

Delaware Statutory Trusts (DSTs): A Passive Investment Solution for Accredited Investors



ESCAPE THE TERRIBLE Ts: TENANTS, TOILETS, TERMITES, TRASH, & THE TURNOVER

Are you tired of managing real estate but do not want to give up the tax advantages of ownership? Delaware Statutory Trusts (DSTs) offer a passive solution that allows investors to defer capital gains taxes while enjoying institutional-grade property ownership.

WHAT IS A DST?

A Delaware Statutory Trust is a legally recognized trust structure, created by IRS Revenue Procedure 2004-86, enabling multiple investors to co-own income-generating real estate. DSTs are regulated by the SEC under Regulation D and are only available to **accredited investors**.

HOW DST OFFERINGS WORK

- **Sponsor Acquisition:** A professional sponsor, a national real estate company acquires high-quality, income generating, institutional-grade properties.
- **Equity Raise:** Investors contribute capital to reimburse the sponsor.
- **Minimum Investment:** \$100,000 (with flexibility to invest more)

Once the offering equity raise target is met, the offering closes, and investors become beneficial owners in the trust.

1031 EXCHANGE COMPATIBILITY

DSTs are fully compliant with **Section 1031** of the Internal Revenue Code, allowing real estate investors to defer capital gains taxes on the sale of real estate.

KEY BENEFITS:

- Earn monthly income
- No property management responsibilities
- Satisfy debt replacement through pre-arranged, non-recourse financing.
 - Combine multiple DSTs to match relinquished property's Loan-To-Value (LTV)
 - Not responsible for loan payments



Delaware Statutory Trusts (DSTs):

COMPREHENSIVE DUE DILIGENCE

Each DST offering comes with a **Private Placement Memorandum (PPM)** containing:

- Detailed property and sponsor profiles
- Pro forma financials, income projections, and operating expenses
- Third-party due diligence reports and risk disclosures
- Legal structure and exit strategy details



INVESTMENT TIMELINE & LIQUIDITY

- **Hold Period:** Typically, 6–10 years
- **No Secondary Market:** Illiquid investment, unless selling to a friend or family members
- **Exit Options:**
 - 1031 exchange into another DST or real property
 - Cash-out of asset sale
 - 721 UpREIT exchange (if offered)

DST VS. REIT AND THE 721 UpREIT EXCHANGE: KEY DIFFERENCES

- **DSTs qualify** for 1031 exchanges; **REITs do not**
- REIT shares are personal property, not real estate interests

721 UpREIT EXCHANGE: DST TO REIT CONVERSION

Some DSTs may offer conversion to a REIT via a **721 UpREIT Exchange** after a 2-year hold:

- DST Ownership becomes **Operating Partnership (OP) Units**
- OP Units can convert into **publicly traded REIT shares via the stock market for future liquidity**
- Conversion triggers capital gains taxes, typically deferred until sale or estate step-up



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DST VS. REIT VS. 721 UpREIT EXCHANGE



Feature	DST	REIT	721 UpREIT Exchange
1031 Exchange Eligible	☒ Yes	☒ No	☒ Converts DST into REIT via OP units
Ownership Type	Real Estate Interest	Personal Property (Shares)	OP Units (convertible into REIT shares)
Tax Deferral	☒ Capital Gains Deferred	☒ Gains Triggered on Sale	☒ Deferred Until Liquidity Event

Note: Conversion of a DST to a 721 UpREIT may trigger future tax liability unless deferred or stepped-up at estate transfer.



ASSET TYPES IN DST AND 721 UpREIT PORTFOLIOS

- Self-Storage
- Healthcare Facilities
- Multifamily Housing
- Industrial Facilities
- Retail Centers
- Triple-Net Lease (NNN)
- Senior Living Facilities
- Hospitality Assets
- Student Housing Communities
- Build-to-Rent Communities

DSTs must distribute all cash (excluding reserves) to investors.



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USING DSTs AS 1031 BACKUP PROPERTIES



DSTs ARE COMMONLY USED TO:

- Retire from day-to-day management of investor's real estate
- For the proceeds from the sale of the relinquished property and wishes to reinvest the remaining funds to achieve full tax deferral
- Identify one+ DSTs as a reliable backup property on the list of identified properties in the event the primary identified property falls through



DST MARKET SNAPSHOT

- Over 40 active sponsors
- Top ~ 8 sponsors control ~ 85% of market share
- Available through select RIAs and financial advisors specializing in DSTs

YOUR NEXT STEP: PASSIVE REAL ESTATE INVESTING WITH TAX DEFERRAL

Whether you are nearing retirement, simplifying your portfolio, or planning an estate strategy, DSTs provide a flexible, tax-efficient path forward.



If you are opening or have opened a 1031 exchange with Secure Exchange and would like an introduction to advisors who specialize in Delaware Statutory Trusts (DSTs) please contact Annamarie Kooning.



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Disclaimer: DSTs are illiquid investments and are only suitable for accredited investors. This brochure is for informational purposes only and does not address all DST types. A taxpayer should confer with their tax and/or legal counsel regarding their unique financial situation.