Understanding 1031s and DSTs

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Why Use a 1031 Exchange?

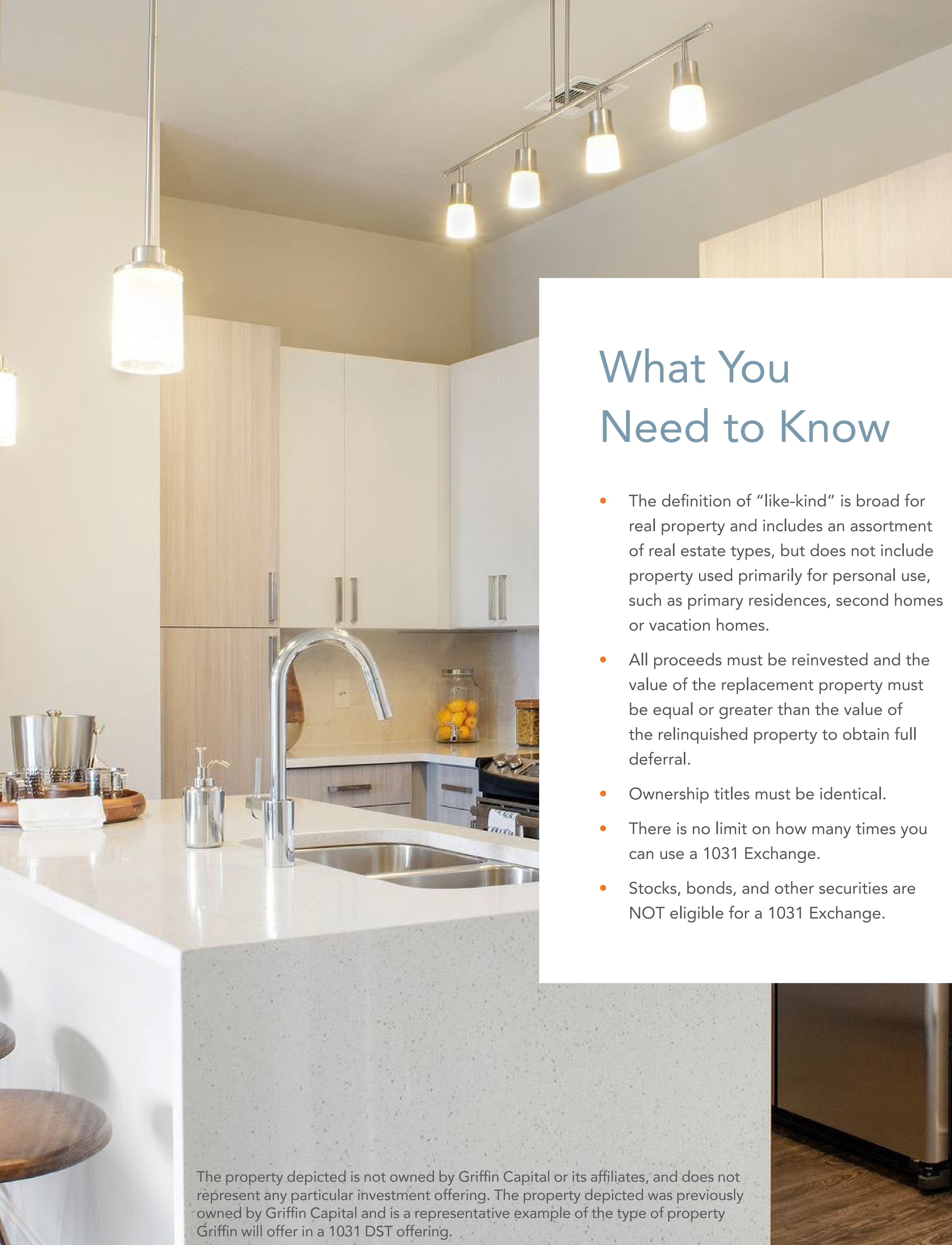
A 1031 Exchange is an effective method to defer the capital gains tax on the sale of real estate. In a typical 1031 Exchange, a property sells the real property and uses the proceeds to buy another real property, which is why 1031 Exchanges are also referred to as "like-kind" exchanges.

In simplified terms, under Internal Revenue Code Section 1031, the gain from the initial sale of real estate is not taxable as long as you use all of the proceeds for the purchase of the replacement property.

By deferring capital gains tax, you can use 100 percent of the untaxed proceeds from a real property sale to buy new real property. A well-structured 1031 Exchange is an efficient method to preserve capital, readjust a portfolio, and invest in new real property.

