STAX CAPITAL

Understanding 1031 Exchanges & DST Investing

DISCLAIMER

The contents of this presentation is neither an offer to sell nor a solicitation of an offer to buy any security which can only be made by prospectus. Investing in real estate and 1031 exchange replacement properties may not be suitable for all investors and may involve significant risks. These risks include, but are not limited to, lack of liquidity, limited transferability, conflicts of interest and real estate fluctuations based upon a number of factors, which may include changes in interest rates, laws, operating expenses, insurance costs and tenant turnover. Investors should also understand all fees associated with a particular investment and how those fees could affect the overall performance of the investment. Neither Stax Capital nor Ehud Gersten provide tax or legal advice, as such advice can only be provided by a qualified tax or legal professional, who all investors should consult prior to making any investment decision.

Pursuant to SEC rule 501 of Regulation D, prior to engaging in substantive discussions regarding DST specific investments, investors must first be qualified as an accredited investor, by way of meeting certain income or net worth requirements.

Securities offered through Stax Capital. Member FINRA & SIPC

STAX CAPITAL

AGENDA

1. The 1031 Exchange Process
2. Benefits of 1031 Exchange
3. Delaware Statutory Trusts (DSTs)
4. Today's Market Environment

Securities offered through Stax Capital. Member FINRA & SIPC

The 1031 Exchange Process

STAXCAPITAL

Securities offered through Stax Capital. Member FINRA & SIPC

WHAT IS IRC SECTION 1031?

IRC SECTION 1031 STATES

*"**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."*

// LIKE- KIND //

A property similar in nature or character, regardless of differences in grade, property type, or quality.

ACCEPTABLE LIKE-KIND EXCHANGES:

1. Raw land for an apartment building
2. Duplex for a single-tenant NNN asset
3. Farmland for an office property
4. Industrial for raw land
5. Shopping center for an investment condo

STAX CAPITAL

Securities offered through Stax Capital. Member FINRA & SIPC

WHICH REAL ESTATE INTERESTS QUALIFY FOR AN EXCHANGE?

INTERESTS THAT QUALIFY

- Fractional (tenancy-in-common) interest
- Leasehold interest, 30-year plus lease
- Water rights
- Mineral rights
- Oil & gas interests
- Rental homes
- Business properties

INTERESTS THAT **DON'T** QUALIFY

- Personal residence
- Land under development for resale
- Construction or fix/flips for resale
- Property purchased for resale
- REITs

STAX CAPITAL

Securities offered through Stax Capital. Member FINRA & SIPC

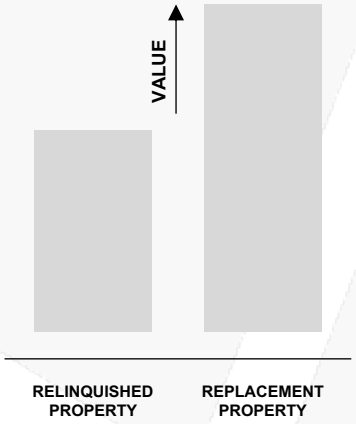
1031 EXCHANGE RULES

To successfully complete an Exchange and defer capital gains taxes, investors need to satisfy the following requirements:

1

VALUE

Purchase a property of equal or greater value.

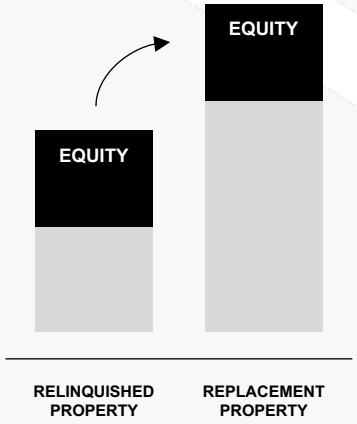


2

EQUITY

Reinvest all of the equity in a replacement property.

Note: *Any equity not reinvested will be subject to tax.*

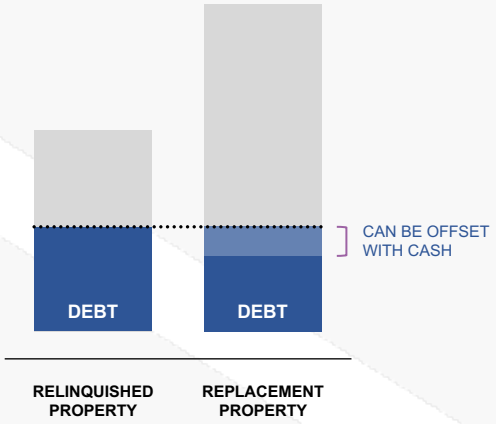


3

DEBT

Obtain equal or greater debt on the replacement property.

