

# 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	<input checked="" type="checkbox"/> Yes	<input checked="" type="checkbox"/> No	<input checked="" type="checkbox"/> Converts DST into REIT via OP units
Ownership Type	Real Estate Interest	Personal Property (Shares)	OP Units (convertible into REIT shares)
Tax Deferral	<input checked="" type="checkbox"/> Capital Gains Deferred	<input checked="" type="checkbox"/> Gains Triggered on Sale	<input checked="" type="checkbox"/> 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 would like an introduction to the advisors that work in the DSTs space, and you have or will be opening a 1031 with Secure Exchange, 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.*