

## DST 1031 PROPERTY DUE DILIGENCE

One of the many things that sets Kay Properties and Investments apart from others is our extensive due diligence on DST 1031 properties.

### THE KAY PROPERTIES DUE DILIGENCE TEAM

Is comprised of seasoned industry veterans who have performed due diligence, research, and analysis for regional and national commercial banks, private real estate companies, large real estate developers and international commercial real estate research firms.



### WHAT IS THE DUE DILIGENCE PROCESS OF KAY PROPERTIES?

- Asset Class Rejection
- Mystery Shopping Properties
- 3rd Party Reports and Market Analysis
- Sensitivity Analysis and Stress Tests on Cash Flow Assumptions
- Lease Audits

**Due diligence is an important part of the investment process**, however, investors need to be aware that properties with careful due diligence conducted on them could still end up underperforming projections as well as result in a complete loss of invested capital. This is due to a number of items that potentially cannot be foreseen such as economic difficulties, tenant bankruptcies and other greater forces outside of any investor's control. Real estate investments and DST properties contain absolutely no guarantees and we encourage all potential investors to carefully read the Private Placement Memorandum (PPM) paying careful attention to the risk section, prior to considering an investment. As we are unable to provide you with any tax or legal advice we ask that you please speak with your CPA and attorney for all tax and legal advice prior to considering an investment or exchange.

### UNDERSTANDING THE KAY PROPERTIES DST DUE DILIGENCE PROCESS

#### Asset Class Rejection

No matter how much you “crunch the numbers” on high-risk assets it doesn't change the fact that they are high-risk assets!



At Kay Properties, although our competition often continues to offer these high-risk asset classes (often because they have higher commissions than the lower risk asset classes), we have drawn a line in the sand that no matter how high the projected cash flow is, no matter how great the story of the asset class is, we WILL NOT use our clients as guinea pigs on investments that may be more likely to have large losses in the future.



Over the years, we have spoken with many investors who have lost tens of millions of dollars investing in senior care facilities, regional shopping malls, hotels, and oil and gas investments. **Kay Properties rejects the previously mentioned asset classes outright. Period.**

## Mystery Shopping

At Kay Properties and Investments, we also are different in that **we strive to mystery shop virtually every DST property that we have clients invest in.**

**A novel thought right?**



Visit the real estate as part of your due diligence. This level of boots on the ground review of the property and its neighborhood practically is unheard of in the DST industry. We have heard of few other broker- dealers and other registered representatives placing the time, money, and energy into seeing virtually each and every DST like Kay Properties does.



You can crunch the numbers all you want (which Kay Properties analysts love doing) but without visiting the property, **your “due” has not been “done” and your “diligence” has not been “diligent.”**

At the time of writing we have Kay Properties team members as well as independent property inspectors that we have commissioned (these are often the same inspectors that Fannie Mae, Freddie Mac, CMBS Lenders, and other institutional investors commission) performing property tours on DST properties throughout the country. **We strive to potentially perform these tours on virtually all properties in portfolio DSTs whereby some DST may have, for example, 10-20 individual properties in it.**

Now, others will tell you that yes,  
**they go visit properties...**



What they fail to mention to potential clients is that what they mean is that they are invited once or twice a year by product sponsors to fly out, tour a property and have a nice 1031 exchange educational dinner as a marketing tool by the sponsor. **Essentially they will see 1-3% of the properties they work with per year. Hardly impressive.**



At Kay Properties, we take the time, effort and energy to see **virtually all of the DST properties that we work with.**

## Sensitivity Analysis and Stress Tests

Another item that we are focused on is **sensitivity analysis and stress tests.**



At Kay Properties we have proprietary models we have designed which take the sponsors' assumptions about a property and apply pressure to them in an effort to help us further understand how certain circumstances will affect our investors. **Items like physical occupancy, concessions, rental rates, vacancy rates, etc. are inputted into proprietary models which we are able to run baseline tests on, and from there apply negative or positive pressure on them.**



This allows us to ascertain what the worst case scenario for a property is, and from there to understand how likely that scenario is to potentially happen or not. **Our stress tests provide a sophisticated level of analysis helping us to further understand potential risks that various scenarios can cause.**

## Lease Audits

When analyzing a retail, office or industrial DST property, one of the incredibly important steps to focus in on is the property's lease(s).

**The lease on a property can greatly affect that property's value now and in the future.**



We always want to understand the property's lease, what the tenants' obligations are and what the landlord's obligations are when it comes to the maintenance, taxes and insurance of the property.

