



DST Educational Series A Part 3: What are the Risks Associated with a Delaware Statutory Trust?

Welcome DST News! Our goal is to provide non-biased education and market information for Accredited Investors on DSTs. We hope to provide a Depth & Breath of knowledge for Investors About Delaware Statutory Trusts (DSTs)

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Any investment with Real estate as the underlying asset has risk. Delaware Statutory Trusts utilized real estate so have the same inherent risks. The real estate drives the investment's performance. Terms like illiquidity, economic risks, vacancy, rising interest rates and COVID related cause and effects, all add to the risk. These factors often increase the risk profile of real estate investments.

There are regulations surrounding DSTs that are not present in direct investment in real estate. DST creations and offering include risk in acquisition, execution, and sale to eventual investors. There is also a fee structure that are different from traditional direct real estate or even REIT investments. There are additional regulatory requirements of DSTs because of the execution risk. There are fees associated with DST offerings that may affect the overall performance. At first glance some point to the commission schedule that are disclosed in the Private Placement Memorandum (PPM). For example, there may be a 5% to 6% commission paid to broker / dealers. This may be compared to a seller of traditional real estate listing but the seller notifying a real estate agent that they will see their property but to get the real estate commission from the buyer. There is a noticeable difference in the DST structure.

Commissions are paid only on the equity that an investor pays for the property and not any financing that may be arranged. Think about that for a moment. When you purchase traditional real estate commissions are paid on borrowed funds. That adds to the cost upon exit. Typically, the rationale on taking on debt is to utilize leverage. Taking a deeper dive into other risk with DSTs are worth spending time, especially with regards to the impact on your investment. We will cover additional risk in future installments (such as the load, seven deadly sins, and other risks). For more information, please visit DSTNews.org.

Watch for Series A Part 4: The Economic Focus

DST's (Delaware Statutory Trusts) are for accredited investors only. Contact your investment adviser for additional details on how a DST may be a solution to your 1031 Exchange and compliment your financial objectives. For more information on how to properly set up an IRC 1031Tax Deferred Exchange or if you are an accredited investor and would like additional information on a DST contact AI DiNicola at 239-691-8098 or email adinicola@namcoa.com.

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