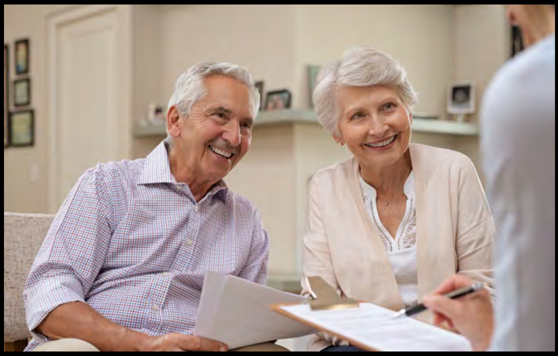
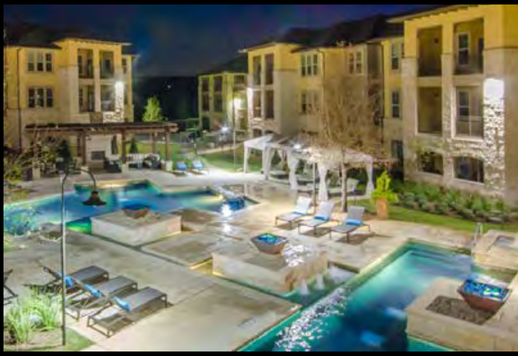
INVESTING IN
DELAWARE STATUTORY TRUSTS





Real Estate Transition Solutions (RETS)

Thank you for your interest in Real Estate Transition Solutions. For over 26 years, we have helped investment property owners understand, select, and acquire suitable 1031 Exchange properties that meet their financial and lifestyle objectives.

Our approach is grounded in education, transparency, and working in the best interest of our clients. We strive to provide real estate investment owners with as much information as possible so that with our help, their investment real estate is best positioned to meet their unique, individual objectives.

We hope you enjoy reading our free guide and welcome any questions you have regarding Delaware Statutory Trusts (DSTs) and how they work. To schedule a complimentary consultation to discuss your specific situation and what tax-deferred 1031 Exchange options are available, call us at 888-755-8595, email us at info@re-transition.com, or visit www.re-transition.com.

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About Real Estate Transition Solutions (RETS)

Real Estate Transition Solutions (RETS) is a real estate advisory firm specializing in tax-deferred 1031 Exchange strategies and options. For over 26 years, we have helped investment property owners understand, select, and acquire suitable 1031 Exchange properties that meet their financial and lifestyle objectives. Our approach is grounded in education, transparency, and above all, putting the best interest of our clients first. We are agnostic to the type of replacement property selected by our clients and base our recommendations entirely on their objectives and what they seek to accomplish.

Our team of FINRA-licensed 1031 Exchange Advisors will guide you through the entire process, including help with selecting and acquiring passive management replacement properties best suited to meet your objectives.

To learn more about Real Estate Transition Solutions, visit www.re-transition.com. We offer complimentary consultations that can be done over the phone, via web conference, or in person at one of our offices. If you would like to schedule a free consultation with one of our licensed 1031 Exchange Advisors, please call us at 888-755-8595.

Our Leadership Team

We strive to help every client make the best possible decision for their 1031 Exchange. Our personalized approach ensures our recommendations are aligned with each client's unique lifestyle and financial objectives. We invest in a rigorous process to identify, select, and recommend replacement properties based on in-depth risk, market, and ROI analysis.

Roger W. Bowlin - Founder & Partner

Roger is the founder of RETS and is key to sourcing replacement property options that satisfy clients' individualized objectives. He maintains relationships with a vast network of institutional real estate firms to assist clients' needs. Roger is a graduate of the Foster School of Business at the University of Washington and holds Series 7, 22, 63, and 65 licenses.

Austin Bowlin, CPA - Partner & Chief Exchange Strategist

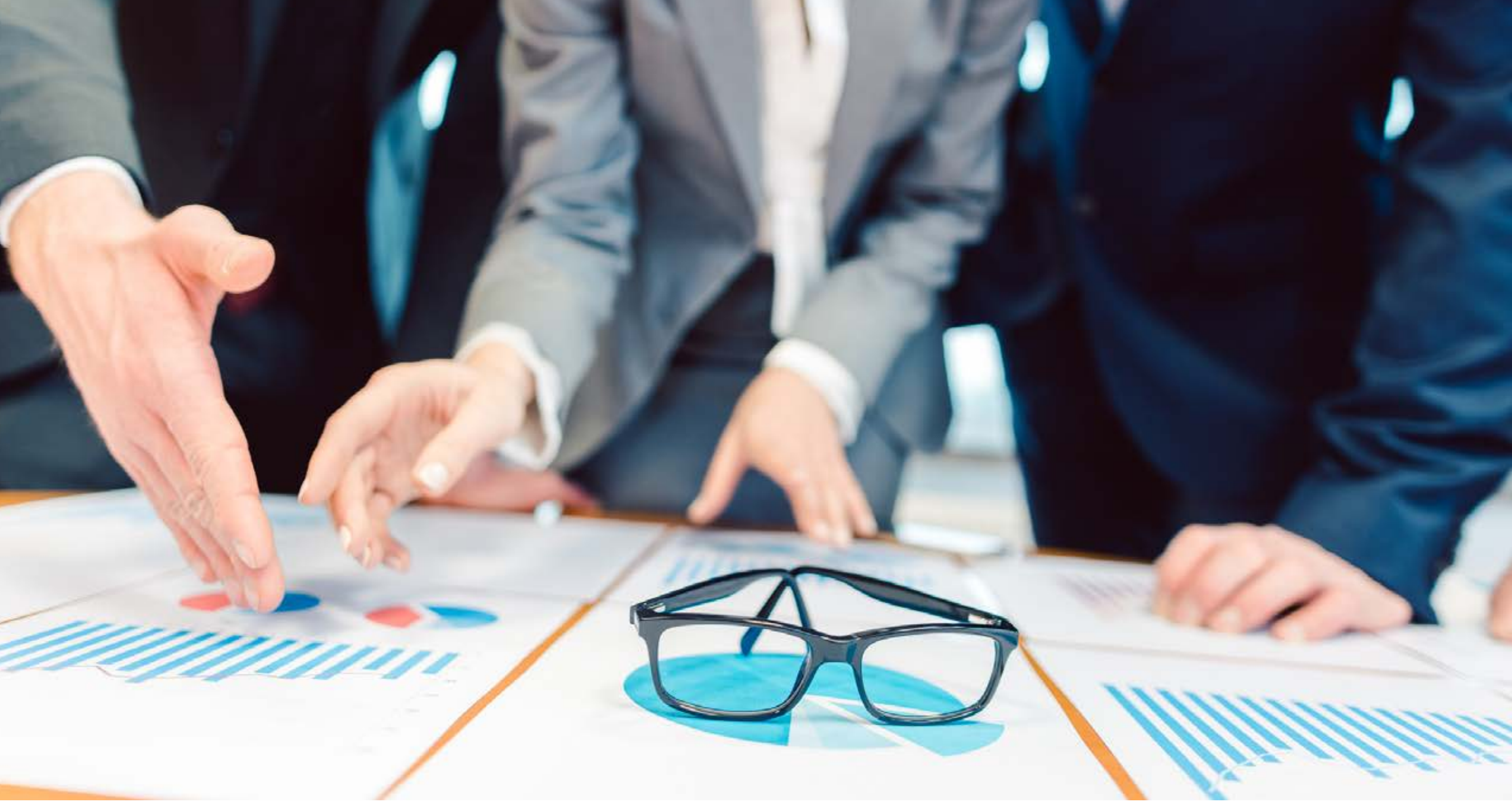
Austin leads the firm's team of 1031 Exchange Advisors and provides consultation on tax liability, deferral strategies, co-ownership arrangements, legal entity structuring, replacement property options, and DST investments. Austin is a graduate of the Gonzaga University School of Business and holds Series 22, 63, and 65 licenses.

