

## **April Landscape Summary “Cash and 1031 Proceeds Seeking Placement”**

BY Al DiNicola May 10, 2021

After an outstanding beginning of 2021 with a reported \$1.5B of equity placed with DST sponsors, some advisors felt as though the velocity was left over from 2020. 2020 is so far in the rear-view mirror and now investors may wonder how to position their real estate assets for the future. There are a few concerns for investors with regards to selling their property especially when the task of locating a replacement property seems overwhelming. The DST sponsors are securing additional properties to facilitate what may be the biggest year in DST equity investment. Based on an outstanding first quarter and continued investment in April the industry may well move over the \$4.25B equity investment mark. Considering that most DST have a debt component by design (average of 50%) that would indicate \$8.5B in DST purchases. Mountain Dell Consulting reports the outstanding success in a variety of asset classes.

- The top three equity raised for Q1 2021 are: Multifamily \$600M (51.24%); Industrial \$178 M (15.23%); Retail \$166M (14.21%). Multi family tends to lead the pack for a variety of reasons. MF has been the preferred asset class and also has the largest supply of properties. The Industrial sector with the distribution centers is much sought after but there is limited supply. The retail asset class consists of necessary retails grocery, neighborhood drug stores and larger properties including kidney centers and neighborhoods discount stores.
- Multi-manufactured housings asset class is a new separate asset class (was split out from Multifamily) and raised \$60M. Look for more institutional money purchasing manufactured home parks in southern states as long-term ‘mom and pop’ owners sell. Self-storage continued with a limited number of offerings and raising \$54M. Surprisingly, Office raised nearly \$50M.
- Office medical is starting to rebound with \$31M. The Multi Senior Housing \$17M and Multi Student Housing \$9M. All of these asset classes were affected more than other with COVID. Accessibility to due diligence as well as limited new supply on the market may be corrected in the near future. One note on Student Housing would be to monitor the increase in enrollment in colleges as a return to normal may boost enrollment.
- These are all first quarter results. 2021 is shaping up to be a “fast and fluid” year from the standpoint of equity or cash being available. Cash from sponsors to acquire properties and proceeds from 1031 investors and straight-out cash investors.

However, there is an investment elephant (or donkey) in the room. As many investors understand there are discussions on what President Biden may or may not do with regards to raising the necessary capital to pay for his programs. Over the past years the 1031 tax deferred exchange (not a loophole) has been the subject of modification and even thoughts of elimination. President Biden has also floated and proposed the idea of doubling the capital gains tax, eliminating the step up in basis upon transfer upon death to the heirs as well as a few other potential eliminations including raising the top tax bracket. Many of these programs have a dollar amount of either gains, profits or other exclusions for certain income earners. Family businesses and farmers may also have special exemptions. We will continue to write about these items in future articles. DSTs may provide diversification and restructuring of investor assets to fall under the projected dollar amounts. The good news are these unknowns as well as how the red-hot real estate markets in many parts of

the country are leading property owners to become sellers. The rationale is to sell now, lock in profits, seek replacement properties and hopefully be grandfathered in on the current tax situation. DSTs are becoming the new alternatives because of the tax favored returns as well as the turnkey solution they provide.

Commercial real estate brokers are recommending the DST as the replacement solution for their sellers. Commercial Real Estate brokers are not able to offer a DST unless they have the necessary qualification and security license. Property owners are becoming sellers and there is a buyer ready to close. Investors should always consider their alternatives and DST are not for all investors and you must be an accredited investor to purchase a DST.

Once a property owner close on their property being sold and the qualified intermediary is holding the sales proceeds then the “fast and furious” 45 days starts to identify properties. A strategy may be to have a conversation with an investment adviser two to three weeks ahead of the closing on the real estate being sold. This could line up a potential asset class and a few options to consider. The DST are tracked similar to real estate as Days on Market (DOM). In 2020 the median DOM was 164 days across all asset classes. In 2021 the medium DO is 75 days. Naturally certain assets with smaller offerings (under \$20M) may only last a week or so. While other larger offerings \$150M may take longer to be subscribed. We, as advisors, track the DST offerings continuous can make recommendation on potential position, diversification, and geographic locations. We also balance the necessary cash reinvestment (being held by the QI) as well as securing the balance of debt (if applicable) as required by the 1031 deferred process.



April was an outstanding month for DST investment and as we move into May and the Summer the key will be available DST offerings to satisfy the surge in demand from cash investors and 1031 Exchanges.

*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 1031 Tax 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](mailto:adinicola@dst.investments).*

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