TheDSTGuy

FOR 1031 EXCHANGE INVESTORS

The Investor's Guide to 1031 Exchanges & DSTs

A plain-English introduction to tax-deferred real estate exchanges, Delaware Statutory Trusts, and what passive ownership actually looks like.

Prepared by **James Lyon** · Registered Representative

A NOTE FROM JAMES

Most of the investors I work with aren't tired of real estate — they're tired of managing it. The 3 a.m. calls, the vacancy stress, the feeling that a property you own somehow still owns a piece of your calendar. This guide exists because that trade-off — active ownership for passive ownership — is a bigger decision than most people realize going in, and it deserves a clear explanation before you make it.

What follows is a straightforward walk through two things: how a 1031 exchange defers your capital gains tax when you sell investment real estate, and how a Delaware Statutory Trust (DST) can serve as the replacement property — giving you continued ownership in institutional-quality real estate without the operational work. I've also included the risks and considerations that any honest conversation about DSTs needs to cover, because they aren't the right fit for everyone.

Nothing here is a recommendation for your specific situation — that conversation comes next, once we've talked about your timeline, your goals, and what you're exchanging out of. Consider this the background reading that makes that conversation more useful.

James Lyon
TheDSTGuy · Registered Representative

WHAT'S INSIDE

01

What Is a 1031 Exchange?

Section 1031 of the Internal Revenue Code lets you sell investment or business real estate and defer the capital gains tax — as long as you reinvest the proceeds into "like-kind" replacement property under a specific set of rules.

The core idea

When you sell an investment property at a gain, the IRS normally taxes that gain in the year of sale — capital gains tax, depreciation recapture, and in some cases net investment income tax. A 1031 exchange defers all of it, provided you route the transaction through a Qualified Intermediary and reinvest into another like-kind property rather than taking the sale proceeds yourself. "Like-kind" is interpreted broadly for real estate: virtually any U.S. investment or business real property qualifies as like-kind to any other, from a duplex to a share in a large commercial building.

Why investors use it

Defer the tax bill

Capital gains and depreciation recapture are deferred, not eliminated — keeping more of your equity working instead of going to the IRS at closing.

Reposition without a toll

Move from one property, market, or asset class to another — say, from an aging rental to institutional real estate — without a tax cost triggering the decision.

A potential step-up

Exchanges can be repeated over a lifetime. Held until death, heirs may receive replacement property at a stepped-up basis — a separate area worth discussing with your CPA.

The basic requirements

- The property sold and the property acquired must both be held for investment or business use — not a primary residence.
- The replacement property must be "like-kind" — in practice, any U.S. investment real estate qualifies as like-kind to any other.
- All net proceeds from the sale must be reinvested to defer 100% of the gain; any cash or debt reduction you keep ("boot") is generally taxable.
- A Qualified Intermediary must hold the sale proceeds — you can never have direct or "constructive" receipt of the funds.
- The exchange must follow the 45-day identification and 180-day closing deadlines covered next.

02

The Exchange Timeline

Every 1031 exchange runs on two fixed deadlines. There are no extensions — missing either one disqualifies the exchange and triggers the tax bill you were deferring.

Day 0
CLOSE OF SALE

Relinquished property closes
Your Qualified Intermediary receives the net proceeds directly from closing — the clock starts the moment title transfers.

Day 45
IDENTIFY

Replacement property must be identified in writing
You must formally identify up to three candidate replacement properties (or more, under the 200% rule) and deliver that identification to your intermediary before midnight on day 45. No exceptions for weekends or holidays.

Day 180
CLOSE

Replacement property must close
The purchase must close by the earlier of 180 calendar days after the original sale, or your tax return due date (with extensions) for the year of the sale.

The role of the Qualified Intermediary

A Qualified Intermediary (QI) is an independent third party who holds your sale proceeds throughout the exchange so you never take actual or constructive receipt of the funds — a requirement for the exchange to qualify. Your QI is typically engaged before your relinquished property closes, not after.

Where exchanges go wrong

- Waiting until after closing to engage a Qualified Intermediary — the QI must be in place before the sale closes.
- Missing the 45-day identification window because a suitable replacement property hasn't been found in time.
- Under-reinvesting — leaving cash out or reducing debt without replacing it, which creates a partially taxable "boot."
- Assuming a DST identified on day 44 solves a timing problem — due diligence and funding still need to happen properly.

WHY THIS PAGE MATTERS FOR DSTS

Because DST offerings are pre-packaged and can typically close in days rather than months, many investors identify a DST as a backup replacement property to protect a 45-day deadline that a primary property search is at risk of missing.

03

What Is a Delaware Statutory Trust?

