

May Landscape Summary “Fast, Fluid, and Forward Thinking”

BY Al DiNicola June 10, 2021

As the weather warmed up in most of the country (our weather in Naples, Florida is stunning) cash investors as well as the dramatic increase of sellers utilizing the 1031 tax deferred exchange program continued to fuel the DST market. On our weekly calls to Sponsors many are scratching their heads as daily reservation agreement come across their desk. At NAMCOA we have always proposed to assess the client’s needs and then prescribe a balance portfolio of DST acquisitions. For example, a seller selling a real estate holding (commercial brick and mortar) for \$500,000 and utilizing the services of a real estate broker would typically purchase another \$500,000 property. We assess the client needs and may recommend splitting the sales proceeds into at least two DST acquisitions. The feedback from the sponsors during May has been investors are adopting this strategy and breaking their proceeds into manageable asset acquisitions of about \$500,000. Oddly enough that number, under President Biden’s tax plan, has been tossed around as one of the benchmarks for a new 1031 tax deferred exchange (not a loophole) limit for certain taxpayers. We do not know the exact criteria for 1031 exchanges going forward. Suffice to say that advisors and investors are seeking to protect their assets. Another interesting focus of President Biden’s Tax Plan may be elimination of the step up in basis on the transfer of the property. Under current rules if a property owner who acquired the property for \$250,000 years ago (with a current market value of \$1,500,000) passes away, the heirs will acquire the property at a value of \$1,500,000. There would be no tax on the transfer. If the basis is eliminated, the heirs would need to pay tax on the difference between the acquisition price and the transfer price. Meaning the heirs would come out of pocket and pay capital gains if the heirs are to retain the property. The gain of \$1,250,000 would be taxed let’s say at current 21% up to proposed 43%. That amount may vary between \$225,000 to over \$500,000 in cash on the transfer. If the heirs don’t have the cash, then the property will need to be sold.

So, what happen in May in the DST equity landscape? It has become fast, fluid, and forward thinking. As you may be aware we track most of the major sponsors on a weekly basis either by email and more often phone calls for the weekly updates and in some cases with smaller offerings twice a week. We do that so when we receive a call from an investor, we already have guidance on what assets may still be available. We are well prepared so we may be responsive to the investor call. Especially when we receive a call from an investor who is already well within their 45-day identification period. In many cases we are able to suggest alternatives either as a first options or at least a backup. Preferable we would like to have more than 48 hours remaining in the 45-day identification period and preferable not receive the request on 5 PM Friday. Yes, that happened on one occasion. Even with 4 days remaining we have been successful in creating an alternative.

During May we continuously updated the Landscape summary of offerings. In one stretch of 10 days the Landscape was very fluid. From the posted numbers it may not have seen to be a big movement. However, during that stretch of 10 days there was \$400,000,000+ of equity secured. The overall available equity was reduced from \$850,000,000 down to \$425,000,000. However, within a three-day period Sponsors were able

to make available additional equity in the forms of new offerings. When looking at the Landscape Summary you may see 28-34 available DST offerings. However, what you don't see is the 90 funded offerings over the past 12-15 months.

The big question may be how to stay ahead of the curve on what may potentially become available? We have very good communications with the sponsors on what the Sponsors have in the pipeline. Through our weekly conversations we understand the geographic locations and asset classes the Sponsors are preparing to close on which will become DST opportunities. We are able to understand the Sponsor strategies for future acquisitions and align that with the investors who are in the process of selling their real estate and look to doing a 1031 exchange. When we are engaged a few weeks prior to investors closing on their property we have a much better opportunity to suggest a tailored designed strategy. Once a property owner close on their property being sold and the qualified intermediary is holding the sales proceeds then we quickly can offer several solid recommendations. Naturally, the cash investors who utilize DST are at an advantage in as much as they are ready to acquire the asset.

May was also a great month for education of potential investors. We have engaged in many discussions with potential clients. These were investors who have long standing relationship with their current advisor who simply wanted another opinion for planning. We welcome all discussion with investors. DST acquisition by investors will continue and we are extremely happy with the trust our investors place in us when we have the opportunity to assist them. Last month we predicted the 2021 total DST equity investment to be \$4.25B. We are raising that mount to \$4.5B.

Check back next month for the DST Landscape Summary Update.

Please contact us for forward thinking strategies involving your real estate, 1031 tax deferral potentials or any other discussion regarding securitized real estate offerings.



Please refer us to any others you may know that may need advice on their 1031 Exchange!

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.

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