Exception: *A reduction in debt can be offset with additional cash from the exchanger.*



STAX CAPITAL

Employees of Stax Capital DO NOT provide tax or legal advice, as such advice can only be provided by a qualified tax or legal professional, who all investors should consult prior to making any investment decision.
Securities offered through Stax Capital. Member FINRA & SIPC

EXAMPLES OF 1031 EXCHANGES

	CLIENT A SUCCESSFUL EXCHANGE ALL TAXES DEFERRED	CLIENT B UNSUCCESSFUL EXCHANGE TAX LIABILITY OR "BOOT"
RELINQUISHED PROPERTY	**Multifamily Asset**	**Duplex**
Sale Price	$1,000,000	$1,000,000
Leverage	50%	50%
Equity	$500,000	$500,000
Debt	**$500,000**	**$500,000**
REPLACEMENT PROPERTY		
Leverage	**65%**	**40%**
Equity	$500,000	$500,000
Debt	**$769,230**	**$333,333**
Purchase Price	$1,269,230	$833,333
	Client A exchanged into a new property with 15% more leverage, replaced all equity ($500K) and debt ($500K) from the relinquished asset in the new purchase. Client 1 takes on additional leverage, which is acceptable per the "equal to or more" rule.	**Client B** exchanged into a new property with 10% less leverage and, although the full $500K was deployed, the investor only acquired $333,333 in debt which is $166,667 short of the $500K needed to avoid boot. Client 2 is now responsible for paying taxes on the $166,667 shortfall.

STAXCAPITAL

Employees of Stax Capital DO NOT provide tax or legal advice, as such advice can only be provided by a qualified tax or legal professional, who all investors should consult prior to making any investment decision.
Securities offered through Stax Capital. Member FINRA & SIPC

1031 LANGUAGE AND CONSTRUCTIVE RECEIPT

PLAN AHEAD.

Keep these two guidelines in mind as you prepare for your 1031 Exchange.

1

1031 Exchange structuring begins before the investment property is sold.

2

Taking constructive receipt of *any* sales proceeds will immediately terminate the Exchange. It's important to seek help from a Qualified Intermediary *before* closing on the sale of the investment property.

WHAT IS A QUALIFIED INTERMEDIARY?

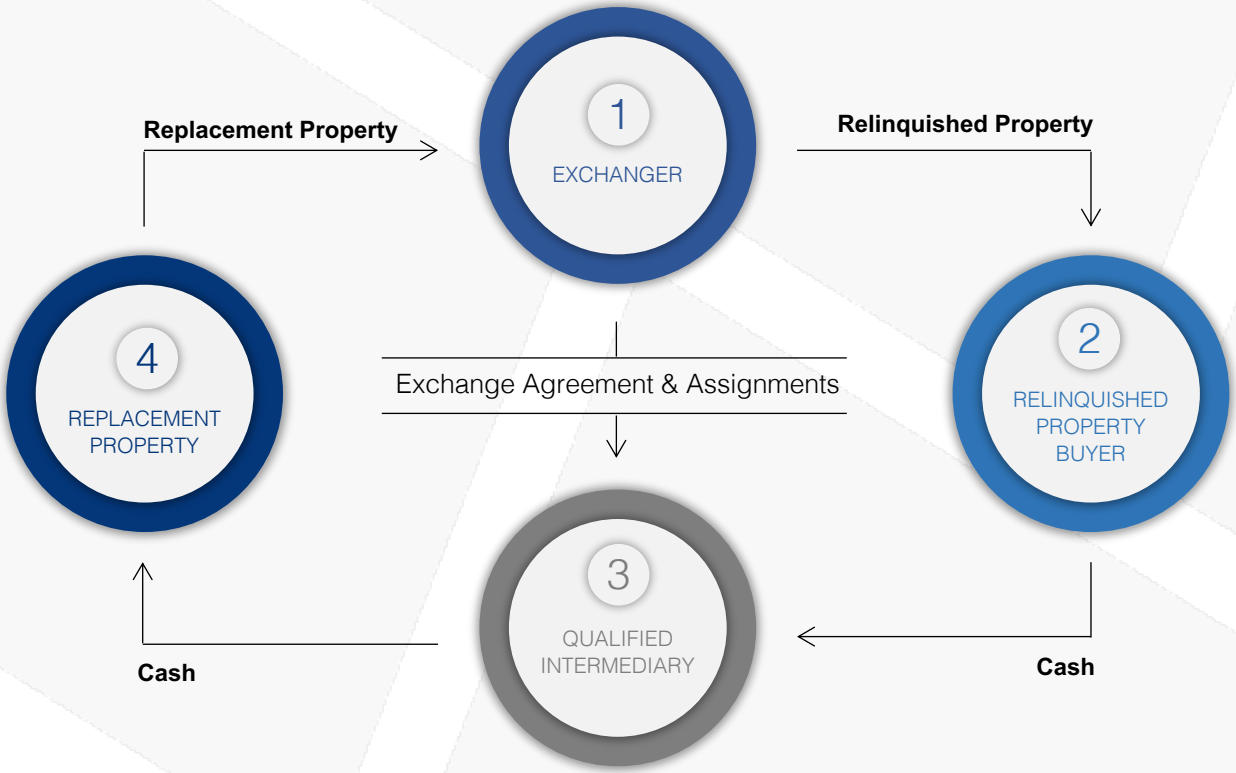
A Qualified Intermediary plays a pivotal role in all stages of the process, including:

