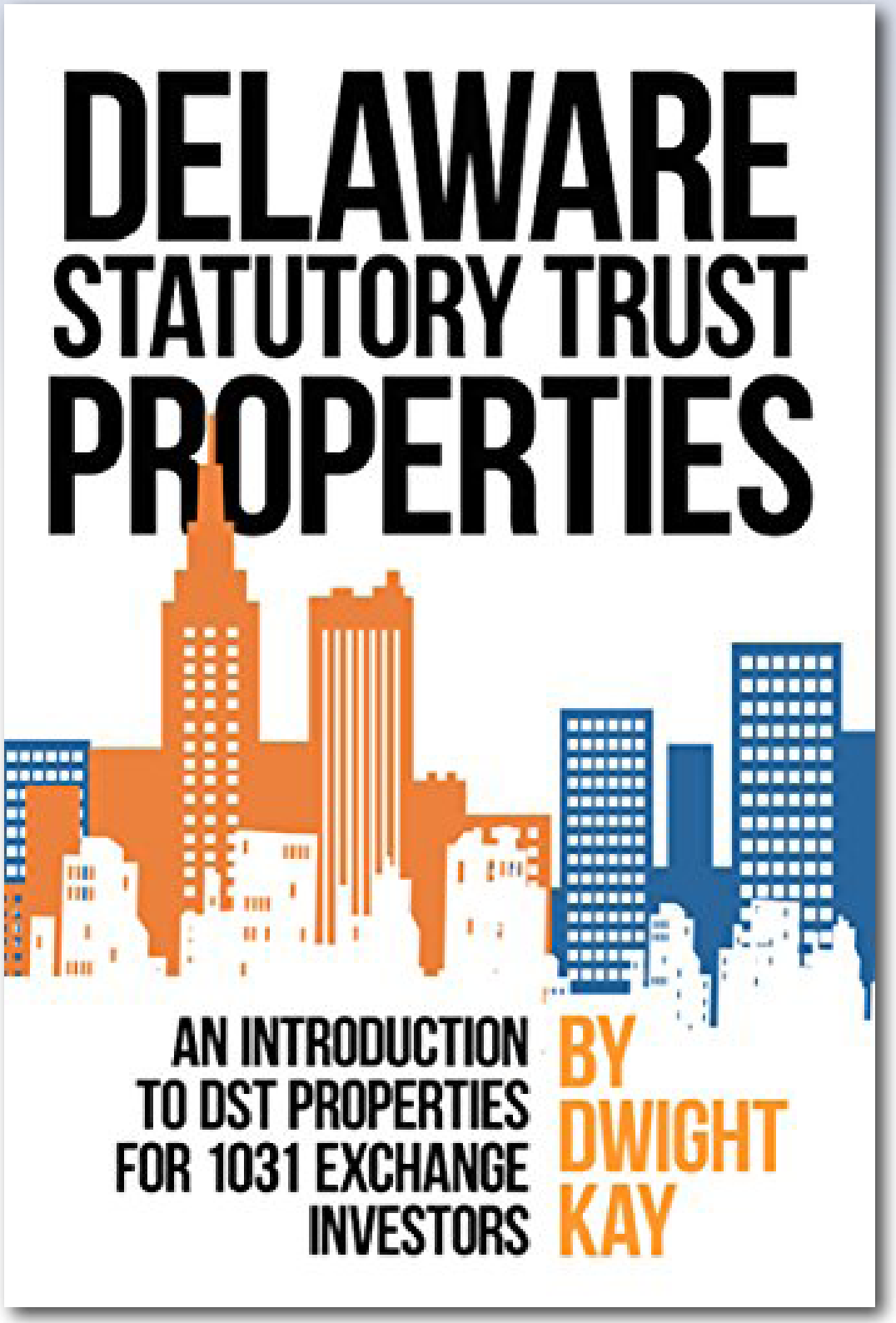
1031 DST & Me: The investment tool you need to know about today

BY BRANDI SMITH



When it comes to tools available for real estate investment, the options can be overwhelming. Every choice seems to come with stringent deadlines or severe limitations and, in some cases, both. Kay Properties & Investments wants to let investors know about an opportunity that seems to be flying under the radar.

"A lot of people still don't know about the 1031 DST structure," says Dwight Kay, the company's founder and CEO, who has published multiple white papers on the topic of DSTs as well as a book on the subject.

After working for a national commercial real estate brokerage firm, Kay began focusing on 1031 exchanges, helping his clients move from management intensive properties, via the 1031 exchange, into more passive options. He started Kay Properties as a way to do that exclusively and has seen the company grow to 19 team members to date.

"Business is booming," Kay says. "Last year, we helped our clients purchase around $300 million-plus of investments in these 1031 DST vehicles."

