PERCH
WEALTH

DELAWARE STATUTORY TRUSTS

A POWERFUL 1031 EXCHANGE SOLUTION FOR ACCREDITED INVESTORS

FOREWORD

Perch Wealth: Your Partner in Alternative Investments

With over 150 years of combined experience, the Perch Wealth team provides expertise in alternative investments, including 1031 exchange-eligible Delaware Statutory Trusts (DSTs), Tenant-in-Common (TIC) properties, Oil & Gas Mineral Rights, Non-Listed Real Estate Investment Trusts (REITs), Opportunity Zones, Private Equity and Debt Funds, Tax Mitigation Strategies, and other Private Real Estate Syndications designed for income, growth, and tax efficiency.

Bridging the Knowledge Gap

While investor demand for alternative investments continues to climb, driven by their potential for positive impact on portfolios—such as reduced volatility, tax efficiency, potential for increased income, and long-term growth—most financial advisors and wealth managers lack the experience or understanding to responsibly evaluate and advise on these opportunities. Our team bridges this gap, providing invaluable insights and an in-depth understanding of investment sponsors, management teams, offering structures, fees, and the long-term viability of investment strategies. We identify and assess the key investment variables that influence outcomes and the probability of success, with the goal of helping our clients achieve their financial goals.

Commitment to Accredited Investors

We specialize in providing accredited and high-net-worth investors with expert financial guidance in real estate, 1031 exchanges, and alternative investments. Leveraging our extensive experience, we educate and advise investors on strategies designed to:

- Defer or eliminate taxes
- Increase passive income
- Manage risk effectively
- Add portfolio diversification
- Reduce volatility
- Secure long-term growth and stability

In this brochure, you will discover how Delaware Statutory Trusts (DSTs) can be a smarter, safer, and potentially more desirable and profitable 1031 exchange solution compared to traditional direct property ownership. Continue reading to learn why we recommend DSTs and how they can enhance your investment portfolio.

WHAT IS A DELAWARE STATUTORY TRUST (DST)?

A Delaware Statutory Trust (DST) is a legally recognized trust that allows investors to purchase fractional ownership interests in real estate properties. As beneficiaries of a DST, investors are considered passive investors, which means they do not actively manage the properties. However, investors still enjoy all the same benefits associated with direct property ownership, including income, depreciation, potential appreciation, and tax advantages such as deferring capital gains taxes through a 1031 exchange.

DSTs were initially established under the Delaware Statutory Trust Act (DSTA) in 1988 as legally recognized trusts set up for business purposes. In 2004, under Revenue Ruling 2004-86, the IRS concluded that fractional ownership of investment property held within a DST constitutes real property ownership and therefore is eligible to qualify for 1031 exchange purposes.

Today, property owners selling both residential and commercial investment properties are leveraging DSTs to invest in professionally managed real estate with the potential to provide stable, predictable income and long-term appreciation.

DST STRUCTURE

DSTs include two types of participants – trustees and beneficial owners, also known as the sponsors and investors.

The Sponsor:

- Acts as the trustee and holds legal title to the real estate assets within the trust
- Manages the real estate and has full decision-making authority throughout the life of the investment, including when it's the best time to sell.
- Obligated to follow the terms of the trust agreement in managing these assets
- Generally well-established, seasoned real estate companies with expertise in acquiring and managing real estate on behalf of investors.

The Investor:

- Beneficial owners who hold equitable ownership in the underlying real estate within the trust.
- Enjoy all the same inherent benefits of direct real estate ownership without the responsibilities involved in active management.

BENEFITS OF INVESTING IN DSTS

1031 Exchange-Eligible Investment Structure

DSTs conform to Internal Revenue Code Section 1031, which permits investment property owners to defer paying capital gains taxes on the sale of an investment property, provided the proceeds from the sale are reinvested in "like-kind" property of equal or greater value. DSTs are an attractive replacement property option for investors seeking to complete a 1031 tax-deferred exchange. There are numerous DST investments available at any given time in various geographic locations and sectors, including multifamily, self-storage, single-tenant NNN, medical, mineral rights, industrial, and more.

Professionally Managed Real Estate

Real estate assets held within a DST are generally larger properties that are well beyond the reach of most investors. Furthermore, DSTs are professionally managed by some of the largest and most reputable asset and property managers in the world.

