November 2020- MONTHLY LANDSCAPE COMMENTARY:

Investor Capitalize on New Offerings

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Securities offered through MSC-BD, LLC

Sponsors delivered over $250,000 in equity opportunities in the month of October. Investors who entered 1031 tax deferred contracts and were in their 45-day identification period positioned themselves to secure positions with their desired asset class. Cash investors simply purchased their DST without any selling concerns. Investors who contemplated selling their properties also reviewed the offerings in hopes of identifying a specific asset class and even a particular property. Multifamily leads the way with additional offerings and outpaces the other asset classes. The limited numbers of Industrial DST (which may be a distribution center for internet or web fulfillment orders) were quickly reserved and cased quickly by investors. For every 1 Industrial Distribution Center there may be 7 Multifamily offerings. The ratio does work since there is traditionally more interest in the Multi Family asset class. Within the Multifamily asset class there is a new asset that may gain more and more attention and that is Manufactured Housing. We first brought his up last month. Currently there are limited number of offerings, but this may be an asset to watch in the future. Many of the calls we received this month were from seller who have schedule their closings for the end of 2020 or early in 2021. . One of the more important items to keep in mind would be the requirement to utilize the services of a Qualitied Intermediary (QI) or an Exchange Accommodator. We do cringe when we receive a call from an investor who has already received his proceeds from his closing and now wants to do a tax deferred exchange. If you receive your proceeds from your sale it is too late for a 1031.

There is increased interest in the DST space given the effects on real estate in certain markets from COVID. We also received a few calls regarding the 2020 summer regarding the IRS ruling and DSTs. For reference, *"On 4 June 2020, the IRS released Rev. Proc. 2020-34 which provides three limited safe harbors allowing otherwise Rev. Rul. 2004-86 and Treas. Reg. § 301.7701-4(c) compliant Delaware Statutory Trusts ('DST') structured for use in Section 1031 like-kind exchanges to make certain modifications to their mortgage loans or lease agreements, or to accept certain additional cash contributions; without jeopardizing their federal income tax status as grantor trusts" (Baker McKenzie).* There are short directives provided by the IRS regarding DST structure and functions. In conversations with many sponsors, the provisions of the ruling were opportunities for a safe harbor if the DST sponsor needed to take corrective action. However, what we have found is that by and large the DST asset were in good shape with regards to the occupancy, leases and loan structures. There are a few multifamily properties experiencing some delinquencies caused by the effects on employment by COVID. For the most part the other asset classes were doing well with respects to occupancy. The loan modification provision provided by the IRS did not affect recent DST since many have benefited with the low interest rates. While the IRS provision permitted DST to accept new cash infusion however many of the DST are structures with reserves to handle short falls on income. The sponsors we intervened stated they were not anticipating accepting or needing any new cash. Initially there was an opinion that the requirements under Rev. Rul. 2004-86 are too stringent for the economic conditions we are facing today. Rev. Proc. 2020-34 has eased those requirements and has allowed DSTs and their interest holders to face this unprecedented situation in a much stronger position than they would have otherwise. This does provide an alternative in the event a particular asset or property experiences hardship.

October provided a new surge of inventory and cash investors as well as 1031 exchangers positioned themselves for securing DST properties prior to yearend and early 2021. Currently we are tracking 28 DSTs with $587,000,000 in equity available. There are only a few all cash DST (by design) since many investors require debt replacement per IRS 1031 Rules. The DST we track have an average LTV of 55% (which is up just a little over October). When factoring in the leverage component that represents over $1 Billion in DST properties. We predict that 40% of will be acquired by individual cash investors or 1031 exchangors by the end of the year. We also understand from conversation with sponsors there are new asset to come to market by year end providing a great start to 2021.

DSTs are not for all investors. The acquisition of a DST is for accredited investors only. Contact your investment adviser for additional details on how a DST may be a solution to your 1031 Exchange and suited for your investment future. For more information on how to properly set up an IRC 1031Tax Deferred Exchange or if you are an accredited investor and would like additional information on a DST contact Al DiNicola at 239-691-8098 or email adinicola@dst.investments.