



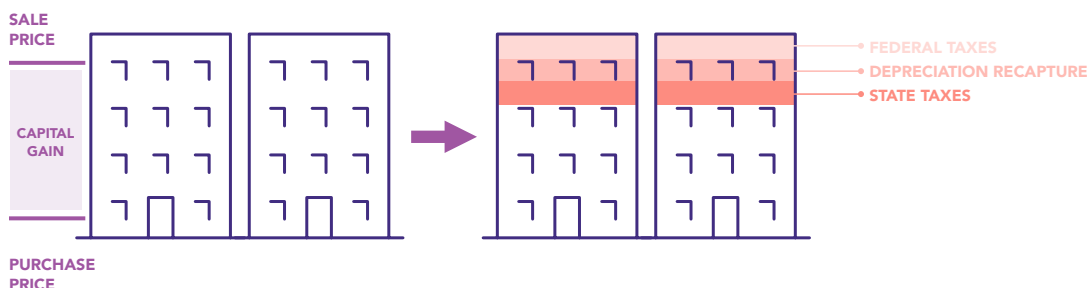
1031 and Delaware Statutory Trusts *Investment* Strategy

A §1031 like-kind exchange is one of the most effective ways to **defer recognition of taxable gain** on the sale of investment or business real estate. Delaware Statutory Trusts (“DSTs”) are IRS-recognized structures that can own diversified portfolios of institutional-grade commercial real estate. Because DSTs qualify as “like-kind” property under IRS Rev. Rul. 2004-86, they can be used to complete a §1031 exchange while giving investors:

- Broader diversification
- Professional asset management
- Potential for stable, passive income

Tax Impact of a Sale vs. 1031 Exchange

SELLING AN INVESTMENT PROPERTY FOR THE PURPOSE OF ACQUIRING NEW INVESTMENT OPPORTUNITIES CAN TRIGGER TAXES EXCEEDING 20-35% OF THE CAPITAL GAIN ON THE SALE OF YOUR INVESTMENT PROPERTY.



EXAMPLE:

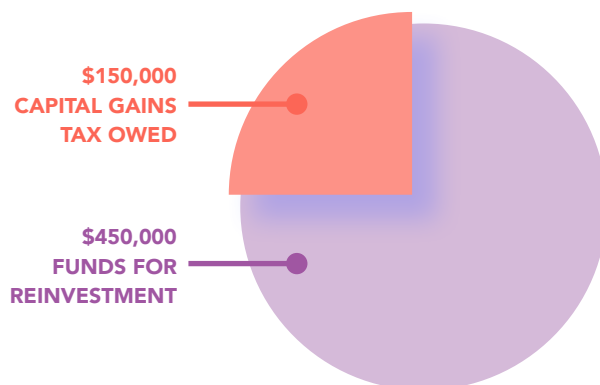
Original purchase price: \$100,000

Sale price: \$600,000

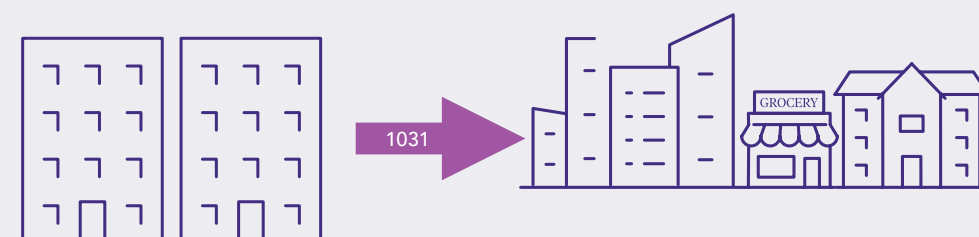
Gain: \$500,000

If subject to a combined 30% tax rate, tax due = \$150,000

Net proceeds for reinvestment = \$450,000



Using a §1031 exchange, you can defer recognition of all eligible gain (including depreciation recapture), keeping the full \$600,000 invested.