Series 7: General Securities Representative | Series 22: Direct Participation Program Representative | Series 63: Uniform Securities Agent State Law | Series 65: Uniform Investment Advisor Law

Why Work With a Licensed 1031 Exchange Advisor

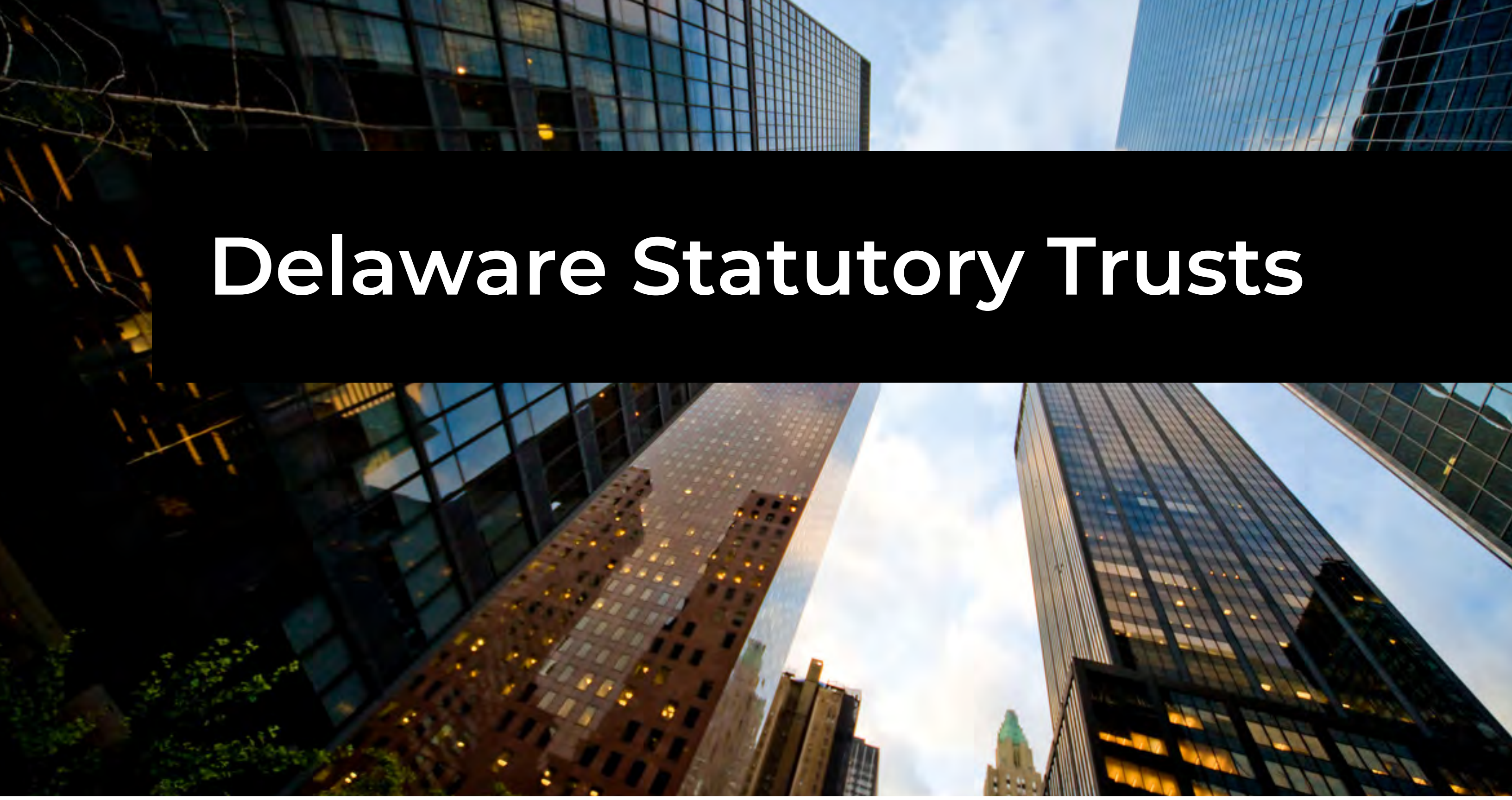
A 1031 Exchange is undeniably one of the most generous sections of the tax code. However, IRS rules and timing requirements are very rigid. Failure to adhere to IRS rules can result in a failed Exchange, in which the entire tax liability is due. To make sure your 1031 Exchange is successful and make the most of your opportunity, work with a 1031 Exchange Advisor at Real Estate Transition Solutions (RETS) to guide you through the process, including help selecting and acquiring the best replacement property to meet your goals.

Our team of highly-experienced 1031 Exchange Advisors is licensed through FINRA and has in-depth knowledge of the Exchange process, IRS rules, and options available.



Working with a RETS 1031 Exchange Advisor is also very affordable – typically, we do not charge an upfront or out-of-pocket fee for our services. Instead, our compensation is built into the offering price of the replacement property. Below are a few other benefits of working with a 1031 Exchange Advisor at Real Estate Transition Solutions:

- Your 1031 Exchange Advisor will help you understand your tax liability and work with you to determine if a 1031 Exchange is suitable for your individual needs (it may be in your best interest to pay the gains tax).
- Educate you on 1031 Exchanges, different strategies to consider, and what options are available to you.
- Help you identify, select, and acquire 1031 replacement properties best suited to help meet your financial and lifestyle objectives.
- Guide you through the entire Exchange process from start to finish and ensures IRS rules and timing requirements are met at every point.
- Proactively communicate with your other advisors to ensure all aspects of your 1031 Exchange are addressed.



Delaware Statutory Trusts

What is a 1031 Delaware Statutory Trust (DST) Replacement Property?

Delaware Statutory Trusts, also called "DSTs," are a popular 1031 Exchange replacement property option available to accredited investment property owners who do not want the burden of active property management. DST investors own a "beneficial interest" in the trust, which allows them to have an "undivided fractional interest" in the investment property owned by the trust. Typically, DSTs own high-quality institutional property.

An individual DST may own multiple properties. However, each trust typically owns only one property type. Generally, DST property is held for 3 to 10 years. Once the DST property is sold, the investors receive all sales proceeds, including any potential appreciation, and then can either perform another Exchange, pay tax, or a combination of the two. In addition, if the DST is structured for a 721 UpREIT, ownership of the DST can convert to ownership of a REIT, as discussed in the section entitled "DST Disposition Options."

What are the Benefits?

Benefits of a Delaware Statutory Trust

For investment real estate owners considering selling their appreciated property, it may be beneficial to consider a DST as replacement property when utilizing a tax-deferred 1031 Exchange. DSTs may provide a unique and flexible solution to investment real estate owners looking to defer tax and continue to own investment real estate yet seeking to eliminate the active management of directly owned Fee-Simple property.

DSTs Qualify for a 1031 Exchange

First and foremost, Delaware Statutory Trusts are considered a qualified replacement property for IRC 1031 Exchanges, as established by IRS Revenue Ruling 2004-86. DSTs can be identified as either a "primary replacement property" or as a sort of "Exchange insurance" in case a Fee-Simple property cannot be found and closed within the mandated exchange timeline. Additionally, DSTs can be used for residual exchange proceeds, provided the leftover funds are equal to or greater than the DSTs' investment minimums.

Defer Capital Gains Tax

Delaware Statutory Trusts allow real estate investors to defer paying taxes on the sale of an investment property, which can be very expensive. In some states, the total amount of tax can be as high as 42.1%.

