



Comparing Tax-Deferral Real Estate Investment Strategies

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Comparing Tax-Deferral *Real Estate Investment Strategies*

Navigating the complex world of tax-deferral real estate investments can be challenging.

Choosing the right strategy depends on your investment goals, risk tolerance, and financial circumstances.

This presentation explores three popular tax-deferral strategies **when selling an asset or assets**:

- 1031 Exchange,
- Delaware Statutory Trust (DST), and
- Qualified Opportunity Zone Fund (QOZ).

By understanding the nuances of each, you can make an informed decision for your real estate portfolio.

What is a 1031 Exchange?

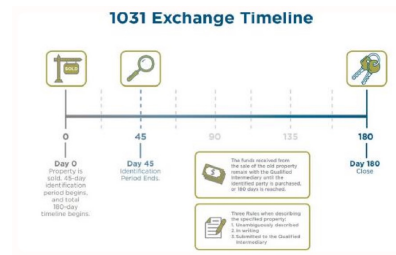


Like-Kind Exchange Basics

A 1031 Exchange allows investors to defer capital gains taxes by exchanging one investment property for another of equal or greater value.

Utilizing a 1031 exchange enables real estate investors to potentially build wealth through tax deferral.

Source: American Bar Association



Critical Timelines

Must identify replacement properties within 45 days of selling and complete the entire exchange within 180 days.

A qualified intermediary must facilitate the transaction, holding all proceeds until the exchange completes. Only properties held for investment or business purposes qualify.



Property Requirements

Properties must be of "like-kind" and located within the United States.

The replacement property must be of equal or greater value, with all equity reinvested.

Both properties must be held for productive use in business or investment.

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Advantages & Limitations of a *1031 Exchange*



Tax Deferral Benefits

- Postpones capital gains taxes, allowing for reinvestment
- Principal must remain invested to avoid capital gains taxes
- Investors can repeat exchanges multiple times, maintaining tax deferral benefits



Investment Growth Potential and Risk

- Growth and cash flow potential
- Timing of payouts depends on the investment
- Investors have risk of loss



Active Management

- Investor is responsible for management of the property
- Full control over property decisions



Timing and Eligibility Rules

- Strict timelines, rules and regulations can be difficult to navigate
- Only gains from Investment Real Estate are eligible to invest

Source: IRS News

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What is a *Delaware Statutory Trust*?



Definition

DSTs are legal entities created under Delaware state law that allow investors to own fractional interests in an investment or property owned by the Trust.



Trust Structure and 1031 Exchange Eligibility

The Trust structure allows investors to participate in 1031 exchanges of large properties such as a shopping center, office building, or multifamily housing.



DSTs are a Passive Investment

The trustee manages the property and distributes the income to investors. This limits liability and time commitment from the investor.

Source: Investing in CRE

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Advantages & Limitations of *DSTs*



Tax Deferral Benefits

- Postpones capital gains taxes, allowing for reinvestment
- Principal must remain invested continually to avoid capital gains taxes
- Investors may reinvest as many times as they would like



Investment Growth Potential and Risk

- Growth and cash flow potential
- Timeline of payouts depends on investment
- Complex fee structures
- Investors have risk of loss



Passive Management

- Professional property management eliminates responsibilities for the investor
- No control over property decisions



Timing and Eligibility Considerations

- Strict timelines, rules and regulations can be difficult to navigate
- Only gains from Investment Real Estate are eligible to invest

Investors should thoroughly understand the risks involved and consult with a tax professional before making any investment decisions.

Qualified Opportunity Zone Funds (QOZs)



Understanding OZs

Created by the Tax Cuts and Jobs Act of 2017, QOZs were designed to stimulate economic development while offering significant tax advantages to investors.

Funds must maintain 90% of assets in qualified zone property, including newly issued stock, partnership interests, or business property within these areas.

