REXCO 1031
REAL ESTATE EXCHANGE COMPANY

The Main Benefits of DSTs

Imagine buying an institutional grade apartment community or other type of property with up to 500 other investors located in a high population and job growth location in a business-friendly state? Imagine no management responsibilities, a distribution check each month sent to you, and a truly passive investment- all while deferring your federal and state income taxes? Welcome to Delaware Statutory Trusts (called DSTs).

DSTs are legally formed trusts designed to accommodate up-leg 1031 investors (those looking to use proceeds from a sale and defer all taxes due). Most DST investors have owned management intensive properties for many years and have enjoyed great appreciation in the value of those properties. DSTs were approved by the IRS in 2004 and provide an outstanding solution for those wishing to sell and move into more passive investments.

Here are the main benefits of DSTs.

Diversification You can divide up your investment amount multiple DSTs, which may provide a more diversified real estate portfolio with a mix of property types and locations. For example, your portfolio could include apartments in Virginia and Florida, and necessity-based retail and healthcare in Texas and Tennessee. Let us put together a diversified portfolio for you based upon your risk tolerances.

Ease of Ownership (No management responsibilities) DSTs are managed and run by experienced "sponsors" or operators. They handle management, underwriting, purchase and sale of the asset. You have no rent collection, no tenant's meeting and little to no effort to maintain the property. You simply receive monthly income plus your pro-rata share of any appreciation upon sale of the property.

Access to institutional-quality property DSTs typically purchase "institutional grade" properties, or larger and newer assets which are typically bought by pension funds and large asset managers. Most individual real estate investors can't afford to own these assets but the DST allows partial ownership.

Limited personal liability Loans to acquire and maintain the property are non-recourse to the investor. The DST is the sole borrower.

Buying power in growth markets Buying properties in high job and population growth states that have no income taxes are attractive to investors.

Scheduling safety DSTs can be closed in a matter of days which provides a great insurance policy if another purchase falls through for any reason.

Debt Matching If you have a current loan outstanding on the property you plan to sell, you must have a similar amount of debt on the acquiring property. DSTs provide great flexibility of debt allocation and have solutions for properties with no debt all the way up to 80% leverage.

Estate Planning All 1031 exchanges investments receive a step-up in cost basis so your heirs will not inherit capital-gain liabilities. The DST provides heirs with professional management without the ongoing burden on hands-on management. One structure to consider is purchasing 3 different DSTs if you have 3 heirs. Then, once you pass away, each heir can decide separately what they will do with their investment.

Eliminate "boot" risk. Any remaining profit on the sale of your relinquished property is considered "boot" and subject to tax. Use the DST structure to defer all the gains, or use it to "fill up" remaining boot from another purchase.

"Swap until you drop"
The DST structure allows the investor to continue to exchange real properties over and over again, continually deferring taxes until the investor's death – after which they pass tax free to the investor's heirs.