- Federal Capital Gains Tax: 15% - 20%
- State Capital Gains Tax: 0% - 13.3%
- Depreciation Recapture Tax: 25%
- Net Investment Income Tax: 3.8%

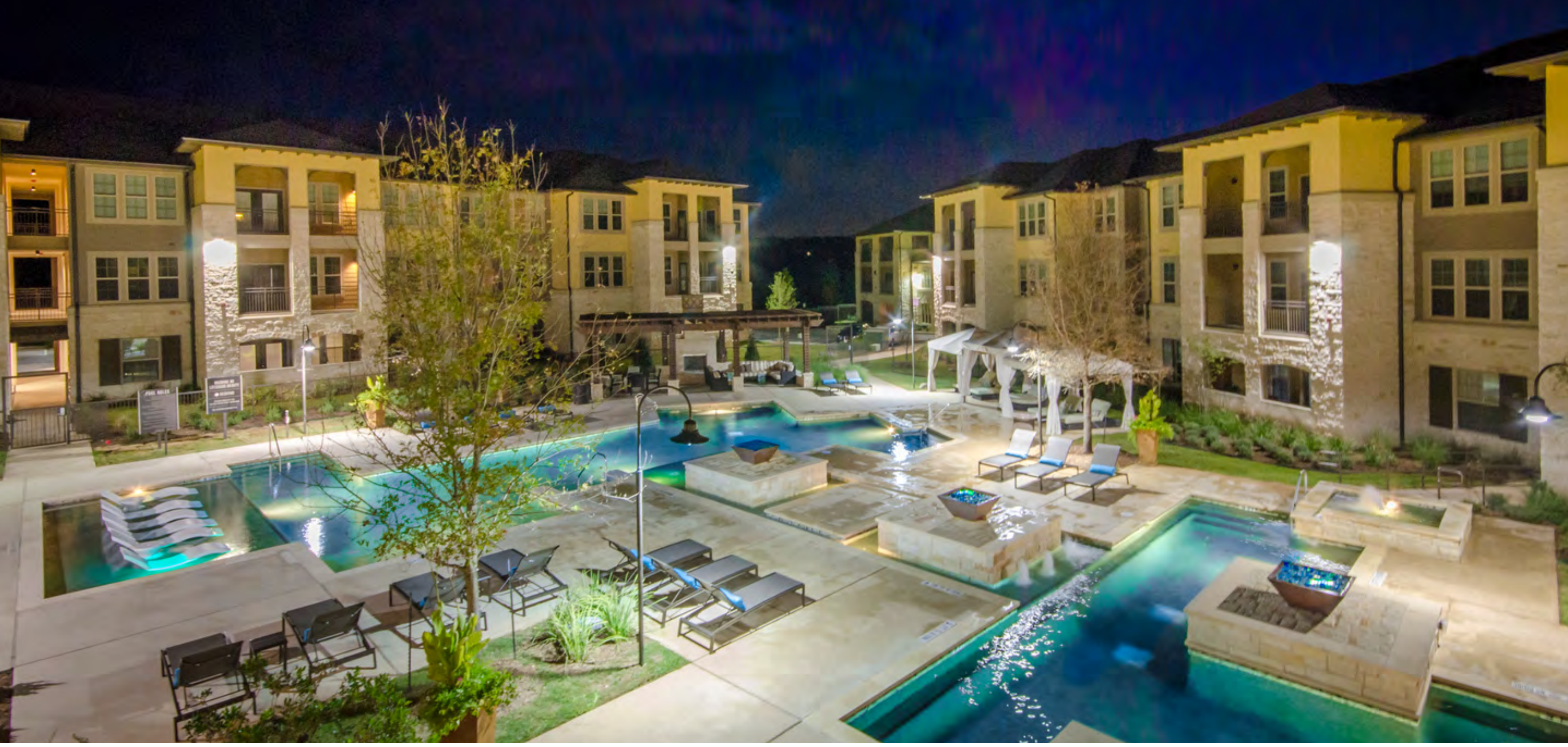
However, by utilizing a 1031 Exchange, an investment property owner can defer their tax, as long as they adhere to the IRS's 1031 Exchange rules, acquire replacement property that is of equal or greater value, and utilize all of the proceeds resulting from their sale.

Eliminate Active Property Management

Unlike most investment real estate, ownership of DSTs is entirely management-free. The only responsibility of an owner is to select the DSTs they would like to Exchange into. Our Exchange Advisors at RETS utilize an established and very well-received approach to determine exchangers' objectives and assist them in selecting the appropriate DSTs among the properties we have rigorously vetted and approved.

Potential for Competitive Cash Flow

Typically, DST properties are structured with an emphasis on cash flow for the investors, and because they acquire high-quality institutional property in cities with strong projected growth, DSTs can focus on preserving investment value and producing income potential for their owners. Annual cash flow to the investors varies from trust to trust depending on the property type and sponsor. However, investors may have the potential to experience greater cash flow through the ownership of the DST property than that of their relinquished property.

