Representatives. Christina also holds the Certified Realty Investment Associate (CRIA) designation given by the Real Estate Investment Association of California (RIAOC), is an MLS member of The Newport Beach Association of Realtors (NBAOR), and is an active member in an invitation-only national network of trusted advisors.

Christina Nielson holds a Master of Business Administration in International Business and Technology from the EDHEC/Theseus University in Nice, France attained while on a Rotary Ambassadorial commission to Mougins, France. Ms. Nielson graduated Phi Beta Kappa in International Security and Conflict Resolution from San Diego State University. She currently lives in Orange County, CA with her husband and two sons.

Ms. Nielson looks forward to answering any questions you may have and can be reached at cnielson@corcapa.com or by phone at (949) 722-1031 or (714) 401-1062.

### COMMUNITY INVOLVEMENT & VOLUNTEER POSITIONS:

- Community Charity: The Best Is Yet To Be Chairperson of Non-Profit
- Member Alternative Direct Investment Securities Association
- Executive Committee Newport Center II
- Executive Committee Orange County Real Estate Affinity Group
- RVLDP Riordan Volunteer Leadership Program on Non-Profit Board Governance Graduate

### INTERNATIONAL INVOLVEMENT:

- CANTV Caracas, Venezuela Loyalty Card Program Development Research

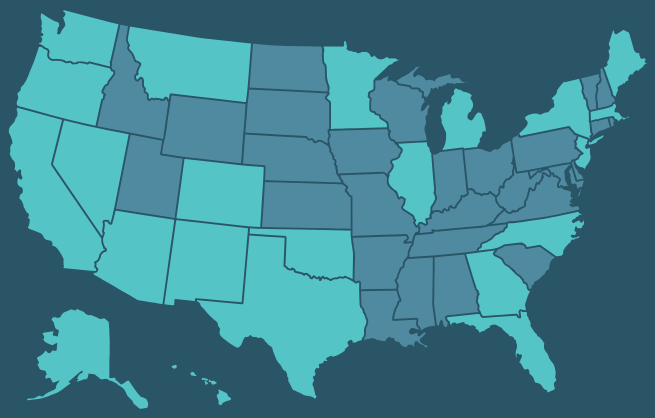
### SPEAKING ENGAGEMENTS:

- Estate Planning & Trust Council of Long Beach, Panelist on Tax Planning in Regard to Real Estate (2017)
- Financial Planning Association of Orange County, Panelist on Mitigating Capital Gains Tax on Real Estate Sales (2017)

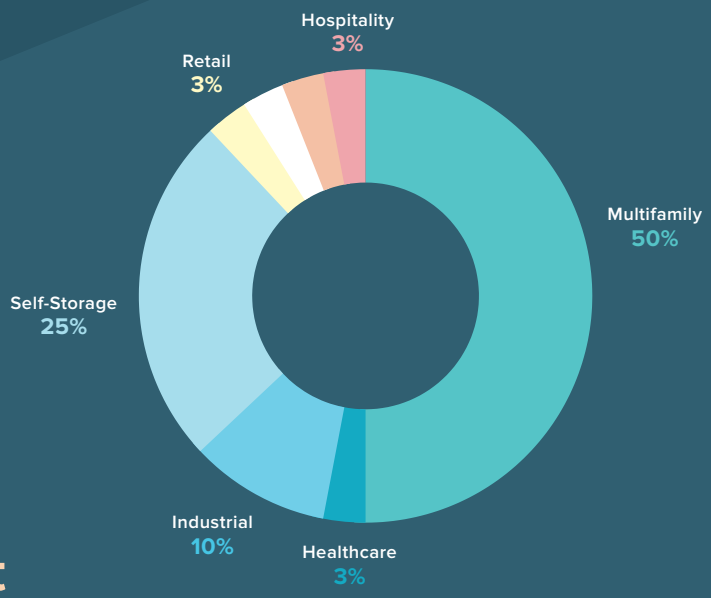
# Invest with Industry Specialists

CORCAPA 1031 ADVISORS
Specialists in 1031 Exchange Replacement Property

## 1031 Exchange Client Locations



Serving investors nationwide with clients in 27 states.