1. **Incorporates 1031 Exchange language** into the investment sale contract prior to closing.
2. **Completes Escrow/Trust account setup.** Proceeds from the relinquished property sale are sent directly to the escrow/trust account.
3. **Manages timeline** — 45-day and 180-day rules.
4. **Identifies replacement property** and ensures requirements are met.
5. **Executes final transfer of 1031 proceeds** from Escrow/Trust account to fund replacement properties.
6. **May also provide in-house legal and tax teams** to provide additional support.

STAX CAPITAL

Securities offered through Stax Capital. Member FINRA & SIPC

UNDERSTANDING THE PROCESS



STEP 1

Exchanger completes exchange agreement and escrow account with QI

STEP 2

Sales proceeds from the relinquished property are escrowed directly with the QI

STEP 3

QI releases funds to purchase replacement property

STEP 4

Exchanger closes on replacement property and completes the exchange

STAXCAPITAL

Securities offered through Stax Capital. Member FINRA & SIPC

THE 1031 EXCHANGE TIMELINE

DAY 1

Sale of relinquished property

Identification period starts

DAY 45

Identification period ends

DAY 180

Last day to purchase replacement property

THE 45-DAY RULE

- Exchanger has 45 days from sale date to identify potential replacement properties.
- After 45 days, these are the only properties that qualify to complete the Exchange.
- Identifications are completed with the Qualified Intermediary.

THE 180-DAY RULE FOR RECEIPT OF REPLACEMENT PROPERTY

Replacement property must be received and Exchange completed no later than the earlier of:

- 180 days after transfer of the exchanged property; or
- The due date of the income tax return, including extensions, for the tax year in which the relinquished property was transferred.

WAYS TO INDENTIFY A REPLACEMENT PROPERTY

Option 1

THE THREE-PROPERTY RULE

Three properties, regardless of their market value.

Option 2

THE 200% RULE

Any number of properties, as long as the fair market value of the replacement properties does not exceed 200% of the FMV of all of the Exchanged properties as of the initial transfer date.

Option 3

THE 95% RULE

Any number of replacement properties, if the fair market value of the properties actually received by the end of the Exchange is at least 95% of the FMV of all the potential replacement properties identified.

The Benefits of a **1031 Exchange**

STAXCAPITAL

Securities offered through Stax Capital. Member FINRA & SIPC

TAX-DEFERRED CAPITAL GAINS

IN A 1031 EXCHANGE, capital gains taxes on the sale of a property are deferred.

This makes the 1031 Exchange potentially the single most important tax strategy for preserving and growing the value of your real estate investment.

Past performance is not indicative of future results.

STAX CAPITAL

Securities offered through Stax Capital. Member FINRA & SIPC

UNDERSTANDING THE TAX COMPONENTS

TO APPRECIATE THE BENEFITS OF A 1031 EXCHANGE,

it's important to understand the tax components.