Tax Benefits & Incentives

Investors can defer capital gains taxes until 2026 by rolling gains into a QOZ fund.

After a 10-year holding period, they may qualify for complete exemption from capital gains taxes on their QOZ investment appreciation, creating a powerful long-term investment incentive.

Community Impact

While requiring a long-term investment horizon, QOZ funds offer both the potential for financial returns and meaningful social impact through community revitalization and economic development in underserved areas.

Source: IRS: Opportunity Zones Frequently Asked Questions

Investors should thoroughly understand the risks involved and consult with a tax professional before making any investment decisions.

Advantages & Limitations of *QOZ Funds*



Tax Deferral

- Tax deferral on capital gains until 2026
- 100% tax exemption on fund profits after 10-year hold
- Investment is liquidated when fund is sold



Investment Growth Potential and Risk

- Growth and cash flow potential
- Timeline of payouts depends on investment
- Geographic restrictions to designated zones
- Investors have risk of loss



Passive Management

- Professional property management eliminates responsibilities for the investor
- No control over property decisions



Timing and Eligibility Considerations

- 180 days from point of sale to invest into QOZ
- Flexible eligibility to invest capital gains from multiple sources

Source: IRS.gov - Invest in a Qualified Opportunity Fund

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Capital Gain Eligibility *Comparison*

QOZ Fund	1031 Exchange	Delaware Statutory Trust (DST)
<p>A QOZ is an option for capital gains from different sources:</p> <ul style="list-style-type: none">• Concentrated stock position• Sale of business• Sale of investment real estate• Sale of personal residence• Sale of alternative securities (cryptocurrency, diamonds, art)• Investor must reinvest the capital gain into the QOZ fund. The cost basis is optional	<p>A 1031 exchange is only an option for capital gains from investment real estate:</p> <ul style="list-style-type: none">• Only investment real estate gains qualify• Personal property and other assets not eligible• Investor must reinvest the full cost basis and capital gain into the 1031	<p>A DST is only an option for capital gains from investment real estate:</p> <ul style="list-style-type: none">• Only investment real estate gains qualify• Personal property and other assets not eligible• Investor must reinvest the full cost basis and capital gain into the DST

Source: Opportunity Zones Guide: OZ vs 1031

Investors should thoroughly understand the risks involved and consult with a tax professional before making any investment decisions.

Key Differences

QOZ Funds

No qualified intermediary required for investment.

- Minimum 10-year holding period for eligibility of capital gains elimination
- Capital gains tax deferred until 12/31/2026
- Taxes on profits eliminated after 10-year hold. Investment is liquidated when fund is liquidated

1031 Exchanges

Requires qualified intermediary oversight.

- Continuous holding period
- Capital gains tax deferred until property sale, further deferral if reinvested in 1031 exchange
- Taxes due upon sale (may be eliminated upon death)
- Principal must remain invested to avoid capital gains

DSTs

Requires qualified intermediary participation.

- Medium term holding period
- Capital gains tax deferred until the Trust is ended, further deferral if reinvested in 1031 exchange
- Taxes due upon sale (may be eliminated upon death)
- Principal must remain invested to avoid capital gains

Source: Vyzer – Tax Mitigation Strategies for Investors

Investors should thoroughly understand the risks involved and consult with a tax professional before making any investment decisions.

Reinvestment Options: *A Closer Look*



QOZ Funds

- Flexibility to reinvest only capital gain, option to use cost basis on discretionary basis
- Passive investment structure
- Professional management
- 180-day reinvestment period



1031 Exchanges

- Must reinvest full proceeds, including cost basis
- Investor responsible for management of property
- Requires direct involvement
- 45-day identification period
- 180-day reinvestment window



DSTs

- Must reinvest full proceeds, including cost basis
- Passive investment structure
- Professional management
- 45-day identification period
- 180-day reinvestment window

Source: DST News - When to Use an Opportunity Zone vs Delaware Statutory Trust

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