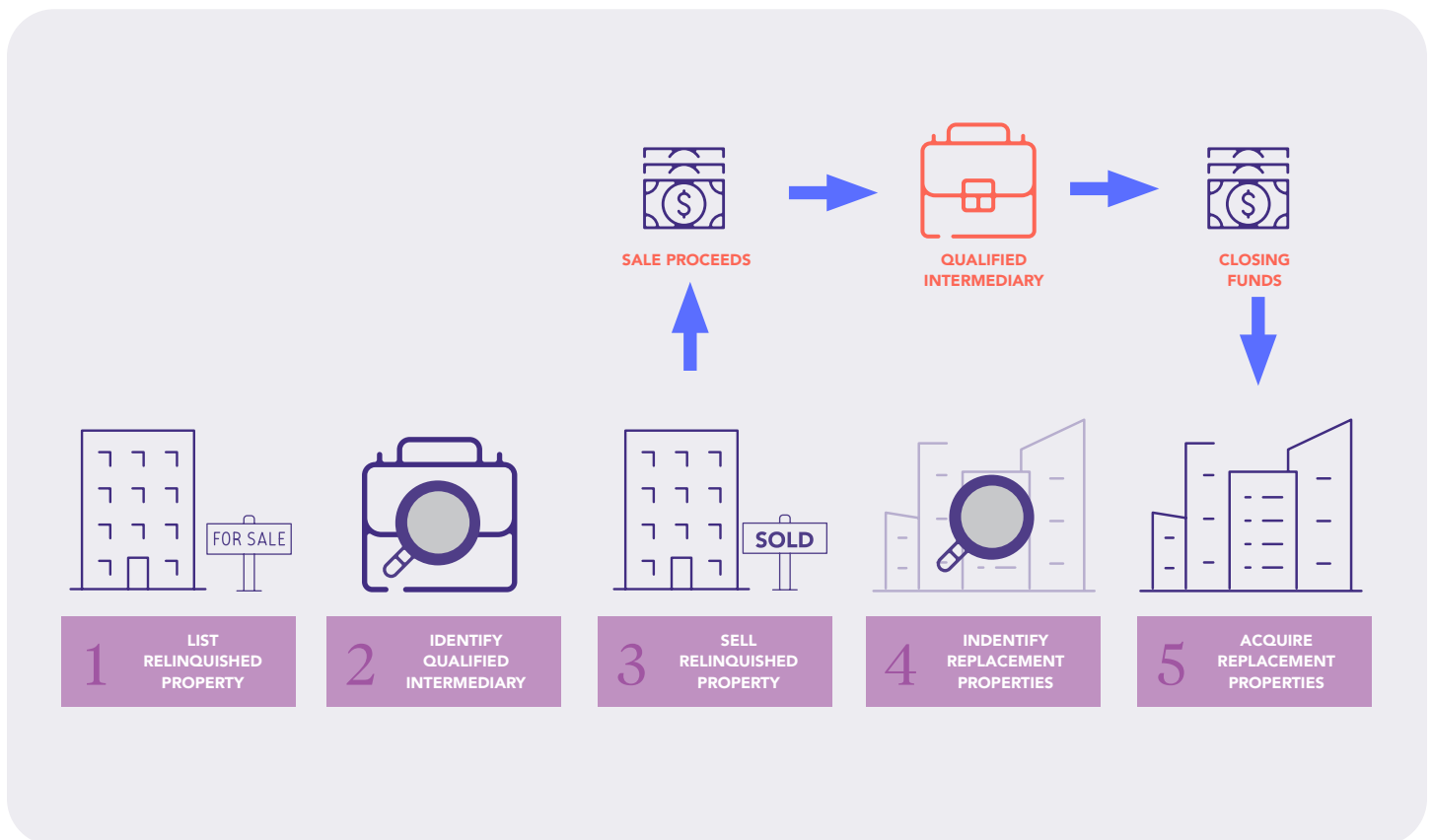


How a 1031 Exchange Works

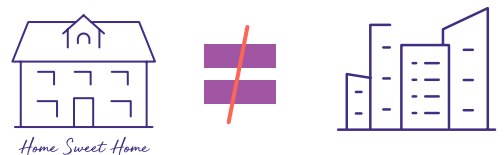
To maintain eligibility, you must avoid **actual or constructive receipt** of the sale proceeds. A Qualified Intermediary ("QI") must hold the funds and facilitate both the sale and purchase.