2017 FEDERAL TAXES

0% - 20%
Long-term Capital Gains Tax

3.8%
Net Investment Income Tax

25%
Depreciation Recapture

STATE TAXES

STATE TAXES VARY WIDELY DEPENDING ON YOUR STATE OF RESIDENCE

0.0% — LOW TAX BRACKET IN FLORIDA

13.3% — HIGH TAX BRACKET IN CALIFORNIA*

All tax rates are for your information only and are subject to change.
**California state tax, the highest in the United States.*

STAXCAPITAL

Employees of Stax Capital DO NOT provide tax or legal advice, as such advice can only be provided by a qualified tax or legal professional, who all investors should consult prior to making any investment decision.
Securities offered through Stax Capital. Member FINRA & SIPC

DEFER OR PAY TAX?

EXAMPLE 1

$550,000	INITIAL PURCHASE PRICE
$1,500,000	OFFER PRICE
$400,000	DEPRECIATION
$150,000	ADJ. COST BASIS
$1,350,000	TOTAL TAXABLE GAIN

An investor in the highest tax bracket has invested in real estate for years. She just received an offer on an investment property, and is deciding whether to pursue a 1031 Exchange or pay the taxes and cash out.

DEFER OR PAY TAX?

	SCENARIO A: SELL AND PAY TAXES	SCENARIO B: 1031 EXCHANGE
INITIAL PURCHASE	$550,000	$550,000
DEPRECIATION	$400,000	$400,000
ADJUSTED COST BASIS	$150,000	$150,000
SALE PRICE	$1,500,000	$1,500,000
TOTAL TAXABLE GAIN	$1,350,000	$1,350,000
CAPITAL GAINS TAX (20%)	$190,000	$0
STATE TAX	—	—
NET INVESTMENT INCOME TAX (3.8%)	$51,300	$0
DEP. RECAPTURE TAX (25%)	$100,000	$0
TOTAL TAXES DUE	$341,300	$0
NET PROCEEDS	**$1,158,700**	**$1,500,000**

STAX CAPITAL

Employees of Stax Capital DO NOT provide tax or legal advice, as such advice can only be provided by a qualified tax or legal professional, who all investors should consult prior to making any investment decision.
Securities offered through Stax Capital. Member FINRA & SIPC

DEFER OR PAY TAX?

EXAMPLE 2

$50,000	INITIAL PURCHASE PRICE
$550,000	OFFER PRICE
$0	IMPROVEMENTS (Non-Expensed)
$0	DEPRECIATION
$125,000	INCOME (Annually)
5.75%	NC STATE TAX

A resident of North Carolina purchased raw land in the Raleigh area many years ago.

Lucky for him, the Raleigh market has grown significantly and a multifamily developer has offered to purchase his land.

Whether a like-kind exchange is beneficial to a holder of real estate is factually specific and each investor should consult their own tax advisor and financial advisor.

DEFER OR PAY TAX?

	SCENARIO A PAY TAX & CASH OUT	SCENARIO B 1031 EXCHANGE
INITIAL PURCHASE	$50,000	$50,000
+ IMPROVEMENTS	$0	$0
- DEPRECIATION	$0	$0
ADJUSTED COST BASIS	$50,000	$50,000
OFFER PRICE	$550,000	$550,000
TOTAL TAXABLE GAIN	$500,000	$500,000
CAPITAL GAINS TAX	$75,000 (15%)	$0 (20%)
STATE TAX (5.75%)	$28,750	$0
NET INVESTMENT INCOME TAX (3.8%)	$0	$0
DEP. RECAPTURE TAX (25%)	$0	$0
TOTAL TAXES DUE	$103,750	$0
NET PROCEEDS	**$446,250**	**$550,000**

STAX CAPITAL

Employees of Stax Capital DO NOT provide tax or legal advice, as such advice can only be provided by a qualified tax or legal professional, who all investors should consult prior to making any investment decision.
Securities offered through Stax Capital. Member FINRA & SIPC

REPOSITIONING YOUR REAL ESTATE PORTFOLIO

Exchange from one property to several

Exchange from several to one

Increase the income of your investment

Reduce property management responsibility

Change your geographic exposure

Increase your depreciation deduction

Whether a like-kind Exchange is beneficial to a real estate holder is factually specific. Each investor should consult his or her own tax and financial advisors.

