DST INVESTMENT BENEFITS

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Real Estate investing can be extremely advantageous. Many individuals have relied upon it to accumulate generational wealth. Investing in real estate has many tax advantages, from the use of depreciation to the ability to defer capital gains tax through the use of a 1031 exchange. All these benefits lead us to the topic of Delaware Statutory Trusts (DST).

What is a Delaware Statutory Trust & How do they work?

DSTs are passive investments that represent fractional ownership of institutional grade real estate. They are eligible for 1031 exchange and provide investors opportunity for diversification, capital gain tax relief, and passive income, while allowing them to stay invested in real estate. Investors are able to receive monthly income and capital appreciation without the headache of dealing with the daily nuances associated with property management. Each DST has a dedicated sponsor that oversees all management responsibilities and is obligated to act in the best interest of the investor. Similar to an LLC, all income and distributions are passed through and taxed to the individual owners. The typical life of a trust varies greatly but could easily be between five and ten years in which property is acquired, income collected and distributed to owners and when, upon disposition of assets, remaining capital is returned to investors.

Benefits of DSTs:

Capital Gains Tax Deferral - This is the number one reason why real estate investors utilize 1031 Exchanges. After selling an investment real estate property, investing in a like-kind property allows full deferral of capital gains tax. One of the greatest benefits of the DST structure is that it allows a fractional interest in real estate to qualify as a like-kind property for exchange purposes. As an investor in a DST, you would have the ability to fully defer your potential taxable gain, while reaping the benefits of investing in real estate.

Passive Ownership - The majority of DST investors are intrigued by the potential for a passive income stream. This feature is especially popular among investors transitioning from an active real estate management role. Active real estate management can be time-consuming which many property owners do not want to continue into retirement. DSTs allow an investor to acquire a professionally managed institutional grade asset, which provides a potential stream of income without the headaches of property management and asset management. The DST sponsor (manager) will likely be of institutional caliber, so all of the work and analysis associated with property investment and financing decisions will be conducted by highly regarded professionals.

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Quick Closing & Availability - There are hundreds of DSTs available at any given moment. You can count on having several options at your disposal when you are ready to complete a 1031 Exchange. DST business deals close in potentially as little as 3-5 business days. This is a huge advantage for an investor who needs a quick closing or who might be falling behind on the mandatory 1031 exchange 45-day identification deadline and 180-day closing deadline. The certainty of closing and potential immediate cash flow make DST's an extremely attractive investment option.

Increased Diversification - Real estate owners often have a large amount of equity in a single property. However, many investors have become increasingly wary of placing all their capital in one property. The minimum investment for a DST is between $25,000 and $100,000 allowing investors the option to acquire several portions of many different properties and locations. Diversifying a real estate portfolio by selecting properties in various businesses and locations reduces, but does not eliminate, the risk of investment loss. An investor who owned and managed a single-family home may roll the proceeds from the sale of that property, into a new investment class such as industrial, multi-family housing, or office space through the purchase of a fractional investment.

Access to Equity - Zero Cash Flow DSTs are incredibly unique due to their paydown/re-advance feature. This feature is perhaps the number one reason why ZCF properties are so popular for 1031 Exchange. It allows the purchaser to meet the requirements of a tax-deferred exchange, while giving them access to a significant amount of their equity on a tax-free basis. For example, an investor with $10M equity in a 1031 Exchange transaction can invest in an Amazon Sortation Facility ZCF, that is 90% leveraged, and walk away with close to $9M in cash. The investor is free to do as they wish with the readvanced cash amount, with no limitation and no stress. The investor also owns a pro-rata share of an Amazon Sortation Facility with a 20+ year NNN lease, which is usually free and clear at lease end.

Non-recourse Debt - Typically, debt on Delaware Statutory Trusts is non-recourse, which is defined as a loan whereby the lender's only remedy in case of default is the subject property itself and not the investor's other assets. The investor's credit is not on the line, and their balance sheet is free from any debt associated with a DST investment. This allows investors to obtain other sources of financing for deals outside the DST structure.

Questions? Contact Us.

As you can see, numerous benefits exist when investing in DST's, however, with every investment there is inherent risk. Therefore, it is important to work with a firm that specializes in these unique opportunities. Apex Capital Management is here to help you every step of the way to answer questions about DST's and other investment options. Feel free to check out our website at www.apexcapmgmt.com for more information. We offer free consultations and look forward to helping you with your 1031 Exchange and DST Options.

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