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DELAWARE STATUTORY TRUST (DST)

FAQ - ALL YOUR QUESTIONS ANSWERED

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WHAT IS A DELAWARE STATUTORY TRUST?

A Delaware Statutory Trust (DST) is a legal entity created under Delaware law that enables multiple investors to own fractional interests in a property or portfolio of properties.

DSTs are commonly used in real estate investing as a way to pool resources and invest in larger, income-producing properties.

These properties can include commercial buildings, apartment complexes, retail centers, or other types of real estate assets.

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PROPERTIES IN A DST

A DST could hold any property type. The largest share of the DST market is multifamily. Other property types include: industrial, self-storage, office, retail and hospitality.

Almost all DST properties are stabilized and cash flowing from day 1.

A DST may hold one or multiple properties. The properties in a DST never change and are known before you invest.

ECONOMIC RETURN EXPECTATIONS

Since most DST are stabilized, cash flowing properties, investors should expect conservative returns.

Investors receive monthly (or quarterly) cash flow in addition to property appreciation upon sale of the property.

Most DSTs have moderate leverage. Loan-to-value ratios are often under 50%.

Tax Treatment

The tax treatment of DSTs is similar to the treatment of any investment property. (check with your CPA!)

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WHO CREATES AND MANAGES A DST?

A Sponsor creates and manages a DST.

The sponsor will acquire the property first using bridge debt or their company balance sheet. Investors will backfill the bridge debt or equity over time. This structure allows for the ease of completion of 1031 exchanges.

The property manager of the DST is the sponsor or a property manager is selected by the sponsor.

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DST FEE STRUCTURE

DSTs have three different fee structures:

- **Acquisition/formation/closing fees** - the sponsor takes an acquisition fee. Formation of the DST includes legal and marketing costs. Closing costs from the acquisition of the property are also included.
- **Management fee** - annual fee to run and manage the property.
- **Disposition fee** - if the property provides appreciation for the investor, the sponsor takes a disposition fee.

Fee amounts vary by DST and sponsor. Reviewing a DSTs fee structure is a critical part of due diligence.

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DST HOLD PERIOD AND INVESTOR RIGHTS

How long will a DST investment last? The average hold period for DSTs from the largest sponsors since 2004 is about 8 years.

Recently we have seen the hold period decrease, however investors should be aware that the hold period and time to sell rest with the DST sponsor. Investors should plan for liquidity before investing in a DST.

Investors have limited rights in a DST. They are entitled to cash flow and appreciation, however all decisions are with the sponsor. There are no voting rights.

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HOW DST AND 1031 EXCHANGE WORK

These things work hand and hand. Investors set up a 1031 exchange first. A DST is the replacement property in a 1031 exchange.

The role of title company, CPA and Insight

Your title company could act as your qualified intermediary. Its critical to inform your title company you wish to perform a 1031 exchange before closing.

Your CPA is your lead in understanding your tax liability.

Insight is your quarterback in the 1031 exchange process and lead in understanding DSTs.

TIMELINE AND WHAT TO EXPECT

- Ideally, start the process with Insight prior to listing your property.
- Once you sell your property, you are subject to 1031 exchange guidelines. 45 days from closing to identify and 180 to close.
- Closing on a DST as replacement property can happen quickly. We have seen closings happen in a short as two days.
- Insight will provide due diligence and help craft a DST portfolio.
- After closing, Insight will monitor your DST investment. The sponsor will provide updates and all tax documentation.

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DST MIGHT BE A FIT, WHAT DO I DO NEXT?

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Reach out to Insight!

Send an email to support@investwithinsight.com to discuss your situation.