STAX CAPITAL

Securities offered through Stax Capital. Member FINRA & SIPC

Delaware Statutory Trusts **(DSTs)**

STAX CAPITAL

Securities offered through Stax Capital. Member FINRA & SIPC

WHAT IS A DST?

// DELAWARE STATUTORY TRUST ("DST") //

A business trust that can be used for real estate ownership of higher-quality, professionally managed commercial properties; provides a passive, turn-key solution for transacting a 1031 exchange.

- Investors in a DST are not direct owners of the real estate, but instead own an undivided interest in the assets held by the trust.
- The Trust holds title to the property for the benefit of many investors.
- DSTs are recognized by the IRS (Rule 2004-86) as qualified replacement property for real property.

There is no guarantee of success. Investors could incur a loss of all or a portion of their investment.

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."

DST ADVANTAGES

DSTs may provide a solution for exchangers who don't have the time, energy, or expertise to find and/or manage replacement property.

1	Access to institutional-quality real estate
2	Institutional management
3	Passive ownership – no property management responsibility
4	Diversification
5	Institutional financing
6	Non-recourse debt
7	Tax reporting (Grantor letter)
8	Lower minimum investment

There is no guarantee of success. Investors could incur a loss of all or a portion of their investment.

STAX CAPITAL

Employees of Stax Capital DO NOT provide tax or legal advice, as such advice can only be provided by a qualified tax or legal professional, who all investors should consult prior to making any investment decision. Securities offered through Stax Capital. Member FINRA & SIPC. Always refer to and read DST property specific offering materials for complete risk disclosure prior to investing.

DST RESTRICTIONS & LIMITATIONS

In exchange for the benefits of a DST, including convenience, tax deferral and having ownership in a professionally managed property, **there are also limitations and restrictions you should be aware of.**

1. DSTs are **illiquid**
2. **No public secondary market exists for DST interests,** and it is highly unlikely that any such market will develop
3. Most DSTs target a **5-7 year timeframe**
4. **Investors have no control** or involvement in property management
5. **The decision of when to sell the DST is determined by the Sponsor,** based on market conditions and other variables affecting the property's selling price
6. **When a DST is sold,** the investor can: rollover assets into another DST, exchange into new property, cash out and pay taxes
7. **Higher fees** may apply

There is no guarantee of success. Investors could incur a loss of all or a portion of their investment.

STAX CAPITAL

Employees of Stax Capital DO NOT provide tax or legal advice, as such advice can only be provided by a qualified tax or legal professional, who all investors should consult prior to making any investment decision. Securities offered through Stax Capital. Member FINRA & SIPC. Always refer to and read DST property specific offering materials for complete risk disclosure prior to investing.

DST LIMITATIONS: SEVEN DEADLY SINS

IRS RULE 2004-86

*For beneficial interests to qualify as direct interests in real estate for Section 1031 purposes, the DST must be limited in its actions and **may not**:*

1. Exchange DST property for other property
2. Invest cash between distribution dates in anything other than short-term securities
3. Accept additional capital to the DST
4. Renegotiate terms of debt or enter into new financing
5. Renegotiate existing leases*
6. Enter into new leases*
7. Make repairs or improvements other than minor, non-structural repairs

** Except in the event of an original tenant bankruptcy or insolvency.*

To deal with these limitations, DSTs contain provisions for "springing" into a limited liability company taxed as a partnership if action prohibited in the DST format is needed.