Portfolio Diversification

DSTs enable investors to diversify their portfolios across various property types and geographic locations. Typically, the minimum investment in a DST is $100,000, making it accessible for investors with both small and large portfolios to achieve diversification.

Monthly Income

DSTs typically invest in stabilized, income-producing real estate properties designed to provide steady, predictable income to investors.

BENEFITS *continued*

Passive Ownership

DST investment sponsors are responsible for managing the real estate, paying investor distributions, and issuing quarterly performance statements as well as year-end tax reports. Investing in a DST removes the hands-on responsibilities typical of direct property ownership, offering investors a convenient option for passive income and hassle-free management.

Pre-Packaged Non-Recourse Debt

Some DSTs come equipped with pre-packaged non-recourse debt, which investors assume on a pro-rata basis. This structure eliminates the need for investors to individually secure debt from a bank, thereby simplifying the investment process. By assuming a pro-rata share of the existing debt within the DST, investors can meet the debt replacement requirements necessary for completing a 1031 exchange.

Estate Planning

DST interests can typically be more easily disbursed amongst heirs than physical real estate, providing liquidity to the estate and facilitating the distribution of assets to heirs. Additionally, DSTs allow for fractional ownership, simplifying the division of investments among multiple heirs. Upon the investor's death, DST investments typically receive a step-up in basis, adjusting the property's value to its fair market value at the time of death, thereby eliminating deferred capital gains taxes for heirs.

Appreciation Potential

One of the key benefits of investing in DSTs is the potential for property appreciation over time. Since DSTs are typically invested in high-quality, professionally managed real estate assets, there is an opportunity for the value of the underlying properties to increase. This potential appreciation can contribute to the overall return on investment, providing investors with capital growth in addition to the regular income distributions.

Seamless 1031 Exchange Solution

DSTs provide a straightforward and efficient solution for investors aiming to complete a 1031 exchange. With DSTs, investors can finalize the transaction in as little as five days, and distributions start accruing immediately upon closing. This makes DSTs an attractive option for those seeking a swift and hassle-free investment process, ensuring timely benefits from their investment.

DISADVANTAGES OF INVESTING IN DSTS

While DSTs provide many benefits, investors should also be mindful of the associated risks:

Illiquidity Risk

DSTs are considered illiquid investments. There is no secondary market, and investors should understand the anticipated hold period prior to investing.

No Control

DSTs are managed by the DST sponsor, and fractional owners of the trust are passive investors. As a result, investors do not have control over the management or sale of the investments held within the trust.

No Voting Rights

DST investors do not have voting rights related to the properties held within the trust.

Market Risk

Real estate investments involve various risks, including the potential loss of principal. These risks can arise from factors such as market fluctuations, changes in economic conditions, property-specific issues, changes in laws or regulations, and the illiquid nature of real estate. There is no guarantee that any investment will achieve its objectives.

SEVEN DEADLY SINS

When approved as a like-kind property, the IRS placed restrictions on the trustee of the DST, known as the "seven deadly sins." These restrictions can inhibit the management of a DST:

1. Once a DST offering is closed, no future capital contribution is permitted to the DST by either existing or new investors.
2. The Trustee of a DST cannot borrow more funds or renegotiate the terms of existing loans.
3. A DST cannot reinvest proceeds from the sale of its real estate.
4. The DST sponsor has limited authority to make capital improvements except for those associated with (a) normal repair and maintenance; (b) minor non-structural capital improvements; and (c) those required by law.
5. Any cash reserves being held between distribution dates may only be invested in short-term debt obligations.
6. All cash, other than necessary reserves, must be distributed to co-investors on a regular basis.
7. The DST sponsor cannot renegotiate existing leases or enter into new leases after the offering has closed.

**One solution to this provision is for DSTs to implement a Master Lease structure. In this arrangement, the DST leases the property to a "master tenant," who then has the authority to enter into new leases or renegotiate existing ones with sub-lessees. This approach offers DST investors a degree of certainty while granting the master tenant the flexibility to adjust leases for the benefit of the property.

DST EXIT STRATEGIES:
Traditional Sale vs. 721-UpREIT Option

While the decision to sell the underlying real estate in the DSTs is determined by the investment sponsor, the typical holding period for DSTs ranges from 5 to 7 years.

