October 2020- MONTHLY LANDSCAPE COMMENTARY:

Sponsors add $250,000,000 in offerings in October

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Securities offered through MSC-BD, LLC

During the summer months, and after many of the restrictions cause by COVID, sponsors were very active in adding additional projects/assets to the available options for cash investors as well as 1031 Tax Deferred Exchangors. Since the expiration of the COVID July 15th extension for identification and closing on replacement properties there was a depletion on the available properties. Once Sponsors were cleared to complete their due diligence and site inspections many properties were set up for closing for final acquisition by sponsors. In addition to the ability to inspect the properties the mortgage rates continue to be low and added to the financial structure of the acquisition of the property by the sponsors. This provided additional underwriting benefits.

Typically, yearend real estate acquisition on the residential side as well as the commercial asset class tend to tick up. DST acquisition are no different. Many taxpayers seek to complete sales and acquisition within the same tax year. Some DST investors will also secure their replacement properties as soon as possible rather than wait the 180 days for closing. In most situations the investors will identify the replacement DST properties and close as soon as possible days or a week rather than extending the time. This is driven more by the demand for certain DST properties or portfolios rather than time. Well position DST offerings are in demand. The typical 1031 real estate replacement process needs the full 45 days for identification, negotiations and selection of the potential properties. Then the additional time, up to 180 days to close, to perform due diligence, arrange financing, title review as well as other pre closing task. The DST offerings streamline all those task as well as having prepackaged non-recourse loans include in the offerings. Many regular 1031 exchanges take weeks and months to negotiate and execute however, DST takes days.

Over the month of October, the $250,000,000 added in DST offering was spread among the typical distribution with Multifamily leading the way. During the COVID restriction construction continued in many of the multifamily locations. Builders were able to complete construction and deliver the product to the market. Sponsors with existing relationships with builder/developer were waiting for lease up and stabilization of the properties. Once again, the right demographics need to be present to create the demand for the lease up. Employment, transportation, location as well as income lead the list of indicators for the property acquisition. Georgia, South Carolina, Virginia and Florida lead the way in new offerings. There were additional essential retail, self-storage, and office added. There were no new student housing offerings nor hospitality. However, there was a new asst class offering that was introduced and we predict to see more of this new asset class. The Manufactured Housing (MFH) offerings have been introduced both as DST as well as LLC/REIT offerings. On the DST side this operates much like a triple net lease. Manufacturing housing parks are basically set up as land leases to the owner of the homes. This type of assets has the lowest default rate of many asset classes as well as the highest occupancies in most cases. Many of the MFH park have been owned and run as family business. The sponsor looks to identify park locations that are close to the intercoastal or ocean. The first offerings have been in Florida. There is limited supply of 4- and 5-star locations for acquisition. Typically, there is a capital improvement plan to improve the appearance of the parks, clubhouse or amenities. In many cases the current rents are below market rents. The MFH LLC offerings (not eligible for 1031 exchanges) may include multiple locations packaged as portfolio enabling geographic diversification. In both cases (DST or LLC) the liability for the structures are the responsibility of the individual owners of the homes who rent the underlying land and not the Sponsor (or individual investors). The clubhouses, amenities, roads and horizontal elements are the responsibility of the sponsor/investors. We will provide more insight into this new asset class in the coming months.

There were no October surprises from the sponsors since we predicted that there would be a large gain in available properties. Currently we are tracking 30 DSTs with $525,000,000 in equity available. There are only a few all cash DST (by design) since many investors require debt replacement. The DST we track have an average LTV of 52%. When factoring in the leverage component that represents over $1 Billion in DST properties. We predict that 50% of will be acquired by individual cash investors or 1031 exchangors by the end of the year.

DSTs are not for all investors. The acquisition of a DST is for accredited investors only. Contact your investment adviser for additional details on how a DST may be a solution to your 1031 Exchange and suited for your investment future. For more information on how to properly set up an IRC 1031Tax Deferred Exchange or if you are an accredited investor and would like additional information on a DST contact Al DiNicola at 239-691-8098 or email adinicola@dst.investments.

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