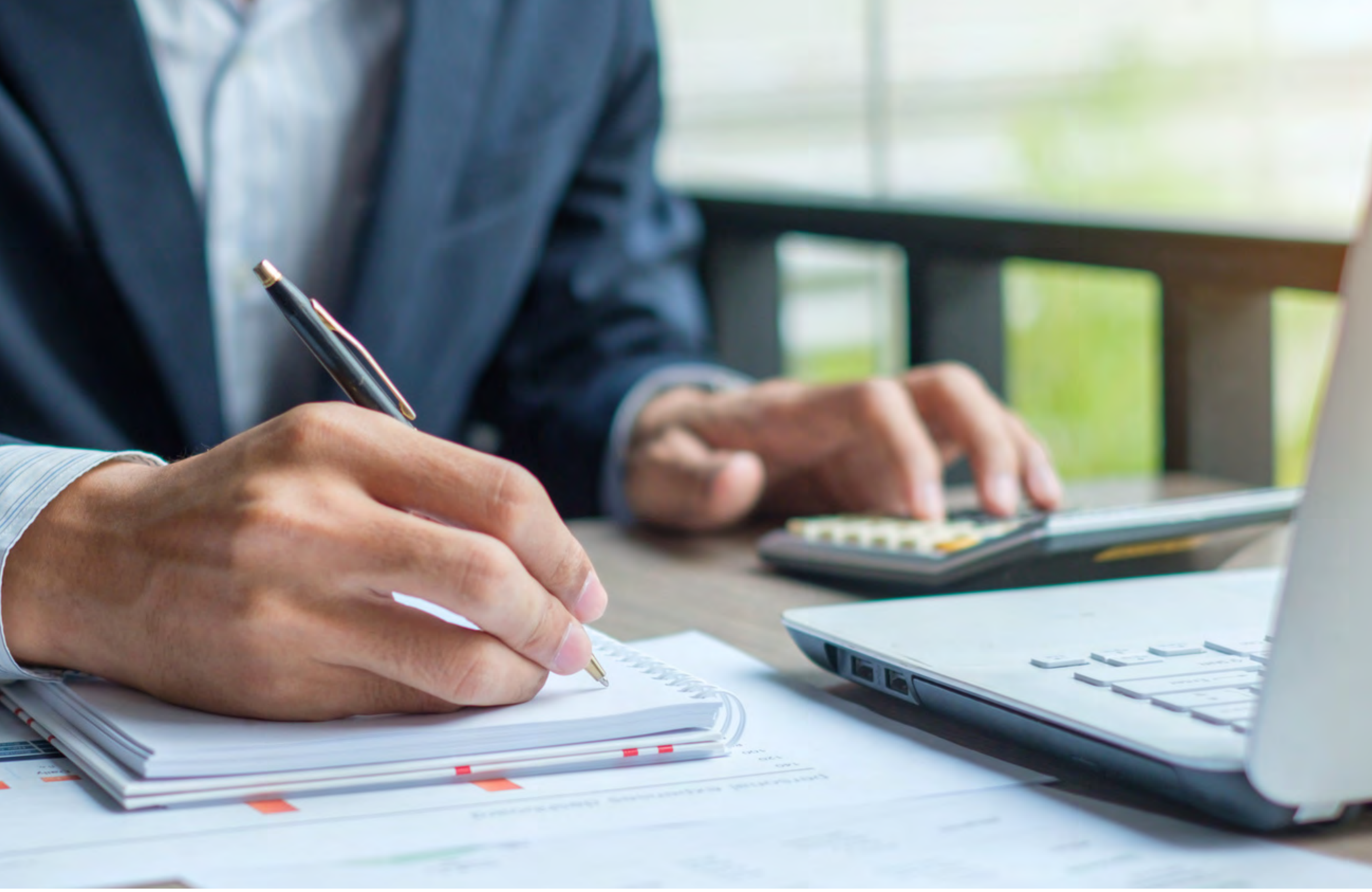


Low Minimum Cash Investments

Investment minimums for Delaware Statutory Trusts are quite low, typically $100,000. Low minimums allow for exchangers to acquire multiple DSTs, effectively creating their own personal property portfolio, diversified among multiple property types, geographic areas, and DST sponsors.

High-Quality Investment Property

The underlying real estate held by DSTs tends to be high-grade institutional property. Due to the rigid criteria established by the IRS for a DST property to qualify for Exchange purposes, rarely is any other type of property (other than high-grade investment property) considered for the trust. It is common for a DST property to be leased to credit-worthy Fortune 1000 companies. In fact, a number of DST sponsoring firms require long-term leases with Fortune 1000 companies, or privately held companies with assets in excess of $100 million, to be in place before the formation of the trust. DST ownership provides investors access to properties traditionally held by pensions, REITs, and large institutional investors.



Low-Cost, Non-Recourse Debt Matching

Many investors have debt that must be replaced in their exchange (for further details on debt-replacement rules, download our FREE guide: Understanding 1031 Exchanges). DST sponsors understand this, and, as a result, many DSTs are structured with debt in place.

Access to low-cost, non-recourse debt is a major benefit of DST ownership, one that serves to enhance potential cash flow, appreciation, and generate additional depreciation for Exchangers who are selling property with no debt or a low level of debt. Delaware Statutory Trusts also provide liability protection for their owners, further reducing the risk of ownership.

Increase Annual Depreciation to Offset Income Tax

There are a number of key tax benefits associated with DSTs, including the potential to increase annual depreciation to offset taxable income and the ability to own DST property in non-income tax states. The potential for added depreciation is particularly relevant for individuals who reside in high-income tax states such as California, Oregon, and Hawaii, where all income is taxed, whether earned from property located within the state of residency or outside.

Opportunity for Appreciation

Ownership of an interest in a DST share many similarities with ownership of Fee-Simple property, including the opportunity for appreciation. Furthermore, the Delaware Statutory Trust distributes all potential appreciation to the DST owners, consistent with their percentage ownership of the Trust.

Eliminate Tax for Estate Beneficiaries

The benefit of increasing cash flow and investment dollars is clear, but perhaps the most significant advantage of a 1031 Exchange is that it sets the stage for a larger, eventual "step-up in basis" upon the passing of an owner. A "Step-up in basis" refers to the IRS's elimination of Capital Gains Tax, Depreciation Recapture Tax, and Net Investment Income Tax upon the death of an owner. In "community property" states, a surviving spouse receives a full step-up in basis to the property's fair market value.

From an estate planning standpoint, DSTs are a particularly attractive solution due to their ability to be seamlessly divided among beneficiaries – whether that be family, charities, or any other beneficiaries, without forcing a co-management arrangement. Furthermore, because DSTs are considered illiquid and owned as a non-controlling interest, ownership of DSTs can be discounted by an investor's CPA when calculating total estate value upon death. It is not uncommon to see discounts ranging from 20% to 30% for estate calculation purposes. This discount is very relevant for individuals who have an aggregate estate value in excess of the estate tax exemption amount at the Federal or state level.

Give more...

Limited Liability for Trust Beneficiaries

DST properties provide limited liability for trust beneficiaries. Ownership of an interest in a DST property is analogous to an LLP or LLC from a liability standpoint. Financing debt held on the property is previously arranged by the DST sponsor and is non-recourse to the investors, personal guarantees are not allowed or required, and the only financial qualification on an individual investor basis is to be an accredited investor.

Exchange Proceeds Can Be Diversified Among Multiple DST Properties

Due to the replacement property identification rules established by the IRS, multiple DST properties can be combined as replacement property. Furthermore, many DSTs own a portfolio of property, thus providing additional diversification. Due to the low minimum investment requirement, additional diversification can be achieved by selecting DSTs with different sponsors, property types, locations, and even exit strategies.

Benefit From DST Sponsor Expertise

Last and certainly not least, ownership of Delaware Statutory Trusts allows for access to the expertise of the DST sponsor throughout the acquisition, management, financial reporting, and eventual sale process. Vetting these sponsors and their offerings is something we take very seriously at Real Estate Transition Solutions.

If you are interested in hearing about our process of vetting, onboarding, and monitoring our approved DST sponsors, feel free to call us at 888-755-8595. We would be pleased to discuss this process with you and share more about DSTs.

Delaware Statutory Trust Disposition Options

When considering a DST that fits your objectives, it is important to understand how the DST is structured and be aware of the exit strategy for that DST investment. DSTs can be structured as either a Traditional DST or as a 721 UpREIT DST, depending on the sponsor's intent and exit strategy for the DST.

Traditional DSTs

The traditional DST exit structure consists of a sale of the DST real estate to a third party after the hold period. Upon the sale, investors can choose to either perform a subsequent 1031 Exchange into any like-kind property, pay tax on the proceeds, or a combination of the two.