Upon the sale of the property, each investor receives their share of the sale proceeds based on their beneficial interest in the DST. Investors can then choose to either pay taxes or continue deferring their capital gains through another 1031 exchange into a DST or a direct investment property of their choice. In some cases, sponsors may offer or require investors to convert their interests into an UPREIT (Umbrella Partnership Real Estate Investment Trust).

DSTs with 721 UPREIT Structure

A 721 UPREIT (Umbrella Partnership Real Estate Investment Trust) is a real estate investment structure that allows property owners to contribute their real estate assets to a REIT (Real Estate Investment Trust) in exchange for operating partnership units. This exchange is typically done on a tax-deferred basis, meaning property owners can defer immediate capital gains taxes.

The 721 UPREIT structure is particularly attractive to investors because it reduces risk through ownership of a diversified real estate portfolio, provides liquidity by allowing the sale of REIT shares, and eliminates the need for future exchanges.

**Section 721 (26 U.S.C. § 721): This section of the IRC outlines the rules governing the tax-deferred contribution of property to a partnership. Specifically, it allows property owners to contribute their real estate assets to a partnership (in this case the UPREIT) in exchange for partnership interests (typically units or shares) without triggering immediate capital gains taxes. The tax consequences are deferred until the partner eventually sells or disposes of the partnership interests.

CASE STUDIES

Case Study #1 | *Preserving Wealth & Maximizing Income*

Jim purchased a commercial property in 1982 for **$500,000.** He chose an industrial asset in his California hometown, attracted by the convenience of managing the real estate locally.

After 30 years, Jim decided to transition to a more passive investment. His property was now valued at $1.9 million, and having fully depreciated the asset, selling it would result in over $700,000 in taxes.
(Federal Capital Gains Tax: 20% • State Capital Gains Tax: 13.3% • Depreciation Recapture: 25% • ObamaCare Tax: 3.8%)

Delaware Statutory Trusts (DSTs) offered Jim a better solution by allowing him to defer capital gains taxes while generating passive income.

By investing in DSTs, **Jim retained his $1.9 million in capital and earned a 6% return,** equating to $108,000 annually. Had he sold the property, paid the taxes, and invested the remaining funds at the same 6% rate, he would have earned only $66,132. DSTs provided Jim with nearly 40% higher income for his retirement.

With DSTs

$108,000
annually
subject to taxation

Without DSTs

$66,132
annually

Tax rates vary based on individual circumstances.

Case Study #2 | *Optimize Income, Simplify Life*

In 1998, Karen and her husband Bob purchased a 12-unit apartment building in San Francisco, California, for $480,000. By March 2021, they sold the property through their real estate broker for approximately $3.3 million.

Their decision to sell was driven by Bob's impending retirement and their desire to move away from the demands of active property management. Additionally, they wanted to diversify their investment portfolio.

> *Upon closing escrow, Karen and Bob seized the opportunity to invest in Delaware Statutory Trusts (DSTs). They partnered with* **Perch Wealth** *to implement a 1031 exchange plan that included professionally managed DSTs. This strategy allowed them to defer all capital gains taxes while meeting their investment goals.*

Karen and Bob completed their 1031 exchange and acquired interests in seven different DST properties, and now hold a 0.275% ownership interest in a portfolio with a combined asset value of over $1.2 billion. Their real estate portfolio is now diversified across various sectors, geographic locations, tenants, and income sources.

7 DST properties = **$1.2b** asset value

Most importantly, they are no longer burdened with the responsibilities of active property management. No more tenants, trash, or toilets! Their real estate portfolio is now completely passive, enabling them to focus on more enjoyable pursuits.

Case Study #3 | *Delaware Statutory Trusts vs. NNN Investments*

In 2005, Donna inherited a portfolio of single-family homes from her parents. She chose to keep and manage these properties herself. By 2022, ready to retire, Donna began exploring her exchange options. During a consultation with a Perch Wealth advisor, Donna weighed the decision between investing in DSTs or purchasing real estate directly. Her portfolio was valued at $5.5 million across six properties.

