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DELAWARE STATUTORY TRUSTS

DST Basics: What a Delaware Statutory Trust Is

A clear, honest look at how DSTs work — owning real estate without being the landlord, the two structures (standard vs. 721/UPREIT), where they fit in a 1031 exchange, and the trade-offs every investor should weigh first.

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Why this packet exists

A **Delaware Statutory Trust (DST)** is a way to own real estate *without* being the landlord. Instead of holding a deed to a building yourself, you own a fractional, beneficial interest in a trust that holds professionally managed, income-producing property. For investors who want to stay invested in real estate but step back from the day-to-day — and for those using a 1031 exchange to defer tax — a DST can be one path worth understanding.

It is also a **security**, with real risks, and it isn't right for everyone. This packet explains what a DST is and is not, so the fog clears and you can weigh it honestly with your own advisors.

What a DST actually is

A DST is a legal entity, formed under Delaware law, that holds title to one or more properties — an apartment community, a medical office, an industrial building, a portfolio of net-leased retail. A sponsor (typically a large, institutional firm that assembles the offering) acquires the property and places it in the trust, then offers fractional **beneficial interests** to investors. When you invest, you own a slice of the trust's assets and a proportional share of the income it distributes, if any. A trustee and the sponsor handle all management decisions.

The sponsors behind these offerings are generally substantial — multibillion-dollar operators — which is part of how an individual investor gets access to institutional-grade real estate that would otherwise be out of reach.

Fractional, passive ownership — and the mosaic

The defining feature of a DST is that ownership is **passive**. You don't screen tenants, sign leases, arrange repairs, or field 2 a.m. maintenance calls. You move from *active* to *passive* — trading the maintenance hassles and liability for a professionally managed interest.

Because interests are fractional, the minimum investment is far smaller than buying a comparable property outright. That unlocks something a single building can't: instead of trading one property for one property, you can spread a single sale across a **mosaic** of institutional real estate — multifamily, industrial and logistics (think large distribution warehouses), medical office, self-storage, across different markets. One concentrated asset becomes a diversified one. In exchange for that hands-off structure, investors give up direct control — every operating decision rests with the sponsor and trustee.

One mosaic of institutional real estate

Multifamily	Industrial / Logistics	Medical office
Self-storage	Necessity retail	Student / senior housing

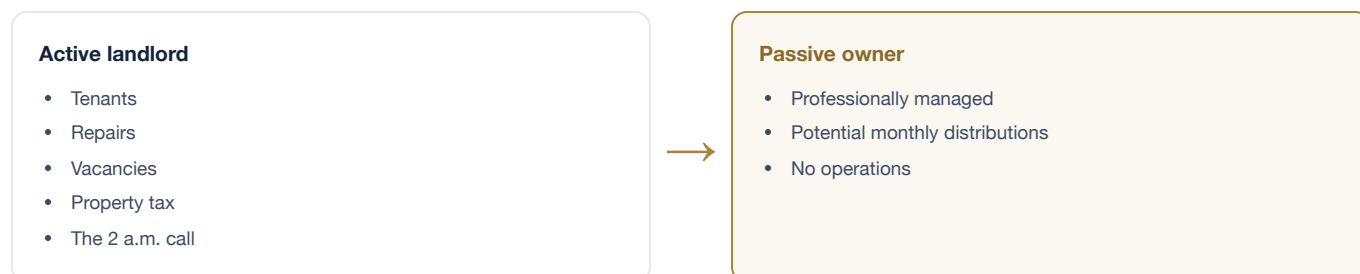
Illustrative property types; availability varies by offering. Individual results vary.

Active ownership vs. a DST interest — at a glance

Owning the building yourself		A DST interest
Management	You (or a manager you hire and oversee)	Sponsor and trustee

	Owning the building yourself	A DST interest
Control over decisions	Full	None — passive
Liability for the property	Yours	Generally none direct
Liquidity	Sell when you choose (subject to the market)	Illiquid; no public market
Diversification from one sale	Hard — usually one property	Can spread across a mosaic of DSTs/types
Who can invest	Anyone	Accredited investors only

From active landlord to passive owner



Distributions are not guaranteed and depend on the underlying property. Individual results vary.

The table is a general comparison, not a recommendation. Which column fits you depends entirely on your goals and situation.