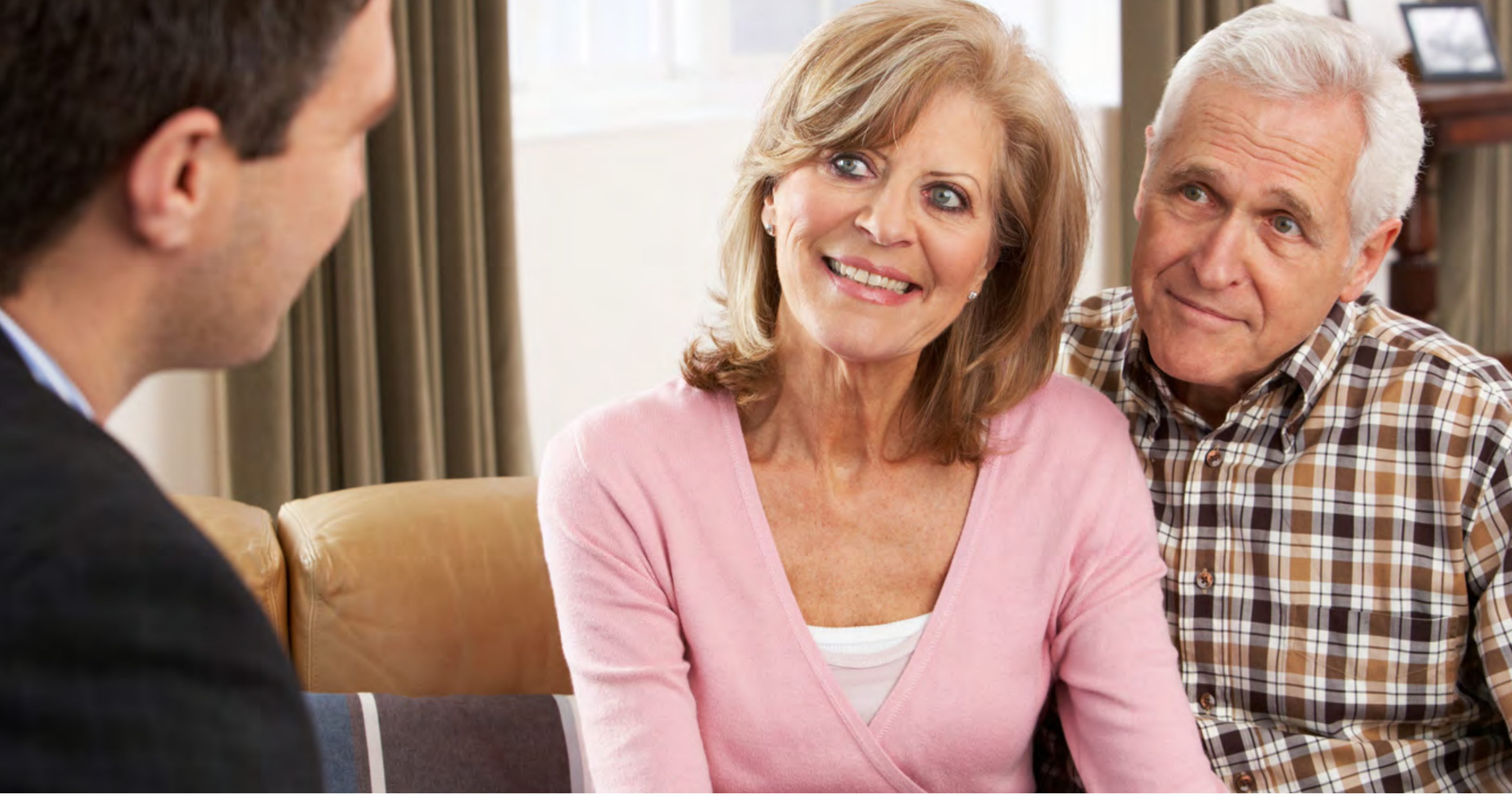
721 UpREIT DSTs

A 721 UpREIT (Umbrella Partnership Real Estate Investment Trust) is a transaction that allows for the deferral of capital gains tax by contributing investment property to a REIT in exchange for an ownership interest in that REIT. UpREIT DSTs are simply Delaware Statutory Trust properties that intend to participate in a 721 UpREIT transaction. There are two types of UpREIT DSTs: Hardwired UpREITs and Hybrid UpREITs.

- **Hardwired UpREIT:** With a Hardwired UpREIT, the DST's investment thesis is for all investors to participate in the UpREIT and receive ownership of the REIT, referred to as operating partnership units. The typical timeline for this transaction is 2 years between the date of the Exchange and the 721 UpREIT transaction.

- **Hybrid UpREIT:** The REIT will be the buyer of the DST property; however, the purchase will consist of two parts. First, a cash purchase offer is made, typically at appraised value, for those investors who would like to either perform a subsequent 1031 Exchange or receive cash sales proceeds. The remaining investors can then participate in a UpREIT with their ownership.

While there are a number of benefits associated with the 721 UpREIT exit strategy such as additional diversification, simplicity and liquidity provisions associated with many REITs, there are a number of considerations to take into account when determining which structure is suitable. Once you participate in a 721 UpREIT, you can no longer perform a 1031 Exchange. However, ownership of the REIT does qualify for the step-up in basis upon the passing of an owner. Additionally, liquidity in the REIT can be restricted in certain circumstances.



Understanding the Structure of Delaware Statutory Trusts and How They Work

IRS Revenue Ruling 2004-86 established the structure DSTs must adhere to qualify as 1031 Exchange property. As a result, DSTs have a consistent structure. The main difference between DSTs is what types of property they acquire, how many properties are held within the DST, the terms of the DSTs' master lease agreements, and the eventual exit strategy for the DST. All Delaware Statutory Trusts share the following seven attributes:

- Once the trust offering is closed, there can be no additional capital contributions made by either existing or new beneficiaries. This means the DST cannot ask the investors for more money.

- Trustees cannot renegotiate existing loan terms unless a default exists as a result of tenant bankruptcy/insolvency.

- Trustees (DST sponsors) cannot reinvest proceeds from the sale of the trust's real estate – it must be distributed to the investors.

- Trustees can only make capital expenditures to the underlying real estate for purposes of normal maintenance/repair and/or non-structural capital improvements. This means DSTs cannot own speculative development property.

- Cash reserves held by the trustee can only be invested in short-term debt. Any unused cash reserves held upon the sale of the property must be distributed to the trust investors.

- All cash, other than necessary reserves and working capital, must be distributed to beneficiaries on a current basis.

- The trust cannot enter into new leases or restructure leases unless due to tenant bankruptcy/insolvency.

The requirements put forward by the IRS steer DSTs toward addressing three main objectives commonly held by investors for whom DSTs are suitable: preservation of capital, potential for stable cash flow, and eliminating active management. In 2021 there were 204 fully funded DST offerings, raising approximately $8 billion in total equity.

How DSTs Are Made Available to Investors

There are many steps required before DST property is made available to investors. Familiarity with the process is important for both analyzing the properties and understanding what value is provided to the investors through the structuring process and costs. A typical DST goes through the following steps:

STEP 1:

The DST sponsor actively searches for investment real estate that can be purchased and held while adhering to the IRS's parameters. DST sponsors target properties that seek to provide meaningful cash flow and a meaningful return to their investors. It is not uncommon for this step to include analyzing hundreds of properties, with only a handful receiving acquisition offers from the sponsor. Few make it through full contract due diligence and result in an acquisition. Any property resulting in an acquisition will be acquired with the DST sponsor's funds and will be owned by the sponsor until investors' exchange dollars replace the sponsor's acquisition dollars.

STEP 2:

Next, the Delaware Statutory Trust itself is structured. There are many aspects to this step, including:

- Establishing the trust
- Quantifying the reserves to be collected in the offering (DST attribute #1)
- Establishing the master-lease agreement (DST attribute # 7)
- If there is to be debt on the property, then typically, 10-year fixed-rate debt is secured (DST attribute #2)
- The offering documents are written and submitted to the SEC
- A tax attorney issues an opinion letter on whether the trust should be considered a qualified 1031 Exchange replacement property by the IRS
- An independent entity performs third-party due diligence on the offering and its projections

STEP 3:

While being structured, the relevant acquisition details and information is made available to our firm, Real Estate Transition Solutions, to perform a second round of due diligence.

STEP 4:

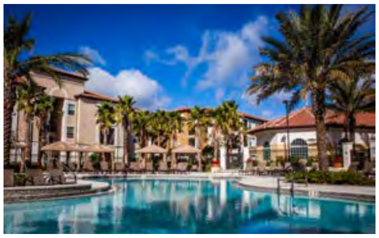
Next, the offering is made available to our Broker-Dealer to perform a third round of due diligence.

STEP 5:

Lastly, if the offering is approved in steps three and four, we will recommend the offering to clients for which the DST is suitable, based on their own unique financial situation and objectives. When an investor exchanges into a DST, they receive an "undivided fractional interest" in the DST property and replace the sponsor's capital used to initially acquire the property.

Delaware Statutory Trust Property Types

Sponsors focus on property types that seek to produce stable, potential income for Delaware Statutory Trust investors. Generally, we see the following property types held within DSTs:



Multi-Family

Net Lease Retail

Self-Storage

Medical Office

Industrial

Senior Housing

Each property type has its respective strengths and weaknesses. Based on a client's objectives, multiple property types can be blended together to create an ideal replacement property portfolio.

