10 Reasons to Consider DSTs

Discover the Top Benefits of Investing in Delaware Statutory Trusts

Inland Private Capital Corporation (IPC) specializes in multiple-owner, tax-focused, private placement investments, including DST (Delaware statutory trust) 1031 exchange programs, 721s and QOZ (Qualified Opportunity Zone) opportunities throughout the United States.

1. Avoid Financing Obstacles

In a 1031 exchange transaction, the debt placed or assumed on the replacement property (or the debt on the replacement property plus additional cash used) must be equal to or greater than the debt relieved in the relinquished property. Brokers may run into a road block when their clients try to get financing on their replacement properties. For example, a broker may be working with a client to sell an apartment building worth $5 million with $2.5 million in debt, or 50% loan-to-value (LTV). If that property owner cannot get approved for a $2.5 million loan on their replacement property, then most likely the owner will not sell and the broker will not receive a commission.

The majority of IPC's programs are structured so that the replacement property is owned by a Delaware Statutory Trust, or DST. The DST is a pass-through entity that owns the real estate assets. When a replacement property is owned by a DST, the DST will be the borrower of any loan and individual investors in that DST will not need to be individually qualified with a lender.

2. DSTs Make Great Back Up Properties

A common strategy to identify replacement properties is the "3 Property Rule," where an exchanger may identify up to three properties, without regard to their fair market value, within 45 days. Identifying only one property may be dangerous because a property can fall out of escrow for many reasons: financing, inspections, etc. To secure an opportunity to execute a successful 1031 exchange, the exchanger could identify the first property as defined by the investor/commercial real estate broker. The exchanger can then identify two additional properties owned by DSTs. It costs the exchanger no extra money to identify additional properties. Taking this precaution insures that the exchanger has adequate choices.

Property #1: Property identified by investor/broker
Property #2: Property owned by DST
Property #3: Property owned by DST

3. Avoid Taxable Gains on Boot

The exact dollar amount of the replacement property is a common challenge in 1031 transactions. In one example, the relinquished property sells for $2.0 million and the exchanger identifies a replacement property for $1.8 million. The difference in the price of the relinquished property and the price of the replacement property results in a taxable amount on the remaining $200,000. Under the "3 Property Rule," DSTs provide a solution:

Sale Price of Relinquished Property:	$2.0 million
Replacement Property #1:	$1.8 million property identified by investor/broker
Replacement Property #2:	$100,000 investment in property owned by DST
Replacement Property #3:	$100,000 investment in property owned by DST

Result: All $2.0 million is exchanged with no taxable income.

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Please see reverse side for important disclosures.

4. No Property Management Headaches

Property is professionally managed by a third party in a DST-structured 1031 exchange. Professional managers handle the Terrible T's: Tenants, Toilets, Trash, Turmoil, Termites. The investor enjoys the Terrific T's: Travel, Time, Tennis. IPC-sponsored DST programs offer additional benefits, including the direct deposit of distributions, if any, and reporting through Substitute 1098/1099s.

5. Diversification Benefits

Investing in a DST can provide portfolio diversification. For instance, an investment could be made in a single DST that owns multiple properties in several states. It would be almost impossible for a broker to identify three replacement properties in three different states within the allowed 45-day timeframe. So DSTs are an optimal way to achieve diversification.

6. Don't Get Sidelined

Many realtors have clients that will not sell until they find the "right" property. Having the option to invest in institutional-grade properties owned by professionally managed DSTs may get investors off the sidelines, and the realtor receives their commission.

7. Swap Till You Drop

A DST is different than a 721 Exchange (UPREIT) transaction where the investor's exchange journey ends with the sale of the UPREIT. The DST structure allows the investor to continue to exchange properties over and over again until the investor's death. Upon the death of the investor, under current tax laws, the heirs would get a "step up" in basis, thereby avoiding capital gains taxes on the original and subsequent properties.

8. Estate Planning Tool

Everyone wants the best possible scenario for their heirs before they pass. Investing in a DST eliminates the opportunity for children or heirs to argue over what to do with an investment property when the owner passes away. The heirs continue to receive distributions from the investment, if any, and upon the sale of the property owned by the DST, each of the heirs can choose what to do with their inherited portion. One heir can continue to exchange the investment, while another can sell and receive cash proceeds.

9. Quality Properties and Leverage Options

IPC maintains a diversified portfolio of properties across the United States, and a wide variety of property types and leverage options. This wide range of opportunities enables investors to select a high-quality, institutional-grade private placement program that best suits their needs.

10. Low Minimums

An investor can exchange as little as $100,000 into an IPC-sponsored DST. This can include the remaining assets leftover from a property exchange.

Risk Factors

Some of the risks related to investing in commercial real estate include, but are not limited to: market risks such as local property supply and demand conditions; tenants' inability to pay rent; tenant turnover; inflation and other increases in operating costs; adverse changes in laws and regulations; relative illiquidity of real estate investments; changing market demographics; acts of God such as earthquakes, floods or other uninsured losses; interest rate fluctuations; and availability of financing.

This is a brief and general description of certain 1031 guidelines. There are various risks related to purchasing securities as part of a 1031 exchange, including tax complexity, illiquidity and restrictions on ownership and transfer. Because each prospective investor's tax implications are different, all prospective investors should consult with their tax advisors.

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