

7 REASONS TO

Consider Delaware Statutory Trusts (DSTs)

This overview reflects how Bonaventure evaluates and uses DST structures as execution tools to reduce risk in high-stakes 1031 transactions.

DELAWARE STATUTORY TRUSTS (DSTs): A PLANNING TOOL FOR TAX-EFFICIENT 1031 EXECUTION

A Delaware Statutory Trust (DST) is a legal ownership structure that allows investors to hold fractional beneficial interests in institutional real estate while maintaining eligibility for Section 1031 tax deferral. When properly structured, DST interests are treated as direct ownership of real estate for tax purposes.

DSTs are not an investment thesis. They are a planning tool used to reduce execution risk in 1031 exchanges by providing certainty when timing, financing, and pricing constraints matter. Below are seven reasons DSTs are often incorporated into tax-efficient real estate strategies.

1 Eliminate Financing

Financing is one of the most common causes of failed 1031 exchanges. Replacement debt typically must match or exceed existing debt under tight timelines.

Many DSTs include non-recourse, pre-arranged financing at the trust level, eliminating the need for individual qualification or renegotiation.

Why it matters: It reduces lender-driven delays that can jeopardize deadlines.

2 Provide Backup

IRS rules allow exchangers to identify up to three replacement properties within 45 days, yet deals often fail due to inspections, pricing changes, or seller delays).

DSTs can be identified alongside direct acquisitions as contingency options, subject to availability.

Why it matters: Backup options reduce deadline pressure and the risk of a forced purchase.

3 Reduce Taxable Boot

Exact pricing alignment is rare in 1031 exchanges, and mismatches can create taxable cash or mortgage boot.

Because DST interests can be purchased in fractional amounts, reinvestment targets can often be matched more precisely.

Why it matters: Better alignment helps preserve tax deferral without forcing an oversized acquisition.

4 Transition to Passive Ownership

As portfolios mature, many investors want to remain in real estate while stepping away from day-to-day management.

DSTs are professionally managed, shifting leasing, maintenance, and capital project responsibilities to the sponsor.

Why it matters: Investors simplify ownership without exiting real estate or triggering a taxable sale.

5 Reduce Concentration Risk

Direct ownership can concentrate exposure in one asset, market, or tenant profile.

DSTs can provide access to institutional-quality assets and, in some cases, diversified exposure across properties or regions.

Why it matters: Concentration risk can be reduced without restructuring through a taxable sale.

6 Support Long-Term Tax Deferral & Estate Flexibility

DST interests qualify as real estate for 1031 purposes and may be exchanged again over time. Under current law, heirs may receive a step-up in basis.

Why it matters: The structure supports long-range planning and intergenerational transfer strategies.

7 Enable Flexible Capital Deployment

DST minimums often begin around \$100,000, making them useful for partial exchanges, leftover proceeds, or precise allocations.

Why it matters: Capital can be deployed efficiently without forcing mismatches.

HOW TO KNOW IF A DST IS THE RIGHT SOLUTION

DSTs may be a good fit when:

- ✓ there are significant embedded gains
- ✓ execution risk outweighs pricing risk
- ✓ tax deferral is a primary objective
- ✓ estate planning is a consideration
- ✓ concentration risk needs to be reduced

DSTs may be a poor fit when:

- ✗ operational control is a priority
- ✗ near-term liquidity is required
- ✗ refinancing flexibility is critical
- ✗ the primary objective is yield maximization

THE REAL RISK: EXECUTION, NOT MARKETS

Many unsuccessful 1031 outcomes are driven by process breakdowns, including missed deadlines, financing issues, or forced acquisitions.

DSTs can shift much of this execution risk away from the investor, allowing greater focus on long-term planning rather than short-term logistics.

ABOUT BONAVENTURE

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Let's Connect

We help investors align exchange strategy with timelines, tax posture, and long-term goals.

✉ investor@bonaventure.com | 📞 703-567-4590 | 🌐 Bonaventure.com

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