How Long are DST Properties Held?

Delaware Statutory Trusts are considered illiquid investments, meaning the DST Sponsor will determine when the property is to be sold. The IRS required DST framework states that a DST Sponsor cannot refinance the property; the property must be sold before the loan's maturity date. There are DSTs available with no debt, in which case there is no required timeline for the property to be sold; however, most DSTs have a loan-to-value of 30% - 55% and utilize 10-year fixed-rate debt. Therefore, the longest these properties could be held as a Delaware Statutory Trust is 10 years. Typically, DSTs are held for 3 - 9 years. The hold period is long enough to reduce prepayment penalties associated with the debt, implement the investment thesis of the sponsor and capture rental growth, yet short enough that the DST Sponsor is not forced to sell the property due to a pending debt maturity date.

The illiquid nature of Delaware Statutory Trusts is what enables the DST Sponsor to monitor market conditions and select a sale date that is most advantageous for the investors. The sponsors we have vetted and work with will monitor the property's financial performance, forecasts, rental demand, and competing inventory, to select a sale date that benefits the DST owners.

What to Consider Before Investing in a DST

Delaware Statutory Trusts are not suitable for every real estate investor. We work diligently to understand an investor's objectives and recommend replacement property options that will position them to accomplish their financial and lifestyle goals. For those for which DSTs are a suitable replacement property option, it is very important to select a 1031 Exchange Advisor that has expertise in tax, real estate, and securities. We encourage all of our clients to ask about our proven track record of navigating complex ownership structures, Exchanges, implementation of tax strategies, and due diligence of DST sponsors and offerings. Many firms that provide financial advice can also recommend DSTs, however, it is unlikely that they have deep knowledge, experience, and familiarity with the real estate investing that we specialize in.

We take the due diligence of both DST sponsors and DST offerings very seriously. Our firm has an established and involved process through which we vet DST sponsors before we recommend them to any suitable investor. We dive deep into each offering's market assumptions, projections, forecasts, and purchase terms. While our due diligence cannot guarantee returns, it does allow us confidence in recommending approved offerings to our clients.

Ownership of Delaware Statutory Trusts is still very much ownership of investment real estate. Due to the structure of Delaware Statutory Trusts as a passive ownership entity, a beneficial ownership interest in a DST presents additional risks that the investor should consider. The following risks should be fully understood and carefully considered when assessing an investor's suitability for ownership of a Delaware Statutory Trust:

- **Lack of liquidity and timing of exit:** Generally, DSTs have a target property hold period ranging from 3 to 9 years. The hold period may differ significantly from the targeted timeline based on market conditions. The investment should be viewed as illiquid while invested in the property. Early exit by the investor for liquidity purposes may not be possible or may only be possible at a significant discount to the trust's net asset value.

- **Lack of control:** Owners of a beneficial interest in Delaware Statutory Trust have little to no control over management decisions and the eventual sale of the underlying property. The real estate investment company managing the trust is responsible for all operating decisions.

- **Failure of due diligence and non-compliance:** All DSTs presented by Real Estate Transition Solutions are subject to a rigorous due diligence process in which the real estate investment company's management is thoroughly reviewed, as is each individual DST offering made available. However, failure to identify an issue may result in mismanagement or non-compliance in adhering to the IRS criteria established for a DST to qualify for tax-deferred exchange treatment.

- **Loan modifications may not be possible:** Due to the structure of a DST, restructuring the financing of the property may not be possible without changing the legal ownership structure. DSTs mitigate this issue by utilizing master lease agreements between the trust and the real estate investment company.

- **Projected cash flow may not be consistent with actual performance:** As with any real estate property investment, cash flow levels are subject to market, economic, tenant and location risk. Projected cash flows are typically conservative in nature; however, they are not guaranteed.

- **Projected appreciation may not occur:** As with any real estate property investment, asset appreciation is subject to market, economic, tenant, and location risk. Appreciation may not occur at the end of the trust's property holding period, or the holding period may be extended beyond stated projections.

- **Interest rate risk:** The value of real estate is heavily impacted by the current interest rate environment. Changes in current interest rates may increase uncertainty surrounding financing, leasing, and appreciation.

- **Regulatory risk:** DSTs are susceptible to changes in the IRS's treatment of tax-deferred exchanges. Furthermore, the advantages of ownership of a beneficial interest in a DST for estate planning purposes may be eliminated based on changes in the Internal Revenue Code.

- **DST management costs and fees:** DST structure provides for management fees to the sponsoring real estate investment company. These fees, while thoroughly disclosed upfront, could serve to reduce cash flow levels below that of the stated projections.

One of our main objectives is to ensure any prospective DST investor is comfortable with the DST structure and is fully informed. Beyond our educational materials and conversations, all DST properties presented to clients will be accompanied by a Prospectus, also referred to as a Private Placement Memorandum or "PPM". This full disclosure document will provide detailed information on all relevant matters pertaining to the DST, including risk disclosures. At any point along the process, do not hesitate to call us at 888-755-8595 with any questions you may have when considering ownership of a beneficial interest of a DST.

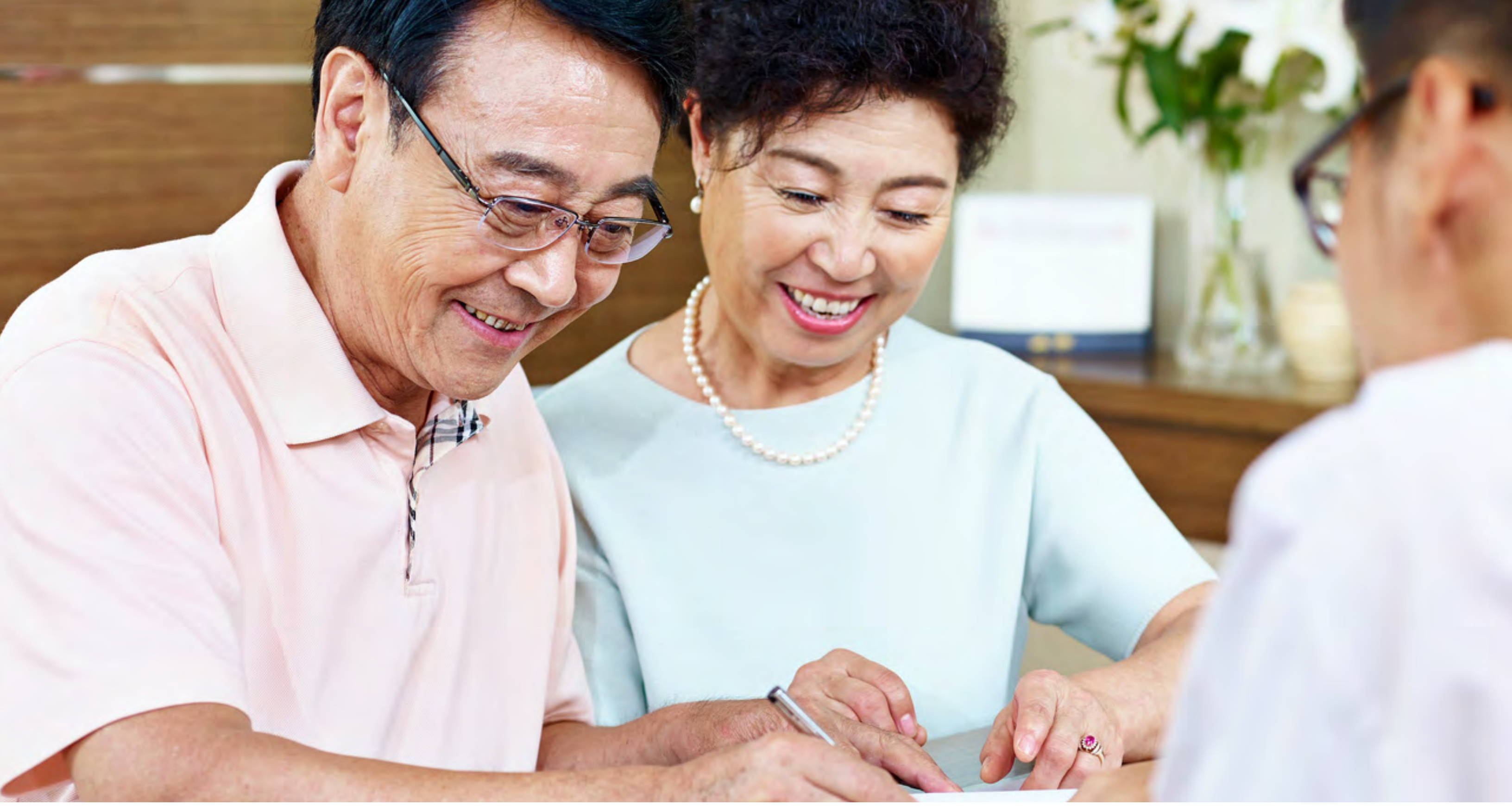
Delaware Statutory Trust Process & Timing