TYPICAL STEPS:

1. **List Relinquished Property:** Include §1031 exchange language in the purchase agreement to document intent.
2. **Hire a Qualified Intermediary:** Must be an unrelated third- party.
3. **Close Sale:** Proceeds go directly to QI.
4. **Identify Replacement Property:** Within *45 days* of sale closing.
5. **Acquire Replacement Property:** Complete purchase(s) within *180 days* of sale closing.



Key IRS Rules for 1031



LIKE-KIND REQUIREMENT

Both properties must be real estate held for investment or business. Property held primarily for sale (dealer property) is excluded. U.S. real estate cannot be exchanged for foreign real estate.

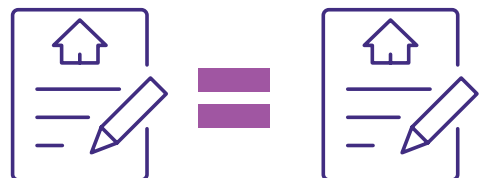


EQUAL OR GREATER VALUE

To fully defer taxes, purchase replacement property(ies) with equal or greater value and reinvest all net proceeds. Any proceeds not reinvested are considered taxable gain.

SAME TAXPAYER REQUIREMENT

The same legal owner must sell and buy (single-member LLCs are generally disregarded, but partnerships and multi-member LLCs are not).

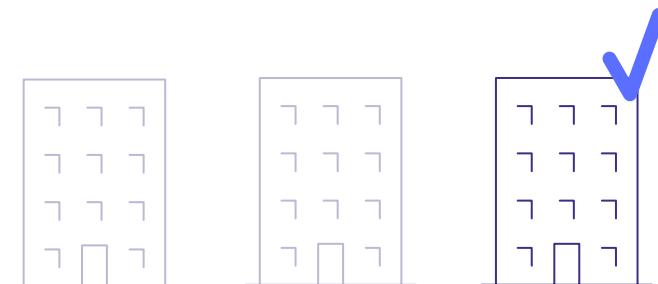


Property Identification Rules

Within 45 days, comply with:

3-PROPERTY RULE

Up to 3 properties, any value.



200% RULE

Any number of properties, total value \leq 200% of relinquished property.

95% RULE

Any number, any value, if you acquire \geq 95% of total identified value.



Additional Exchange Strategies

TENANCY-IN-COMMON (TIC) REPLACEMENT PROPERTY STRUCTURE

A TIC allows multiple investors to own an undivided fractional interest in real estate that qualifies as replacement property in a 1031 exchange. Each co-owner is listed on the property title and shares income, expenses, and potential appreciation in proportion to ownership. TICs can provide access to larger, institutional-quality properties but often involve more coordination among co-owners and are generally limited to 35 investors. Single-member TICs can be utilized to facilitate larger exchanges, with a \$1 million minimum equity requirement for non-DST replacement property options.

DROP AND SWAP

When a partnership owns property but individual partners wish to pursue different tax strategies, a “drop and swap” may be used. The partnership distributes fractional interests in the real estate to individual partners before the sale (“drop”). Each partner can then independently complete their own 1031 exchange (“swap”). This requires careful structuring to comply with IRS rules and withstand scrutiny.

REVERSE 1031 EXCHANGE

In cases where you must acquire the replacement property before selling your relinquished property, a reverse 1031 exchange can be used. An Exchange Accommodation Titleholder (EAT) temporarily holds one of the properties until the other transaction is completed. This strategy allows investors to secure attractive replacement property first, mitigating timing risks.

QUALIFIED OPPORTUNITY ZONES (QOZS)

Opportunity Zones provide tax incentives for reinvesting capital gains into designated low-income communities. By investing through a Qualified Opportunity Fund (QOF), you may:

- Defer recognition of original capital gains,
- Potentially reduce the taxable portion of those gains,
- Eliminate taxes on new gains if the QOZ investment is held for 10+ years.

This strategy can complement or serve as an alternative to a 1031 exchange, particularly when diversification outside of real estate is desired.

DEFERRED SALES TRUST

A Deferred Sales Trust is an alternative when a 1031 exchange is not ideal. By selling to a trust in exchange for a secured installment note, you can defer capital gains taxes while gaining flexibility in reinvestment options. Unlike a §1031, which requires real estate-for-real estate, a Deferred Sales Trust allows reinvestment in diverse asset classes such as real estate, stocks, or bonds.