The Benefits include:

- Defer capital gains tax
- Potential for consistent income
- Professional management
- Additional diversification



What You Need to Know

- The definition of "like-kind" is broad for real property and includes an assortment of real estate types, but does not include property used primarily for personal use, such as primary residences, second homes or vacation homes.
- All proceeds must be reinvested and the value of the replacement property must be equal or greater than the value of the relinquished property to obtain full deferral.
- Ownership titles must be identical.
- There is no limit on how many times you can use a 1031 Exchange.
- Stocks, bonds, and other securities are NOT eligible for a 1031 Exchange.

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How It Works

The most common 1031 Exchanges are "delayed exchanges," which gives you 45 days from the date you sell your real property to identify replacement properties and 180 days from the sale date to close on a new property to complete an exchange. To qualify for the tax deferment, you must reinvest the entirety of the proceeds from the initial sale and acquire real estate with the same or greater amount of debt.

STEP 1: DECIDE TO EXCHANGE

There are many reasons to sell your investment property, but one drawback is having to pay capital gains taxes. You determine completing a "like-kind" exchange is your best investment strategy due to the additional potential benefits a 1031 Exchange offers, including consistent income and diversification.

STEP 2: SELL PROPERTY

In order to successfully complete a 1031 Exchange, you cannot take receipt of proceeds upon sale of your real property and must have the funds held by a Qualified Intermediary. A Qualified Intermediary ("QI") serves as a facilitator for the exchange of funds. Upon sale of your real property, you have 180 days to close on a suitable replacement property.

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DAYS

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STEP 3: IDENTIFY PROPERTY

Once the QI holds the proceeds from the sale of your real property, you must identify a suitable replacement property within 45 days from the sale of the relinquished property.

STEP 4: BUY REPLACEMENT PROPERTY

You have identified a replacement property to reinvest the proceeds from the sale of the relinquished property. You have 180 days from the sale of your relinquished property to close on your replacement property, at which time the QI will forward the funds for the closing of the replacement property.

45
DAYS

180
DAYS

Three Property Identification Rules

A person engaging in a 1031 Exchange must identify the replacement real property through ONE of the following three rules:

1. **Three Property Rule:** An exchanger may identify up to three replacement properties, regardless of their fair market value ("FMV"); or,
2. **200% Rule:** An exchanger may identify any number of replacement properties as long as the combined FMV of those properties does not exceed 200% of the FMV of the relinquished property (i.e., the real property the exchanger is selling); or,
3. **95% Rule:** An exchanger may purchase any number of replacement properties, with no limit on FMV, as long as the properties acquired amount to at least 95% of the FMV of all identified properties.

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Why Use a DST Structure?

A Delaware Statutory Trust (DST) provides an efficient vehicle to benefit from the advantages of a 1031 Exchange. The DST structure allows an investor to buy a fractional interest in large, institutional quality,[1] professionally-managed commercial real property as individual beneficial owners of the DST.

Using a DST as the replacement property combines the tax deferral of the exchange with the security and flexibility of the DST. The DST also provides several distinct benefits:

- Increased income potential
- No property management obligations
- Limited personal liability
- Potential to own a portfolio of institutional-quality real estate
- Fast and efficient closing process

1. By "institutional quality" we mean properties that are of values typically unaffordable to the average individual investor, generally properties with a value of $30 million or more. There is no guarantee that the real property offered in DSTs will be institutional quality.

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Important Risk Factors

An investment in a Griffin-sponsored 1031 DST program is not suitable for all investors and is subject to various risks, including but not limited to:

- No public market currently exists, and one may never exist, for the interests of any Griffin-sponsored 1031 DST program. Griffin-sponsored 1031 DST programs are not liquid.
- Griffin-sponsored 1031 DST programs offer and sell interests pursuant to exemptions from the registration provisions of federal and state law and, accordingly, those interests are subject to restrictions on transfer.
- There is no guarantee that the investment and tax objectives of any particular Griffin-sponsored 1031 DST program will be achieved.
- Investments in real estate are subject to varying degrees of risk, including, among other things, local conditions such as an oversupply of space or reduced demand for properties, an inability to collect rent, vacancies, inflation and other increases in operating costs, adverse changes in laws and regulations applicable to owners of real estate and changing market demographics.
- The acquisition of interests in a Griffin-sponsored 1031 DST program may not qualify under Section 1031 of the Internal Revenue Code of 1986, as amended (the "Code") for tax-deferred exchange treatment.
- The actual amount and timing of distributions paid by Griffin-sponsored 1031 DST program is not guaranteed and may vary. There is no guarantee that investors will receive distributions or a return of their capital.
- Griffin-sponsored 1031 DST programs depend on tenants for their revenue and may suffer adverse consequences as a result of any financial difficulties, bankruptcy or insolvency of their tenants.
- Disruptions in the financial markets and challenging economic conditions could adversely affect Griffin-sponsored 1031 DST program.
- Certain of the programs previously sponsored by Griffin Capital have experienced adverse developments in the past.

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