The first step is determining whether a 1031 Exchange is suitable for you. This decision is based on your financial and lifestyle objectives, the subject property and your tax liability should a sale occur. There are a number of crucial pieces of information that go into determining whether an Exchange is worth considering. If an Exchange is appropriate, your objectives must be thoroughly discussed to understand whether DST ownership may be suitable. Generally, DST ownership can serve to address any of the following purposes:

- Diversify real estate holdings
- Increase potential income
- Increase depreciation to offset tax resulting from income
- Reduce management time and effort
- Simplify real estate for estate planning purposes
- Continued tax-deferral
- Own higher quality real estate

We are always available for a consultation to assist you in determining whether Delaware Statutory Trust replacement properties are suitable for you. It is important to note that due to the DST's registration as a "Regulation D" security with the SEC, only accredited investors can exchange into DSTs. Accreditation is considered based on the owner of the property. If an individual owns the property, they must meet the individual accreditation threshold. If the property is co-owned, either all co-owners must be accredited, or the owning entity must meet the entity accreditation threshold.

Next, your relinquished property must be sold. Before the sale has closed, an exchange must be opened with a Qualified Intermediary (QI). Selecting a capable and reputable Qualified Intermediary is very important – if you would like an introduction to one of our preferred QIs, do not hesitate to ask. Once the property closes, the sales proceeds will move to the QI.



We work with clients both before their property has closed and during their 45-day identification period to select DST offerings that have been rigorously vetted and will serve to meet their objectives. If you are contemplating DSTs as a replacement property option, we would be pleased to assist you in the process of determining which DSTs would best position you to realize your objectives.

Once the DST replacement properties have been selected, we take care of preparing all required paperwork. Selected DSTs can close in as little as 5-7 days, allowing for nearly continuous cash flow following the sale of a relinquished investment property. After the purchase of the DST replacement properties, we will verify that all deposits are made into the appropriate accounts and communicate with your tax-preparer so they are ready for the year-end tax reporting.

Along the way, we focus heavily on education. It is very important to us that you feel comfortable and confident with not only DSTs, but our process, due diligence, and the sponsors we recommend. There are multiple education-focused steps we take to assist a client in navigating this transition.

Delaware Statutory Trust Cost Structure

There are underwriting and structuring costs associated with acquiring institutional real estate and structuring the trust. These costs include:

- Sponsor property acquisition due diligence
- Structural reports to quantify reserves
- Loan origination costs
- Marketing and distribution costs (commissions)
- Sourcing a tax opinion letter (establish comfort that the trust qualifies for 1031 Exchange)
- Commissioning a third-party due diligence report

DST sponsors are reimbursed for their costs incurred in structuring the trust at the time of the offering. Additionally, the IRS mandated framework for Delaware Statutory Trusts states that the sponsoring entity cannot participate in any potential appreciation of the trust's real estate upon sale. Therefore, as compensation, DST sponsors receive both an acquisition fee for acquiring the property and structuring the trust, as well as a percentage of the property's ongoing Net Operating Income.

Real Estate Transition Solutions Compensation

Working with a RETS 1031 Exchange Advisor is very affordable. Typically, we do not charge any upfront or out-of-pocket fees for our services. Our compensation is built into the offering price of the replacement property. There are three different ways we can be compensated for our due diligence and underwriting efforts, depending on the owner's objectives. Some exchangers prefer a one-time commission, consistent with traditional acquisitions of investment real estate with a broker. Other exchangers prefer to spread RETS compensation out over the DST's hold period in the form of an ongoing advisory fee. Lastly, exchangers can select a "hybrid approach" consisting of a reduced commission and a reduced advisory fee.

10-Unit Apartment Building Exchange

Eliminate Property Owner Duties & Increase Income Potential with a 1031 Exchange DST

Owning and managing rental property can be rewarding in many ways, especially with great tenants, a strong economy, and low unemployment rates. However, management responsibilities can also be very stressful and challenging at times – repairs can be costly, and evictions can take an emotional toll on everyone involved. Some property owners opt to hire third-party property management firms. Unfortunately, this approach can dilute needed cash flow which is why more property owners are opting to sell their rental property with a 1031 Exchange into Delaware Statutory Trust (DST) investment property.

Let's take a look at how Real Estate Transition Solutions helped Walter & Maria retire from active property management by selling and performing a 1031 Exchange into Delaware Statutory Trust (DST) replacement property.

Meet San Diego Property Owners Walter & Maria

Walter and Maria own and manage a 10-unit apartment building in San Diego, which they purchased in 1987 for $850,000. Although they enjoyed owning investment property, by 2020, Walter and Maria were ready to retire and wanted to live closer to their daughter and grandson. They worked with their commercial real estate broker to get their property listed and reached out to Real Estate Transition Solutions to help them perform a 1031 Exchange into DST real estate.

Exchange Objectives

Like most investment property owners, Walter and Maria had several objectives for their 1031 Exchange. However, their primary objectives were to retire, live closer to their daughter and grandson without having to manage real estate from afar, defer their tax liability and diversify their investments while generating income.

Relinquished Property

- 10-Unit apartment building located in San Diego, CA
- Purchased in 1987 for $850,000
- The investment property was fully-depreciated
- Walter and Maria had no debt on their property
- By 2020, their investment property was valued at $3,500,000
- Their property generated net annual rental income of $105,000
- Net sales proceeds were estimated at $3,255,000

Calculating 1031 Exchange Tax-Deferral Savings

One of the first things we do when working with a client is to help them understand their gains tax liability and 1031 tax-deferral savings. The tax liability from the sale of investment real estate is not just about federal capital gains tax – it is the total aggregate amount of tax owed when an investment property is sold. Not only are investment property owners responsible for Federal Capital Gains Tax (15% – 20%), but investors may also have to pay State Capital Gains Tax (0-13.3%), Depreciation Recapture Tax (25%), and Net Investment Income Tax (3.8%). For Walter and Maria, a 1031 Exchange allowed them to defer paying $1,142,750 of tax.

Net Proceeds from Selling Property Selling price less selling costs	**$3,255,000**
(-) Original Tax Basis Less original purchase price plus capital improvements	**$850,000**
(=) Estimated Taxable Gain Equals net sales proceeds less original tax basis	**$2,405,000**
(=) Estimated Capital Gains Tax Equals federal capital gains and net investment income tax plus state capital gains tax	**$892,255**
(=) Depreciation Recapture Tax Equals tax applied to accumulated depreciation	**$250,495**
(=) Total Taxes Deferred	**$1,142,750**

Our Exchange Strategy for Walter & Maria

Walter and Maria were ready to retire from their careers in property ownership and management and needed stable monthly income. Real Estate Transition Solutions recommended a 1031 Exchange into a portfolio of management-free DST real estate designed to provide the potential for stable, monthly income.