## Investment Sectors Offered

- Multifamily
- Industrial
- Retail
- Student Housing
- Self-Storage
- Healthcare
- Office
- Hospitality

## Since Inception

Corcapa/Previous Entities (2004 - 2021)

OFFERED MORE THAN

**5 Billion**

of assets based on aggregated total offering price

PARTICIPATED IN OVER

**150**

private placement programs

MORE THAN

**$500**

million in client purchases

**100's**

of successful 1031 exchanges for our clients

# Client Testimonials

CORCAPA 1031 ADVISORS
Specialists in 1031 Exchange Replacement Property

*"Hi Christina, Wow, this is great news. This was one of the easiest, most professional transactions I've been involved with. Job well done! I wish doing business was this smooth all the time."*
**INVESTOR IN COLORADO**

*"I'm not a real estate professional, so navigating the choppy waters of a 1031 exchange can be a harrowing experience. It's more than just finding the proper investment, it's dealing with lawyers, accountants, exchange agents, and seemingly endless paperwork and forms. Thankfully, Christina Nielson held my hand every step of the way, and just like that the complicated became easy. Her guidance was invaluable from beginning to end, starting with identifying properties that suited my needs, and continuing until I received my first distribution check. There are lots of hard decisions to make during a 1031 exchange, but choosing the right advisor doesn't have to be one of them. For me, it's Christina Nielson."*
**INVESTOR IN NEW YORK, NEW YORK**

*"It's always a pleasure working with you, and I appreciate everything you did to help me make this 1031 go through. I am always singing your praises to anybody who might be doing a 1031."*
**INVESTOR IN SANTA MONICA, CALIFORNIA**

*"Christina, I wanted to tell you how much I appreciated all you did helping me with my 1031 exchange investments and just general good counsel. You were there when I really needed your help and the DST investments you put me in have performed at or better than I expected. Your advice was definitely in my best interests and very cordially given. I could not have had a better adviser in these transactions. You went way out of your way to facilitate these transactions including traveling to Coronado over the 4th of July to explain these investments and other nuances of 1031 investing. Thank you very much for all you did. If you ever need a recommendation from me, please feel free to ask. You are the best!"*
**INVESTOR IN ALAMO, CALIFORNIA**

*"It's wonderful to know that we have landed such a great investment. Thank you helping us acquiring it."*
**INVESTOR IN SILICON VALLEY, CALIFORNIA**

*"Thank you for making it to our meeting. That means a lot to me. You are a terrific resource for financial advisors so I look forward to spreading the word."*
**FINANCIAL ADVISOR IN PALOS VERDES, CALIFORNIA**

*"I am so grateful for your efforts to get us situated right — diversified, and not in commercial RE, and in Grade A Multifamily. The footwork you do for your clients is unbelievable, and the outcomes show. Just imagine if we had gone forward with the other group as a previous person recommended!! Sending my best wishes to you and your family."*
**INVESTOR IN NEW YORK**

*"Thanks for your assistance on our 1031 investments. It was fun working with you and talking with you. We hope that you and your family are well and stay safe."*
**INVESTOR IN REDWOOD CITY, CALIFORNIA**

*"Thank you for your help with our recent investments. Your thoroughness in educating us and answering our questions has given us a high level of comfort and confidence in you as our advisors. To you and your family – Happy New Year."*
**INVESTOR IN ARIZONA**

*"Yea!!! ~It is such a relief to have this all behind us. Thanks so much for all your incredible patience with me. You are a treasure…"*
**INVESTOR IN HAWAII**

*"Thanks so much for getting this purchase completed Christina. It is great working with you and we look forward to bringing our other 1031 property to your business as well. I will keep you posted as to when that transaction begins."*
**INVESTOR IN NEW YORK**

