



SELLING AN INVESTMENT PROPERTY? KNOW YOUR OPTIONS!

Have you sold an investment property, or are considering the sale of one? Well, you definitely have multiple options to reinvest your proceeds! It is so important to know what is available before you invest.

We will focus here on tax efficient strategies that will help defer your capital gain tax, and provide you with greater flexibility in selecting replacement properties. We will start by explaining the traditional route that most people are familiar with, but then we will go into details about available alternatives that are not as widely known.

Traditional Route: Selling an investment property typically triggers a taxable event. Most real estate investors are generally aware of 1031 exchanges to defer taxes. This is a great tool when utilized properly to allow tax deferred growth to your portfolio. A 1031 exchange is a method for selling one qualifying property with the subsequent acquisition of another qualifying property within a specific time frame. An exchange allows the taxpayer to qualify for deferred gains, while a sale does not. This scenario is ideal for someone who is an active real estate investor, or someone who has already identified a replacement property. Why pay immediate taxes when you do not have to? Quite often individuals looking to retire and become passive investors fear the process and possible stress of a 1031 exchange as well as the huge tax burden.

The following tools identify options that can easily defer capital gains tax while remaining invested in real estate.

DST – Delaware Statutory Trusts (DSTs): DSTs are passive investments that represent fractional ownership of institutional grade real estate. They are eligible for 1031 exchange and provide investors opportunity for diversification, capital gain tax relief, and passive income, while allowing them to stay invested in real estate. As an investor in a DST, you would have the ability to fully defer your potential taxable gain, while reaping the benefits of investing in real estate. Investors are able to receive monthly income and capital appreciation without the headache of dealing with the daily nuances associated with property management. Each DST has a dedicated sponsor that oversees all management responsibilities and is obligated to act in the best interest of the investor. You can find further details about the mechanics of DST's and how they can be an excellent tool to utilize during retirement here: [Link to DST article](#).

Zero Cash Flow (ZCF): A Zero Cash Flow Investment is highly leveraged property, secured by a long-term lease, and guaranteed by an investment grade tenant. There is no cash flow distributed to the investor, deeming the term ZCF "zero cash flow," or "zero". An example of a ZCF investment would be an Amazon Sortation Facility or CVS Drugstore. The tenant pays rent that directly services the loan that was used to secure the property. ZCFs are a great tool for debt replacement in a 1031 Exchange, because they are highly leveraged. Low equity requirements are utilized to replace a large amount of debt. This allows all the conditions of a 1031 exchange to be met while allowing the deployment of your remaining equity into other cash flowing assets.



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Zero Cash Flow (ZCF) Cont'd: ZCF deals are incredibly unique due to their paydown/re-advance feature. This feature is perhaps the number one reason why ZCF properties are so popular for 1031 Exchange. It allows the purchaser to meet the requirements of a tax-deferred exchange, while giving them access to a significant amount of their equity on a tax-free basis. For example, an investor with \$10M equity in a 1031 Exchange transaction can invest in an Amazon Sortation Facility ZCF, that is 90% leveraged, and walk away with close to \$9M in cash. The investor is free to do as they wish with the readvanced cash amount, with no limitation and no stress. The investor also owns a pro-rata share of an Amazon Sortation Facility with a 20+ year NNN lease, which is usually free and clear at lease end. For more details on ZCF options please refer to the article on our website: [ZCF Investments](#).

Opportunity Zone Fund: Qualified Opportunity Zones were established in 2017 by the Tax Cuts and Jobs Act as a tax incentive program designed to stimulate economic development and job creation in distressed communities. A Qualified Opportunity Fund (QOF) is an investment vehicle that invests the majority of its assets in qualified businesses or real property (as determined by the state government). Tax benefits of investing in a QOF include the ability to defer capital gains tax, reduce taxable capital gains via stepped-up basis, and capital gain tax elimination on the appreciation of an investment in a QOF if held at least 10 years.

Questions? Contact Us.

As outlined above you have many options when participating in a 1031 exchange transaction. Numerous benefits exist when investing in DST's, however, with every investment there is inherent risk. Therefore, it is important to work with a firm that specializes in these unique opportunities. Apex Capital Management is here to help you every step of the way to answer questions about DST's and other investment options. Feel free to check out our website at www.apexcapmgmt.com for more information. We offer free consultations and look forward to helping you.

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