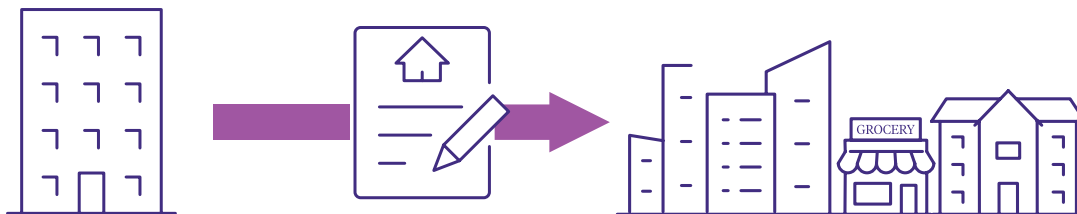
Using DSTs in a 1031 Exchange

A DST IS A PASSIVE INVESTMENT STRUCTURE IN WHICH INVESTORS OWN A FRACTIONAL INTEREST IN A PORTFOLIO OF PROPERTIES. BENEFITS INCLUDE:

- Diversification across geography, property types, and tenants
- Professional asset management
- Ability to close in **1–3 days** (valuable for meeting §1031 deadlines)

IRS Eligibility (Rev. Rul. 2004-86) – DST must:

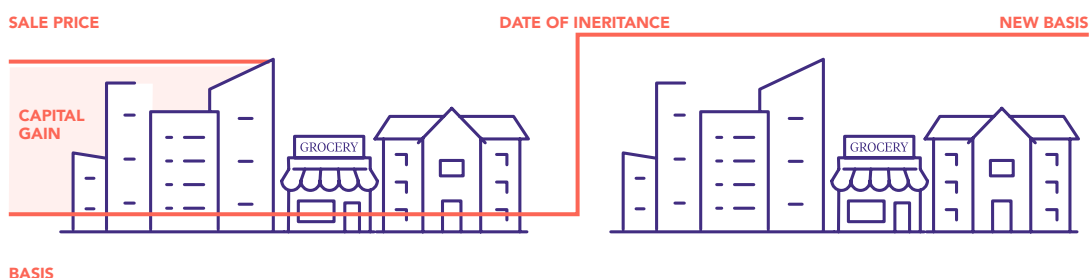
- Operate as a trust (not a partnership)
- Make only limited capital expenditures (repairs, maintenance, minor improvements)
- Distribute net cash flow regularly (quarterly or monthly)
- Avoid new capital raises or refinancing after closing
- Use master lease structure for tenant changes if needed



ESTATE PLANNING BENEFIT

Upon death, DST interests (like other real estate) generally receive a **step-up in basis** to fair market value, allowing heirs to sell without capital gains tax.

Note: Current law allows this; however, Congress could change step-up provisions in the future.