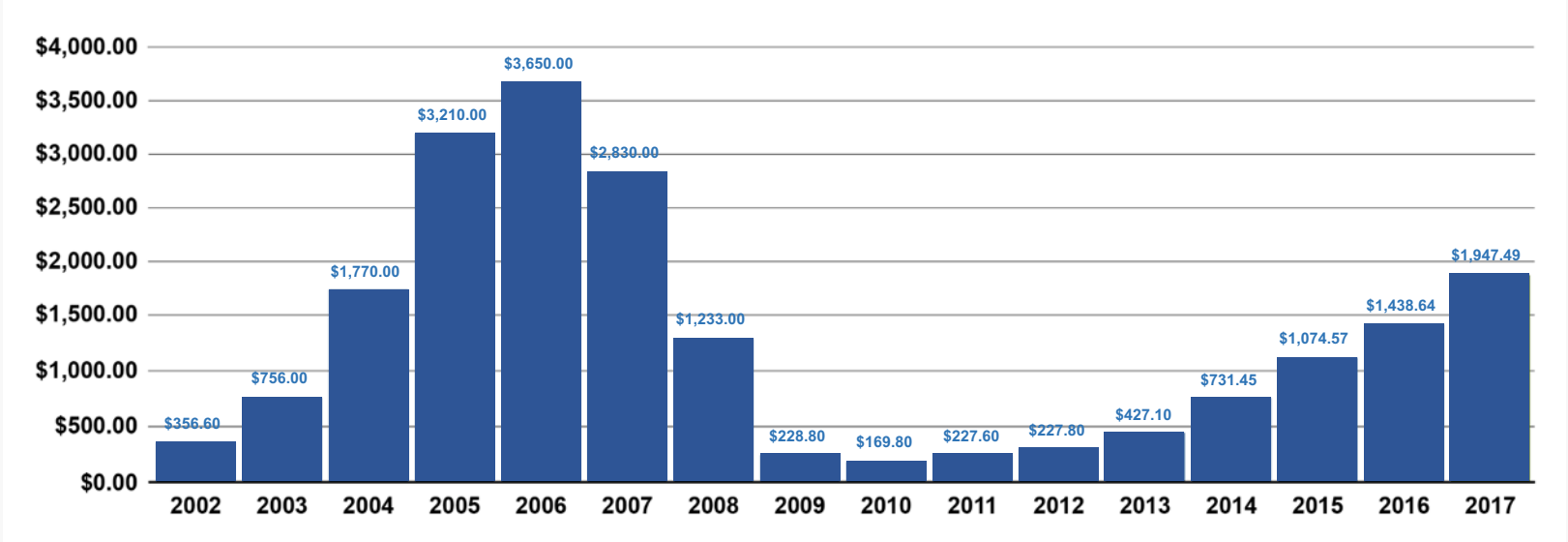
This is normally not taxable,
but may limit future 1031 exit options.

STAXCAPITAL

Securities offered through Stax Capital. Member FINRA & SIPC

DSTs HAVE GAINED IN POPULARITY

SECURITIZED FUNDRAISING (TIC AND DST)



There is no guarantee of success. Investors could incur a loss of all or a portion of their investment.

STAXCAPITAL

DST EXCHANGE DIAGRAM

Delaware Statutory Trust Investment Sponsors

Investment sponsors provide acquisition, due diligence, investor relations, reporting, accounting, asset management and disposition services.

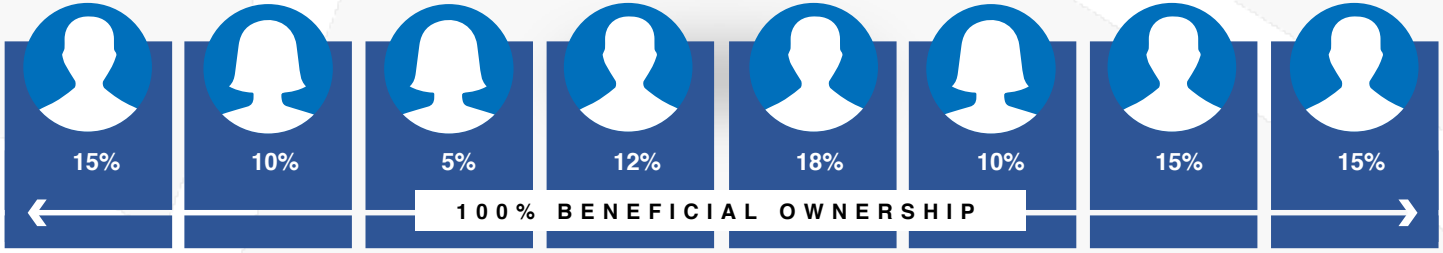
DST SPONSORS
Utilize 3rd Party

Onsite Property Management Companies
Includes the likes of:
Greystar
Lincoln Property Co.
Bell Partners, Inc.
BH Management Services

DST SPONSORS
Contract with

STAXCAPITAL
Broker Dealer
Manager Due Diligence
Property Due Diligence
Industry expertise
Qualified Investment Professionals
DST Guidance