A Delaware Statutory Trust (DST) is a legal trust that holds title to real estate. Investors purchase a fractional beneficial interest in the trust — and, under IRS Revenue Ruling 2004-86, that interest is treated as direct ownership of real property for 1031 purposes.

Who's involved

The Sponsor

Acquires the property, arranges financing, structures the offering, and typically stays on as asset manager for the life of the trust.

The Trustee

Holds legal title to the property on behalf of investors. IRS rules deliberately limit the trustee's powers — no reinvesting sale proceeds, no new capital calls, no renegotiating leases outside narrow limits.

The Investor

Purchases a fractional indirect beneficial interest and receives a pro-rata share of any potential income and appreciation — with no landlord duties and no vote in day-to-day operations.

Why the trustee's limits matter

Revenue Ruling 2004-86 is the reason a DST interest qualifies as "like-kind" real property rather than a security or partnership interest — but that qualification depends on the trust staying within a defined set of restrictions on what the trustee can do (no reinvesting proceeds from a sale, no new capital contributions after the offering closes, and others). This is also why DSTs are structured, packaged offerings rather than something an investor customizes — the restrictions that make the 1031 treatment work are built into the trust itself.

What DSTs typically own

DST sponsors assemble offerings across a range of institutional-quality asset classes — multifamily communities, industrial and logistics facilities, medical office buildings, self-storage portfolios, and net-leased retail or healthcare properties, among others. The specific assets, tenants, financing, and hold period vary by offering, which is why reviewing each deal's own materials — not this guide — is where the real due diligence happens.

04

Why Investors Choose DSTs

A DST doesn't just satisfy the 1031 requirement — for many investors, it changes what ownership feels like day to day.

Your weekends, back

No leases to sign, no tenants to chase, no calls about a broken water heater. The sponsor and property manager run the asset; you own the economics.

Institutional-quality real estate

Access to the same class of assets pension funds and REITs buy — sized down to fit an individual exchange rather than a $50M allocation.

Real diversification

Split exchange equity across multiple DSTs, asset classes, sponsors, and geographies instead of concentrating it in one property, one roof, one tenant base.

Simpler estate planning

Fractional interests divide cleanly among heirs — no forced sale of a single illiquid property, no siblings jointly managing a rental they never wanted to run.

Continued tax deferral

Depending on the offering, a DST interest may itself later be exchanged into a future 1031, providing a path to keep deferring gains as your goals evolve.

A lower bar to institutional exposure

Because DSTs pool capital from many investors, they typically make institutional-grade property accessible at a lower minimum than buying a whole asset outright.

A NOTE ON CURRENT TAX LAW

Recent tax legislation restored 100% bonus depreciation for qualifying property, with no scheduled phase-down. Many DST sponsors use cost segregation studies to accelerate depreciation on underlying real estate, and current law can enhance that benefit for qualifying assets. How this applies to any specific offering depends on the property and is worth reviewing with your CPA — this guide is not tax advice.

05

Risks & Considerations

DSTs are not right for every investor or every exchange. A clear-eyed look at the downside is part of any honest recommendation — here's what to weigh before moving forward.

Illiquidity

DST interests are not publicly traded and there is no established secondary market. Investors should be prepared to hold for the offering's full anticipated hold period, which is often five to ten years or longer.

No guarantee of income or return of principal

Distributions are not guaranteed and may be reduced, suspended, or eliminated. As with any real estate investment, investors can lose some or all of their invested principal.

Not insured or guaranteed

DST interests are not bank deposits, are not FDIC insured, and are not guaranteed by any government agency.

Limited investor control

Investors have no voting rights or day-to-day management authority over the property, and the trustee's own powers are deliberately limited by the IRS rules that preserve the trust's 1031 eligibility.

General real estate risk

Vacancy, tenant default, interest rate changes, shifts in property value, local market conditions, and unforeseen capital needs can all affect performance, exactly as with any real estate holding.

Suitability & accreditation

Most DST offerings are available only to accredited investors and are speculative, illiquid investments suitable only for those who can bear the risk of loss and do not require liquidity from the invested capital.

Exchange timing risk

If a suitable replacement property isn't identified within 45 days, or the purchase doesn't close within 180 days, the exchange can fail — triggering the capital gains tax it was meant to defer.

06

Frequently Asked Questions

Straight answers to the questions that come up most often in early conversations.

Can I put only part of my exchange into a DST?

Yes. Many investors split exchange proceeds between a DST and a directly-owned property, or across several DSTs, rather than putting 100% of the equity into one vehicle.

How is a DST different from a REIT?

