During Retirement

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Feb. 13, 2023

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Since individual investors (not corporate entities) own more than 70% of residential rental real estate, you likely have some clients who hold property assets and act as landlords for those properties. With rising interest rates and prices, clients with investment properties may be feeling a pinch in income.

In my experience, those pressures, along with a myriad of other reasons including a

investment properties, you can show them how to take advantage of a tax shelter that’s been around for 100 years: §1031 of the U.S. Tax Code.

Understanding 1031 exchanges

1031 exchanges (also referred to as like-kind exchanges) are available to anyone who has owned real property held for business or investment purposes, for at least two years. A 1031 exchange allows investors to defer some, or even all, of their gains from the sale of these properties. To leverage a 1031 exchange, an investor has to ensure the income from a real estate investment property sale is reinvested (or “exchanged”) in like-kind property, which the IRS broadly defines as similarly valued real estate held for investment or business purposes.

1031 exchanges also provide opportunities for your clients to preserve generational wealth. For example, your client can sell an investment property at a profit, then reinvest that profit in like-kind real estate in an effort to keep growing wealth for generations to come.

The U.S. Tax Code provides for beneficiaries to receive assets from an estate on a stepped-up basis, which means the asset is allowed its market value at the time the benefactor dies. Often that means the stepped-up basis will be higher than the price at which the benefactor purchased the asset. Because taxable capital-gain income is figured based on the selling price minus the basis, that high stepped-up basis can significantly reduce the beneficiary’s taxable capital-gain income if they choose to sell the inherited asset.

So each time your client conducts a 1031 exchange, they’re locking in value and deferring taxes. Their basis is going to be lower or even zero, but they’ll also have growth in the relinquished value of the previous property. This allows your clients to avoid tax casualty or devastation and permits their investment's value to potentially

moratorium on evictions gave tenants relief from rent payments. That ate into investor cash flow and even turned it negative in some cases. These experiences have led some investors to shift their view of real estate as an asset class to hold in their retirement years.

Here is where investors can be introduced to a real estate asset class they don't have to manage: a Delaware Statutory Trust (DST), which is a real estate investment vehicle that provides individuals fractional access to a commercial real estate property. (You do **not** have to live in Delaware to participate in a DST.) A DST can offer several potential benefits for clients in a phase of life when they want to shed liability and risk.

A DST gives an investor access to real estate investment opportunities similar to those owned by large institutional investors like insurance companies, pension funds and **real estate investment trusts (**REITs). In addition to allowing for passive real estate investment, these opportunities can also give your client access to larger property investments than they could likely afford on their own, since investors share ownership of the trust with other investors.

Since DSTs allow for minimum investment amounts ($25,000 for a cash investor and $100,000 for a 1031 exchange investor), your clients can establish their own passively managed, customized and diversified portfolio of real estate properties — like student housing, industrial, multifamily, retail and warehouses — without having to play landlord. Your client can also invest in property anywhere in the country, potentially avoiding the need to pay income taxes in states that don't levy them. With a DST, the property is owned and operated by a sponsor who is responsible for maintaining the property, securing investors, income distribution for investors and more.

By using a 1031 exchange to invest in a DST, your client can move from a single asset

consider before making an investment.

A Delaware Statutory Trust is essentially a real estate portfolio in an investment security wrapper. Investments don't always meet return expectations, and sometimes projects don't grow as much as expected. Your clients can help manage those risks by working with an experienced sponsor who duly evaluates opportunities before releasing offerings.

Another potential downside to DST investment is that real estate is not easy to liquidate. A DST won't fit the bill for clients who want an investment they can turn into cash quickly as needed. Most DST offerings will have required holding periods of five to 10 years.

And DSTs will also carry a variety of fees, including management fees, offering expenses and acquisition fees, that direct investment properties won't. Your client will need to take these costs of investment, or "load," into account when considering whether they can regain and/or multiply the equity they invest.

So, if you're looking to help real estate investor clients preserve and grow assets while also sheltering them from major tax liabilities, leveraging a 1031 exchange and investing in a DST may provide a solution to help safeguard capital, generate income and reduce exposure to market volatility.

Full disclosure. The information provided here is not investment, tax or financial advice. You should consult with a licensed professional for advice concerning your specific situation.

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