Sole Ownership vs. DST Ownership



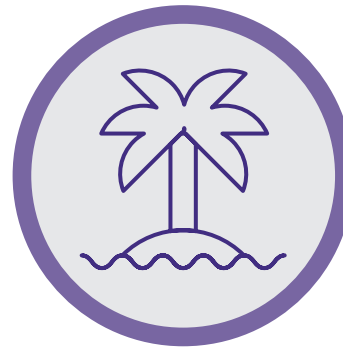
LESS DIVERSIFIED
OWNERSHIP



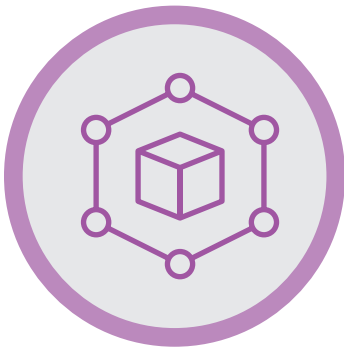
DIVERSIFICATION
ACROSS A
PORTFOLIO
OR MULTIPLE
PORTFOLIOS OF
PROPERTIES



ALL THE
BURDENS OF
MANAGEMENT



NONE OF THE
BURDENS OF
MANAGEMENT



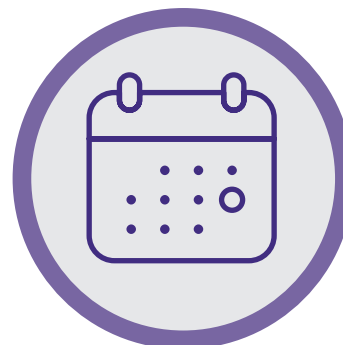
HARD TO FIND
REPLACEMENT
OPTIONS THAT
MATCH
EXACT 1031
REQUIREMENT



INVESTMENT
AMOUNTS MAY
BE CUSTOMIZED
TO FIT EXACTLY
WHAT IS NEEDED



DIFFICULT TO
FIND, INSPECT,
AND CLOSE
WITHIN 1031
IDENTIFICATION
DEADLINES



INVESTORS CAN
CLOSE ESCROW
IN AS FEW
AS 1-3 DAYS

Sole Ownership vs. DST Ownership



ADDITIONAL
LIABILITY AND
LENDER
RECOURSE



LIMITED
LIABILITY AND
NON-RECOURSE
FINANCING



LIMITED TO ONE
INDIVIDUAL'S
INVESTMENT
CAPITAL



COMBINES
INVESTMENT
CAPITAL
OF MULTIPLE
INVESTORS

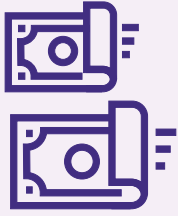


OPTIONS
OFTEN LIMITED
BY LOCATION
OR ASSET CLASS



CAN BE
DIVERSIFIED
NATIONALLY AND
ACROSS ASSET
CLASSES

Potential *Benefits* of a DSTs



CASH FLOW

Many DSTs are designed to provide steady income. Net cash-on-cash returns typically start around 4-5% annually, paid to investors monthly.



DIVERSIFICATION

By investing in one or more DSTs, you gain access to professionally managed portfolios of properties. This helps reduce risk tied to any one property, location, tenant, or lease.



THOROUGH DUE DILIGENCE

DST sponsors completed detailed analysis upfront including appraisals, property reports, financing terms, and market data so you have access to comprehensive information before investing.



SPEED AND TIMING

Because DSTs are pre-packaged with financing and due diligence complete, you can often close in as little as 1-3 days helping you meet strict IRS timelines for a 1031 exchange.



TAX ADVANTAGES

You continue to benefit from depreciation and other real estate deductions during the holding period. When the DST property is eventually sold, you may choose to complete another 1031 exchange to keep deferring taxes.

Potential *Benefits* of a DST (*continued*)



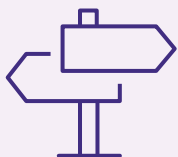
LIMITED LIABILITY

Similar to an LLC, DSTs provide limited liability protection, shielding your personal assets from claims related to the property.



BANKRUPTCY PROTECTION

DSTs are structured to be “bankruptcy remote,” which means your investment is protected from the personal financial issues of other investors.



FLEXIBLE EXIT OPTIONS

Depending on the DST, investors may have options to:

- Cash out and realize gains
- Complete another 1031 exchange
- Execute a 721 exchange to convert into shares of a Real Estate Investment Trust (REIT)

WHILE DSTs CAN OFFER SIGNIFICANT BENEFITS, THERE ARE ALSO KEY CONSIDERATIONS YOU SHOULD UNDERSTAND:

Illiquidity – DST interests are not traded on an exchange. Investors should be prepared to hold the investment for full-term (often 5-10 years).

Lack of control – Investors are passive owners. Management, leasing, financing, and sale decisions are handled by the DST sponsor.

Market and property risks – DST performance is tied to the real estate market, tenant, creditworthiness, lease structures, and property-level conditions.

Fees and expenses – DSTs may carry upfront fees and ongoing management costs that impact investor returns.

Concentration risk – While diversification is possible, investors should ensure their overall portfolio is balanced across multiple asset classes and geographies.

Sponsor dependence – The success of the investment depends heavily on the capabilities and integrity of the DST sponsor.

Tax complexity – DSTs involve unique tax rules. CPAs should carefully review K-1s, depreciation schedules, and the impact on your broader tax plan.

TURN REAL ESTATE INTO OPPORTUNITY

Our team can help you evaluate whether a traditional 1031, a DST, a reverse exchange, a deferred sales trust, or an Opportunity Zone investment best fits your goals.

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Connect with us today
to start your customized
1031 exchange or DST
strategy.

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