A publicly traded REIT is a security you can buy or sell on an exchange at any time, but it does not qualify as like-kind property for a 1031 exchange. A DST interest is illiquid and typically held for a fixed period, but does qualify — that trade-off is central to the decision.

What happens if a DST doesn't fit my situation?

It's not the right tool for every exchange or every investor's risk tolerance and liquidity needs. Part of the initial conversation is figuring out honestly whether a DST, a direct replacement property, or a combination makes the most sense for your specific goals and timeline.

Do I need to be an accredited investor?

Most DST offerings are limited to accredited investors, a status defined by the SEC based on income, net worth, or certain professional qualifications. We'll confirm eligibility as part of the process.

How long does a DST closing typically take?

Because the offering is pre-packaged with financing and due diligence largely complete, a DST can often close within days once subscription documents are submitted — considerably faster than a traditional property purchase.

What does working with you actually involve?

A discovery conversation about your exchange timeline and goals, a curated review of DST options that fit your criteria, coordination with your CPA, attorney, and Qualified Intermediary, and support through closing. See the next page for more detail.

07

About James & How We Work

A short introduction, and what the process looks like once you decide to move forward.

About James Lyon

James Lyon works with investors navigating 1031 exchanges into Delaware Statutory Trusts — helping them understand the mechanics, weigh the trade-offs, and find offerings suited to their timeline and goals. His focus stays on education first: making sure an investor understands exactly what they're evaluating before any decision gets made.

James is a Registered Representative offering securities through Emerson Equity LLC, Member FINRA/SIPC. His FINRA BrokerCheck record (CRD #4882441) is available at brokercheck.finra.org.

How We Work Together

1. **Discovery call**
   We talk through your exchange timeline, what you're selling, and what you want the next chapter of ownership to look like.

2. **Curated options**
   You receive a short list of DST offerings that fit your criteria — not a catalog of everything on the market.

3. **Coordination**
   We work alongside your CPA, attorney, and Qualified Intermediary to keep the exchange on schedule.

4. **Closing & beyond**
   Support through subscription and closing, and a continued relationship for whatever comes next.

DISCLOSURES & NEXT STEPS

Before You Go Further

This material is for general educational purposes only and does not constitute tax, legal, investment, or accounting advice, nor is it an offer to sell or a solicitation of an offer to buy any security. Delaware Statutory Trust interests are offered only by Private Placement Memorandum ("PPM") to accredited investors, and only the PPM contains complete information about risks, fees, and expenses associated with a specific offering. Please read a PPM carefully before investing.

1031 exchanges are complex transactions with strict timing requirements. This guide describes general rules as of the date of publication; tax law can and does change, and individual circumstances vary. Please consult your own CPA, tax attorney, and Qualified Intermediary before undertaking a 1031 exchange, and consult your own financial and legal advisors before investing in any DST offering.

The contents of this communication: (i) do not constitute an offer of securities or a solicitation of an offer to buy securities, (ii) offers can be made only by the confidential Private Placement Memorandum (the "PPM") which is available upon request, (iii) do not and cannot replace the PPM and is qualified in its entirety by the PPM, and (iv) may not be relied upon in making an investment decision related to any investment offering by an issuer, or any affiliate, or partner thereof ("Issuer"). All potential investors must read the PPM and no person may invest without acknowledging receipt and complete review of the PPM. With respect to any "targeted" goals and performance levels outlined herein, these do not constitute a promise of performance, nor is there any assurance that the investment objectives of any program will be attained. All investments carry the risk of loss of some or all of the principal invested. These "targeted" factors are based upon reasonable assumptions more fully outlined in the Offering Documents/PPM for the respective offering. Consult the PPM for investment conditions, risk factors, minimum requirements, fees and expenses and other pertinent information with respect to any investment. These investment opportunities have not been registered under the Securities Act of 1933 and are being offered pursuant to an exemption therefrom and from applicable state securities laws. All offerings are intended only for accredited investors unless otherwise specified. Past performance are no guarantee of future results. All information is subject to change. You should always consult a tax professional prior to investing. Investment offerings and investment decisions may only be made on the basis of a confidential private placement memorandum issued by Issuer, or one of its partner/issuers. Issuer does not warrant the accuracy or completeness of the information contained herein. Thank you for your cooperation.

Securities offered through Emerson Equity LLC. Member FINRA/SIPC. Only available in states where Emerson Equity LLC is registered. Emerson Equity LLC is not affiliated with any other entities identified in this communication.

James Lyon is a Registered Representative of Emerson Equity LLC. His FINRA BrokerCheck record (CRD #4882441) is available at brokercheck.finra.org/individual/summary/4882441.

James Lyon
TheDSTGuy · Registered Representative

james@thedstguy.com
415.528.1276
thedstguy.com