NORTHWEST TITLE COMPANY

INVEST WITHOUT THE HASSLE: HOW DSTs ARE RESHAPING REAL ESTATE INVESTING

A NEW CHAPTER IN REAL ESTATE INVESTING

Investing in real estate has long been a popular financial strategy. Over the decades, it has evolved into a complex and multifaceted industry. While this complexity can make navigating the market more challenging, it has also created new opportunities that allow current property owners to relinquish management responsibilities while maintaining their stake in the market.

WHAT IS A DST AND HOW DOES IT WORK?

Delaware Statutory Trusts (DSTs) use IRC Section 1031 to facilitate like-kind investments and defer capital gains. By investing in a DST, property owners can benefit from a 1031 exchange without the hassle of exchanging one investment property for another. This structure enables investors to relinquish property management duties and avoid the time constraints associated with identifying and purchasing a new investment property, all while continuing to enjoy the benefits of investing in the real estate market.[i]

Investors purchase beneficial interests in the DST. The DST manages the property, and you share in any profits. Investors are considered beneficial owners in the trust, and can contribute to the fund using cash or property. A DST offers personal liability protection similar to that of shareholders in a private corporation, shielding individual investors from creditors—both in relation to the property and other investors.[ii] Losses are limited to the trust's assets, offering an additional layer of protection.

DST VS. TIC: UNDERSTANDING THE DIFFERENCE

Investors often hesitate to consider DSTs due to associations with Tenants in Common (TIC) investments. However, DSTs differ from TICs in several key aspects:

- Number of Investors: TICs typically limit the number of co-owners, whereas DSTs can accommodate a larger number of investors, potentially reducing individual risk and enhancing cash flow stability.
- Ownership Structure: TICs are often organized as single-member LLCs, whereas DSTs investors purchase shares in the trust.
- Management and Voting Rights: TICs often grant individual investors more control over property management decisions. In contrast, DSTs do not provide voting rights, thereby reducing the risks associated with individual decision-making and streamlining management processes.[iii]

IS A DST RIGHT FOR YOU?

If you're considering investing in a DST, your CPA, financial advisor, or real estate attorney can help determine whether it's the right fit for your financial goals and circumstances. Title Company of the Rockies would be happy to make the appropriate introductions to such advisors and also refer you to a 1031 Exchange business partner to help accommodate any exchanges you may pursue.

[i] Maddox, J. M. (2020, August 7). Deferring gains on real estate sales with a Delaware Statutory Trust. Anders CPA. https://anderscpa.com/deferring-gains-real-estate-sale-delaware-statutory-trust/?tag=re&c

[ii] Legislature, D. (n.d.-a). The Delaware Code Online. Delaware Code Online. https://delcode.delaware.gov/title12/c038/sc01/

[iii] TIC Investments: Tenants in common, DST vs TIC ownership. Diversified Investment Strategies. (2022b, December 20). https://diversified1031.com/investment-options/tenants-in-common/

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