Investments made through licensed Broker Dealers



STAXCAPITAL

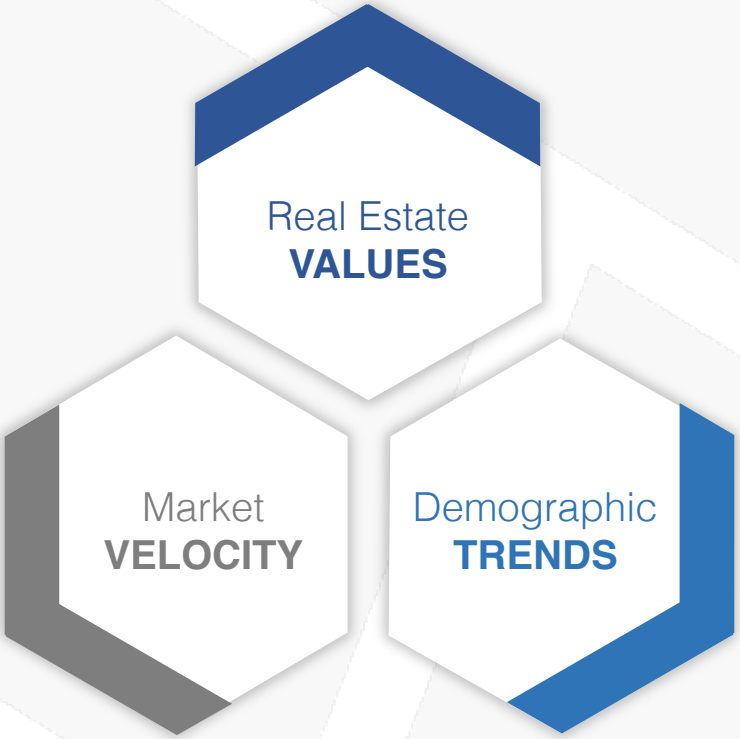
Securities offered through Stax Capital. Member FINRA & SIPC

Today's Market **Environment**

STAXCAPITAL

Securities offered through Stax Capital. Member FINRA & SIPC

TODAY'S REAL ESTATE ENVIRONMENT



1 **REAL ESTATE VALUES** in most markets have recovered since 2008.

This, combined with continued low interest rates, has led to an active market:

1. Sellers are looking to lock in gains.
2. Buyers are eager to secure new properties.

2 **DEMOGRAPHIC TRENDS** are fueling demand for turnkey DST solutions.

As the population ages, DSTs have increased in popularity in response to a desire to minimize property management responsibilities.

3 **VELOCITY** of today's market:

1. **The challenge** of executing a 1031 Exchange has played a major role in today's environment.
2. **This has been fueled by** the difficulty of finding quality replacement properties.

Securities offered through Stax Capital. Member FINRA & SIPC

CONSIDER ADDITIONAL RISK FACTORS

- There is no guarantee of success. Investors could incur a loss of all or a portion of their investment
- No public market exists for the DST Interests, and it is highly unlikely that any such market will develop.
- There are substantial restrictions on the transfer of DST Interests.
- There is no specified time that the properties will be liquidated and the DST may not be able to sell any or all of the properties at a price equal to or greater than the purchase price paid for the DST Interests.
- Delaware statutory trusts are a relatively new vehicle for real estate investment and are inflexible vehicles to own real property.
- If a property is transferred (or the DST is converted) to the Springing LLC, investors will likely lose their ability to participate in a future Code Section 1031 Exchange with respect to the transferred property or properties.
- Investors will have no voting rights and will have no control over management of the DST or the properties.
- There is no guarantee that investors will receive any return.
- The performance of the DST will depend on tenants' ability to pay rent.
- The properties will be subject to the risks generally associated with the acquisition, ownership and operation of real estate including, without limitation, environmental concerns, competition, occupancy, easements and restrictions and other real estate related risks.
- The DST will only own buildings leased to the tenant and will not be diversified with respect to the assets it owns.
- The properties will be leveraged.
- The manager and its affiliates will receive substantial compensation in connection with the offering and in connection with the ongoing management and operation of the properties.
- The manager and its affiliates are newly formed entities with limited history of operations, limited experience managing or operating Delaware statutory trusts and have limited capital.
- An investment in the DST Interests involves certain tax risks.

STAX CAPITAL

4901 Morena Blvd., Ste 121
San Diego, CA 92117
info@staxai.com | 844-472-1031

staxai.com

All securities transactions are offered by and conducted through Stax Capital, a broker-dealer registered with the SEC, a member of FINRA and SIPC.