1031 Replacement Property Portfolio

Real Estate Transition Solutions worked with Walter and Maria to design a portfolio of four DST property offerings consisting of one Net Lease portfolio (30%), one industrial property (20%), and two multifamily properties (25% each).

- Allocation of 30% Net Lease property, 20% industrial property, and 50% multifamily property
- Weighted towards Multifamily to provide a hedge against inflation while still providing diversification and enhanced income
- New depreciation shelter of 50%
- $976,500 in a diversified portfolio of Net Lease properties (1 DST)
- $651,000 in a single-tenant Industrial property located in Boise, Idaho (1 DST)
- $1,627,500 in "Class A" Multifamily properties in Dallas, TX (1 DST) and Charlotte, NC (1 DST)

1031 Exchange Goals Achieved

By performing a 1031 Exchange into DST real estate, Walter and Maria were able to sell their investment property with full tax deferral, retire from active property management, and improve the potential for stable monthly income.

Disclaimer: Client portfolio example is hypothetical and for illustration purposes only. Potential cash flows, returns, and appreciation are not guaranteed and could be lower than anticipated. Tax rates may vary per state. Individual results will vary.

How to Get Started

Schedule a Complimentary Consultation

Speak to a Licensed 1031 Exchange Advisor

Congratulations! You have already taken the first step by reading our FREE guide: Investing in Delaware Statutory Trusts. If you are interested in learning more about DSTs and whether they may be a good 1031 Exchange option for you, the next step is to contact us to schedule a complimentary consultation. This can be done either via phone, in-person at our offices or via a virtual online meeting. Either way, we would be pleased to educate you further on Delaware Statutory Trusts, discuss our process for performing due diligence on DST sponsors and their individual properties, and assist you in selecting the properties that will best position you to meet your objectives.

With over 26 years of experience working with 1031 Exchanges, DSTs, complex real estate investments, securitized real estate, and tax planning strategies, Real Estate Transition Solutions is one of the few fully-integrated 1031 Exchange companies in the country. Our team of dedicated exchange professionals will help you select and acquire suitable 1031 Exchange DST properties that meet both your financial and lifestyle objectives.

Call us at 888-755-8595 to schedule your complimentary consultation.

1031 Exchange Key Terms

Relinquished Property: The property or properties to be sold in which the sales proceeds and associated tax liabilities are to be Exchanged.

Replacement Property: The property or properties acquired through an Exchange in which the deferred tax liability is rolled into.

Exchange Identification (ID): The 45-day window following a sale and an opened Exchange in which an individual must select and submit their identified properties in accordance with the Exchange identification rules.

Equal or Greater Value: The IRS's requirement that if an Exchange is to have complete tax deferral, the replacement property or properties must have equal or greater value than the relinquished property or properties, less one-time closing costs.

Qualified Intermediary: The entity that serves as “Exchange escrow” and holds on to the 1031 Exchange proceeds until the replacement properties have been identified and funds are released to purchase them.

Capital Gains Tax: The tax liability assessed at the Federal and potentially State level for any increase in investment value. The tax liability is due upon the sale of an asset unless the asset is real estate and is exchanged. This tax rate ranges from 15 to 20% at the Federal level and 0% to 13.3% at the State level depending on where the property and the taxpayer are located.

Depreciation Recapture: The tax liability assessed at the Federal level for any calculated depreciation on investment property, whether the owner benefited from the depreciation or not. This tax rate is a flat 25% at the Federal level and ordinary income tax rates at the state level.

Tax Liability: The total aggregate tax bill associated with the sale of a property. The liability can be comprised of Federal Capital Gains, State Capital Gains, Depreciation Recapture, and Net Investment Income Tax.

Step-up in Basis: The concept that the tax liability associated with an appreciated and/or depreciated property is eliminated, in part or in full, upon the death of the owner.

Like-Kind: The IRS requires that for a property to qualify for an Exchange, both the relinquished (sold) and replacement (purchased) property must be held for investment or business purposes.

Fractional Interest: An undivided percentage ownership in a larger property.

Identification Rules: There are three rules the IRS allows to identify replacement properties - one of which must be met. They are the three-property rule, the 200% rule, and the 95% rule.

Constructive Receipt: The concept that the IRS will not allow an Exchange to occur if the seller had the ability to direct the sales proceeds following the close of the sale - hence the need for a Qualified Intermediary (QI).

DST Frequently Asked Questions

What is an Accredited Investor?
As defined by the SEC, an accredited investor is an individual who has either a $1 million net worth excluding their primary residence, or $200,000 of income individually or $300,000 joint income for each of the last two years with a reasonable expectation for the same in the current year.

How long are DSTs held?
Generally speaking, DSTs are held for anywhere between 3 to 10 years. Should investors want to Exchange out of the property, conservatively, the DST property should be held for a minimum of two years. Typically, the DST loan's prepayment penalties become palatable after year 3. DSTs with debt in place are not allowed to refinance, as such with 10-year fixed-rate commercial debt, 10 years becomes the maximum hold period.

Can I sell my DSTs at any time?
Should you be interested in selling your position in a DST, there is a mechanism to do so. However, it cannot be guaranteed that you will be able to sell the DST investment, nor receive your entire investment back unless the market conditions support it.

Are DSTs returns guaranteed?
DST ownership is very much direct ownership of investment real estate. Therefore, returns are not guaranteed. There are certain offerings that focus on the predictability of potential income, such as net lease offerings, due to the duration of the lease and the fact that the leases are corporately guaranteed. However, DSTs returns are never completely guaranteed.

What makes your firm unique?
Our extensive industry experience, both in the real estate and securities world, coupled with our emphasis on education, focus on client objectives, and rigorous DST sponsor and replacement property due diligence.

What happens after the DST property sells?
Once a DST property sells, all DST investors will receive their pro-rata share of the sales proceeds consistent with their initial investment, including any potential appreciation. At that time, investors will have the option of either Exchanging into more DSTs, Exchanging into any other investment property, paying tax, or a combination of the three.

Can I speak to previous clients of yours?
Absolutely. Hearing from our previous clients is a great way to gain insight into our client focus, process, and the replacement properties we have recommended in the past.

Important Disclosure: Information and numerical examples are for educational purposes only and do not constitute an offer to purchase or sell securitized real estate investments. DST 1031 properties are only available to accredited investors (typically have a $1 million net worth excluding primary residence or $200,000 income individually/$300,000 jointly of the last three years) and accredited entities only. If you are unsure if you are an accredited investor and/or an accredited entity please verify with your CPA and Attorney. There are risks associated with investing in real estate and Delaware Statutory Trust (DST) properties including, but not limited to, loss of entire investment principal, declining market values, tenant vacancies, and illiquidity. Potential cash flows/returns/appreciation are not guaranteed and could be lower than anticipated. Photo examples do not represent current offerings. Future offerings will vary and may be significantly different than the pictures shown. Because investors' situations and objectives vary this information is not intended to indicate suitability for any particular investor. This material is not to be interpreted as tax or legal advice. Please speak with your own tax and legal advisors for advice/guidance regarding your particular situation.

Securities are offered through Aurora Securities, Inc. (ASI), member FINRA/SIPC. Advisory services are offered through Secure Asset Management, LLC (SAM), a Registered Investment Advisor. ASI and SAM are affiliated companies.
Real Estate Transition Solutions (RETS) is independent of ASI and SAM.

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