So, what is a DST? It's a Delaware Statutory Trust—a legal 1031 exchange structure through a trust that provides investors with a passive, diversified ownership opportunity. The IRS rules allow the DST structure as "like kind" for the purposes of a 1031 exchange under IRC Revenue Ruling 2004-86.

"Our clients come to us because they are tired of being landlords. They are tired of managing their properties, yet they have a very real tax problem if they sell and don't do an exchange," says Kay.

Over its history, Kay Properties has participated in more than $12 billion of DST real estate, providing the company with plenty of experience and know-how on the process that finally seems to be catching on in the real estate industry.

"Even though it's a part of the tax code, a lot of real estate professionals–CPAs, attorneys– they've never heard of it. They are not familiar with what is available with the DST structure," Kay says. "Over the past ten years, more people are learning about it, so DSTs are growing in popularity."

He explains that in the past, his experience with many investors tended to go the triple net route, leasing their properties to tenants who are responsible for property

taxes, insurance and maintenance. That's not a suitable choice for many investors who may have a net worth of, say, $5 million. Should they really be putting a major part of their net worth into one building in the middle of nowhere just because it has a long-term lease?

"No," Kay answers simply. "With DSTs, we're able to provide a passive investment without the potentially disastrous concentration risk that buying one NNN property can potentially pose – think of the hundreds of dark dollar stores, video stores, book stores, electronic stores, grocery stores, etc."

He adds that DSTs are fully passive because the sponsor is the asset manager of the building, handling reimbursements from tenants and daily needs, repairing issues, processing rent and invoices, etc.

"These are all tasks that a tenant might be responsible for in a traditional triple net, but, what many investors are unwaware of, are often a landlord's responsibility to coordinate, then bill back to the tenant," Kay says. "A DST really takes all that landlord activity out of the hand of the investor and puts it into the sponsors' hand, so the investors now are in a much more passive situation and don't have to deal with the tenants."

Another benefit of a DST is the opportunity to create a diverse portfolio of multiple properties.

"Investors can take their $2 million and place, for example, $500,000 into a long-term net lease with FedEx at one facility, $500,000 into a 300-unit multi-family property in Austin, $500,000 into a multi-family property in Dallas, $500,000 into a portfolio of 3 multi-family apartment communities with a total of 1,000 units," explains Kay.

It's possible to do that because each DST has already closed on those properties, which also expedites an investor's 1031 exchange whereby they can close even prior to their 45 day identification window closing. The DST can also potentially provide a backup plan for investors as well.

"A lot of investors are so focused on the property they are selling, they are not as focused on what are they going to exchange into," says Kay. "Once they close, they talk to their CPA and find out a substantial portion of their sale is going back to Uncle Sam unless they go into a 1031 exchange."

But to capitalize on a 1031 exchange, investors must adhere to those strict timelines: a new like-kind property must be identified within 45 days and the investor must close on it within 180 days. That's where the flexibility and ease of a DST becomes appealing.

"An investor can typically 1031 exchange into one of our DSTs within two or three business days. We've done them as fast as 24 hours," Kay says.

His company's website, kpi1031.com, is loaded with resources for potential investors to learn more about DSTs, as well as other investment tools, including qualified opportunity zone funds.

"We are actually starting to work with qualified opportunity zone funds quite a bit. They are another tax-deferral strategy for investors to consider," says Kay. "Investors who are selling properties, stocks, mutual funds, businesses and more with gains can use opportunity zone funds to defer and eliminate some of the capital gains taxes."

Once you register on the website, you can sign up for access to Kay Properties listings and schedule a call with a team member, who can help guide you through the potential pros and cons of various types of investments.

"We're very upfront with clients that real estate investing does have risk, which is why we stress thorough due diligence and diversification as well as rejection of certain asset classes altogether," Kay stresses.

Every investor's situation is different, which is why Kay Properties' personalized approach is so important. It's also the reason so many clients stick with the company, which has offices in Los Angeles, San Diego, San Francisco, Seattle, New York City and Washington, D.C.

"We love how pro-business Texas is, especially since there is no state income tax," says Kay, adding that Kay Properties has many clients from the Lone Star State as well as many DST investment options in Texas. "We think it's a great state; we think there is a lot of growth."

As a result, Kay anticipates opening a Texas office and relocating staff members here very soon. Until then, you can reach out to him and Kay Properties staff via the company's website: kpi1031.com. ■

About Kay Properties and Investments, LLC:

KAY PROPERTIES & INVESTMENTS LLC

Kay Properties and Investments, LLC is a national Delaware Statutory Trust (DST) investment firm with offices in Los Angeles, San Diego, San Francisco, Seattle, New York City and Washington DC. Kay Properties team members collectively have over 114 years of real estate experience, are licensed in all 50 states, and have participated in over $9 Billion of DST real estate. Our clients have the ability to participate in private, exclusively available, DST properties as well as those presented to the wider DST marketplace; with the exception of those that fail our due-diligence process.

To learn more about Kay Properties please visit: www.kpi1031.com.