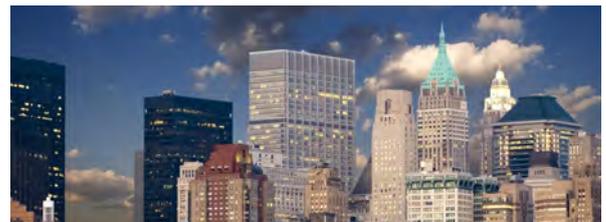
**Is it an Absolute Triple Net (NNN) lease – where the tenant is responsible for ALL maintenance, taxes and insurance, a Triple Net (NNN) lease – where the tenant is not responsible for all of the previously mentioned items, but is responsible for a majority of them, a Double Net (NN) lease – whereby the landlord is typically responsible for the roof and structure of the building or a Gross lease?**



Whereby the landlord is responsible for **all maintenance, taxes and insurance costs?**

Does the tenant have any early termination clauses built into the lease? Are there any co-tenancy clauses built into the lease that could give the tenant an early out if a neighboring tenant were to vacate the building? **Does the lease provide for annual rental increases, increases tied to the Consumer Price Index (CPI) or is it a flat lease for the entire term of the lease?**

We always seek to understand how the property's lease will potentially affect that property's value **throughout the hold period and upon the eventual exit (sale) of the asset.**



## Third Party Reports and Market Analysis



When performing due diligence on a DST 1031 property we conduct a thorough review of the property's third-party reports **(the property appraisal, environmental report and property condition report—the inspection)**

That either the lender or sponsor ordered on the property as well as reports provided by commercial real estate research firms such as **Costar, REIS, Real Capital Analytics, Axiometrics, etc. and large commercial real estate brokerage research departments.**

These reports are valuable in that they provide **detailed insight into the building and market.**



Items such as comparable sales, comparable lease rates, comparable occupancy rates, market and sub-market development and employment trends and data, physical condition of the asset, projected repairs and improvements **needed on an immediate and outgoing basis throughout the projected hold period, property environmental history and concerns, etc.**

## In summary:



As noted earlier, you can do due diligence on bad deals all month long, **but in the end they are still bad deals.**

It is of utmost importance to be very selective and reject the exotic and high-risk property categories from a top down approach when it comes to beginning the due diligence process. Once all of the junk has been rejected, THEN it is time to dig in and deconstruct a property from a bottom-up approach utilizing mystery shopping, sensitivity analysis and stress tests, lease audits, third-party report reviews and market analysis, etc.

Comprehensive DST due diligence—another way that **Kay Properties is different than others.**



## **ABOUT KAY PROPERTIES & INVESTMENTS, LLC**



**Kay Properties & Investments, LLC was founded by Dwight Kay to offer solutions to 1031 exchange clients throughout the country.**

- Headquartered in Los Angeles, CA with an office in New York, NY and Washington, D.C., San Diego, CA, San Francisco, CA and Seattle, WA
- Specialists in the Delaware Statutory Trust (DST) 1031 exchange marketplace
- Offering DST brokerage and advisory services to 1031 exchange clients
- Kay Properties team members collectively have over 114 years of real estate experience
- Kay Team members involved in over \$11 Billion of DST real estate transactions
- Kay Team members licensed in all 50 states
- Client references available throughout the country
- Deep relationships with CPA's, attorneys and qualified intermediaries throughout the country
- Always available to help our clients – weekend, holidays and whenever you need us



DST properties are for accredited investors (generally described as having a net worth of over 1 million dollars exclusive of primary residence) and accredited entities only. IRC Section 1031 is a complex tax concept; consult your legal or tax professional regarding the specifics of your particular situation. This material is not to be construed as tax or legal advice. Diversification does not guarantee returns and does not protect against loss. There are material risks associated with investing in DST properties and real estate securities including illiquidity, tenant vacancies, general market conditions and competition, lack of operating history, interest rate risks, the risk of new supply coming to market and softening rental rates, general risks of owning/operating commercial and multifamily properties, short term leases associated with multi-family properties, financing risks, potential adverse tax consequences, general economic risks, development risks, long hold periods, and potential loss of the entire investment principal. Past performance is not a guarantee of future results. Potential cash flow, returns and appreciation are not guaranteed. Please read the Private Placement Memorandum (PPM) in its entirety, paying careful attention to the risk section prior to investing. Securities offered through WealthForge Securities, LLC, Member FINRA/SIPC. Kay Properties and Investments, LLC and WealthForge Securities, LLC are separate entities.