When considering direct NNN property investments, Donna encountered several challenges:

- Each investment was valued at just under $1 million, making it difficult to acquire high-quality NNN properties after each sale.
- Single-tenant NNN properties carried vacancy risks, posing a significant financial burden on her portfolio.
- Although NNN investments are primarily passive, future lease negotiations would still be necessary.

Ultimately, Donna chose to invest in DSTs. She exchanged each property into three DSTs, increasing her total assets from six to eighteen. At 78 years old, Donna now enjoys a diversified portfolio of real estate, providing her with predictable passive income.

6 → diversified portfolio with DSTs → **18**

Case Study #4 | *Prepackaged Non-Recourse Debt & Diversification*

David approached Perch Wealth seeking relief from the burdens of property management but faced uncertainty due to his existing debt. He owned a multifamily property valued at $1.5 million, encumbered by a $750,000 loan, resulting in a 50% loan-to-value ratio.

Selling his property and reinvesting only the remaining $750,000 would have triggered taxes on the $750,000 debt.

*Instead, by assuming debt through Delaware Statutory Trusts (DSTs), David could invest in **$1.5 million worth of real estate** without personally securing a new loan. Importantly, this debt was non-recourse, removing personal liability for David.*

David diversified his portfolio by investing in four different DSTs. This strategy proved particularly advantageous given the high-interest rate environment, enhancing both his financial stability and investment potential.

All case studies presented are hypothetical and the characters portrayed are fictional. There is no guarantee of successful outcomes, and actual experiences may differ significantly from those illustrated in the case studies presented herein. Individual results will vary based on a variety of factors. We recommend you consult with a qualified tax professional prior to investing.

DST EXAMPLES

Asset Type: Mineral Rights (Oil/Gas)
Location: Permian Basin, TX
Properties: 38 properties, 8 counties, 81,000 acres
Producing Wells: 415
Operators: 12
Financing: Debt-Free
Loan-to-Value: 0.00%
Est. Hold Period: 5-7 Years

Asset Type: Single Tenant NNN Lease
Properties: 8
Location: AZ, FL, TX, CO, NV
Built: 2003 - 2020
Tenants: 6
Occupancy: 100%
Financing: 10 years Fixed, 4.68%
Loan-to-Value: 40.11%
Est. Hold Period: 5-7 Years

Asset Type: Multifamily
Properties: 1
Location: Charlotte, NC
Built: 2016
Units: 265
Occupancy: 96.32%
Financing: 10 years Fixed, 4.53%
Loan-to-Value: 45.73%
Est. Hold Period: 5-7 Years

Asset Type: Self-Storage
Properties: 2
Location: FL, MD
Built: 2021, 2022
Units: 1400
Occupancy: 91%
Financing: Debt-Free
Loan-to-Value: 0.00%
Est. Hold Period: 5-7 Years

CONCLUSION

Delaware Statutory Trusts (DSTs) offer a compelling and versatile investment option for accredited investors, particularly those engaging in 1031 exchanges. DSTs enable the deferral of capital gains taxes, provide diversification across high-quality real estate assets, and generate passive income—all while alleviating the responsibilities of direct property management. DSTs provide a strategic opportunity for investors seeking to enhance their portfolios and ensure long-term financial stability.

Navigating the DST market, however, can be complex, with 55 active sponsors and over 90 distinct investments available at any given time. Each sponsor brings unique attributes in terms of size, structure, experience, and investment focus—ranging from single-asset strategies to diversified portfolios that include medical office buildings, student housing, single-tenant NNN properties, self-storage, industrial assets, Class A multifamily units, mineral rights, and manufactured housing. These variations, along with differences in investment strategies and product structures, require careful assessment to ensure alignment with financial goals.

At Perch Wealth, we specialize in guiding our clients through this complexity. Our team conducts thorough evaluations of DST sponsors and investment offerings, taking into account both the nuances of each sponsor and the underlying market fundamentals. By leveraging our expertise in strategic analysis, due diligence, and risk management, we help clients build strong, diversified DST portfolios tailored to their specific income and growth objectives.

If you are considering selling real estate or seeking a 1031 exchange property, the Perch Wealth team is here to help you create a customized DST portfolio that aligns with your financial goals. Contact us today to discover how a DST can enhance your investment strategy and provide a pathway to long-term financial security.

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