# Client Testimonials

CORCAPA 1031 ADVISORS
Specialists in 1031 Exchange Replacement Property

*"I was referred to Corcapa. As a new 1031 exchanger and having made many phone calls and e-mails to various replacement property advisors while overcoming the learning curve involved, I finally found the person who could answer ALL of my questions, provide ethical and intuitive advice and help me blaze a path through the darkness. Christina is well-versed and well-educated. She won't abandon you in mid-stream. She'll get right back to you on all of your concerns and she works very hard while doing it. You can trust Christina Nielson. In the end, when your exchange is successfully completed, you may even be able to call her 'friend'."*
**INVESTOR IN FLORIDA**

*"Hello Christina, This is great! Thank you for assisting us with the various forms we needed to fill out and for your professionalism and attention to detail. We are very happy to be working with you and Corcapa 1031 Advisors."*
**INVESTOR IN CHULA VISTA, CALIFORNIA**

*"Thanks for all of your help, and have a good week. If you would like to use my name as a reference, please do so. You will get an A+."*
**INVESTOR IN NEWPORT BEACH, CALIFORNIA**

*"Christina Nielson was a pleasure to work with. I felt that she thoroughly researched potential investments and explained them well to us. Since this type of investment and situation were completely new to my siblings and me this was very helpful to us. Making decisions of this size is difficult and she showed a great deal of patience with our hesitations and changes of mind. Though the 1031 process has tight deadlines, I never felt that Christina applied unnecessary pressure to us as we tried to make decisions. I felt she understood our objectives and needs and guided us through the process well."*
**INVESTOR**

*"Thank you Christina for all your good work in helping me through this deal. I really appreciate your expert guidance."*
**INVESTOR IN CALIFORNIA**

*"I want to thank you so much for all your help toward our family. I can't express the level of intelligent professionalism, sensitivity and kindness that emanates from you. I am sure my brother and sis will agree that we are truly grateful for your presence."*
**INVESTOR IN CALIFORNIA**

*"Thank you Christina for guiding us through the maze of completing the applications, you made it seamless."*
**INVESTOR IN SANTA CRUZ, CALIFORNIA**

*"Thank you for your advice and assistance in making 1031 exchange decisions. We've very much enjoyed working with you and Corcapa 1031 Advisors."*
**INVESTOR IN SAN DIEGO, CALIFORNIA**

*"I wanted to send a personal thank you for taking so much time helping my clients Roger close the 1031 deals. I wanted to provide you with the feedback that they were extremely pleased with your high level of service, and they truly appreciated all the patience you showed with them.*
*I look forward to continuing to work with you on behalf of them and other clients in the future."*
**INVESTOR IN CALIFORNIA**

*"I am truly fortunate to have known, and worked with, Christina for many years. I respect her immensely and know that I can always count on her to assist my clients in finding suitable replacement properties for their 1031 exchange transactions. She is a true professional and always makes sure that ample due diligence is performed on any and all properties before making any recommendations to her clients. Christina is without questions one of the most knowledgeable and valuable resources in our entire industry. I would highly recommend her to all of my clients and colleagues."*
**INVESTOR**

CORCAPA 1031 ADVISORS

Specialists in 1031 Exchange Replacement Property

1031 DST SOLUTION

CORCAPA 1031 ADVISORS


**WWW.CORCAPA.COM**
**WWW.1031DSTSOLUTION.COM**

**CALIFORNIA**
650 Town Center Drive
Suite 1400
Costa Mesa, CA 92626
Phone: (949) 722-1031

**NEW YORK**
368 9th Avenue, 6th Floor
New York, NY 10001
Phone: (212) 987-1031

**DAI SECURITIES, LLC**
2200 Century Pkwy NE, Suite 435
Atlanta, GA 30345
Phone: (949) 722-1031