Why DSTs come up in a 1031 exchange

A DST beneficial interest can qualify as **like-kind replacement property** in a 1031 exchange. That matters for two common reasons. First, it lets an investor defer — not eliminate — capital gains and depreciation-recapture tax while moving from active ownership to a passive interest, keeping the **full equity working**. Second, a DST can be **faster to close** than tracking down and buying an entire replacement property — useful when the strict 45-day identification and 180-day closing clocks are ticking. Whether a DST is appropriate for *your* exchange is a question for your own tax and legal advisors.

The two DST structures

Not all DSTs are the same. Broadly, there are two paths, and the difference matters for your flexibility down the line:

- **Standard / fixed DST.** The trust holds a set portfolio for its life and eventually **goes full cycle** — the sponsor sells the underlying real estate, typically somewhere around year six or seven, though it's always market-dictated, never on a promised schedule. At that point you receive your share of any appreciation and you choose again: roll into another DST via a fresh 1031, go back to active ownership, or cash out and pay the deferred tax. You get a decision point each cycle.
- **721 exchange / UPREIT ("pre-REIT").** Here the DST's property is eventually absorbed into a large real estate investment trust (REIT), often after a couple of years. The appeal is broader diversification and the *potential* for periodic liquidity through a redemption program. The trade-off is significant and permanent: once you hold REIT shares, they are **not** 1031-exchangeable, so it's a one-time decision — you can't 1031 out again later. The tax reporting also shifts (a K-1 rather than the Schedule E of direct ownership), and there may be composite state filings.

Standard DST vs. UPREIT / 721 Exchange

	Standard DST	UPREIT / 721 Exchange
End state	Own to full-cycle sale; can 1031 again afterward.	Contribute to a REIT operating partnership for OP units.
Liquidity path	Illiquid until the DST sells.	OP units may convert to REIT shares over time.
Tax	Defers via 1031.	The 721 conversion is generally a taxable event when units convert or sell.

Simplified comparison; structures and tax treatment vary by offering — read the PPM and ask your CPA. Individual results vary.

Neither is "better." They serve different goals, and which — if either — fits is exactly the kind of thing to map out with your advisors before committing.

Who DSTs are for — and who they're not

DST interests are **securities offered only to accredited investors**, through a sponsor's Private Placement Memorandum (PPM). (Accredited generally means \$1M net worth excluding your primary residence, or income of \$200k individual / \$300k joint — your advisor confirms this.) They tend to suit investors who are selling appreciated investment real estate, want to defer the tax, and are ready to trade active control for a passive, longer-term hold. They are *not* a fit for anyone who may need their money back quickly, who wants hands-on control, or who isn't accredited. There is no "right" answer that applies to everyone — only what fits a specific situation.

The honest trade-offs

- **Illiquidity.** DST interests are long-term holds with no public market — you generally cannot sell on demand.
- **Loss of control.** The sponsor and trustee make every operating and disposition decision; investors cannot.
- **Distributions are not guaranteed.** Income depends on the underlying property's performance and can fall or stop.
- **Fees.** DST offerings carry fees and costs that reduce returns. Read the PPM's fee disclosures closely.
- **Risk of loss.** Like any real estate investment, a DST can lose value, including loss of principal. Review every offering's risk factors.

What this packet leaves out

This is an introduction, not a complete treatment. It does not cover the specific terms, fees, and risk factors of any individual offering, the precise debt-replacement mechanics inside a 1031, or the detailed tax-reporting differences between structures. Those live in each sponsor's PPM, and they are the documents to read closely with your advisors.

A soft next step

If a DST sounds like it might fit the way you want to step back from active real estate, the honest next move is a conversation — with your CPA and attorney, and, if it helps, a complimentary no-pressure educational call to talk through how the structure works. There's no obligation, and accredited status would need to be confirmed before any specific offering is ever discussed.

Education only. This packet is not tax, legal, or investment advice, and it is not an offer to buy or sell any security. Please consult your own advisors.



A DST isn't a magic box — it's a trade. You hand over the headaches of being a landlord, and in return you give up day-to-day control and easy access to your money. The standard structure keeps a decision point open at each full cycle; the 721 route trades that flexibility for potential liquidity but closes the 1031 door for good — and that distinction is worth understanding *before* you choose, not after. My job is to help you see the trade clearly, not talk you into it. Read the PPM, talk to your own advisors, and only move if it genuinely fits.

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