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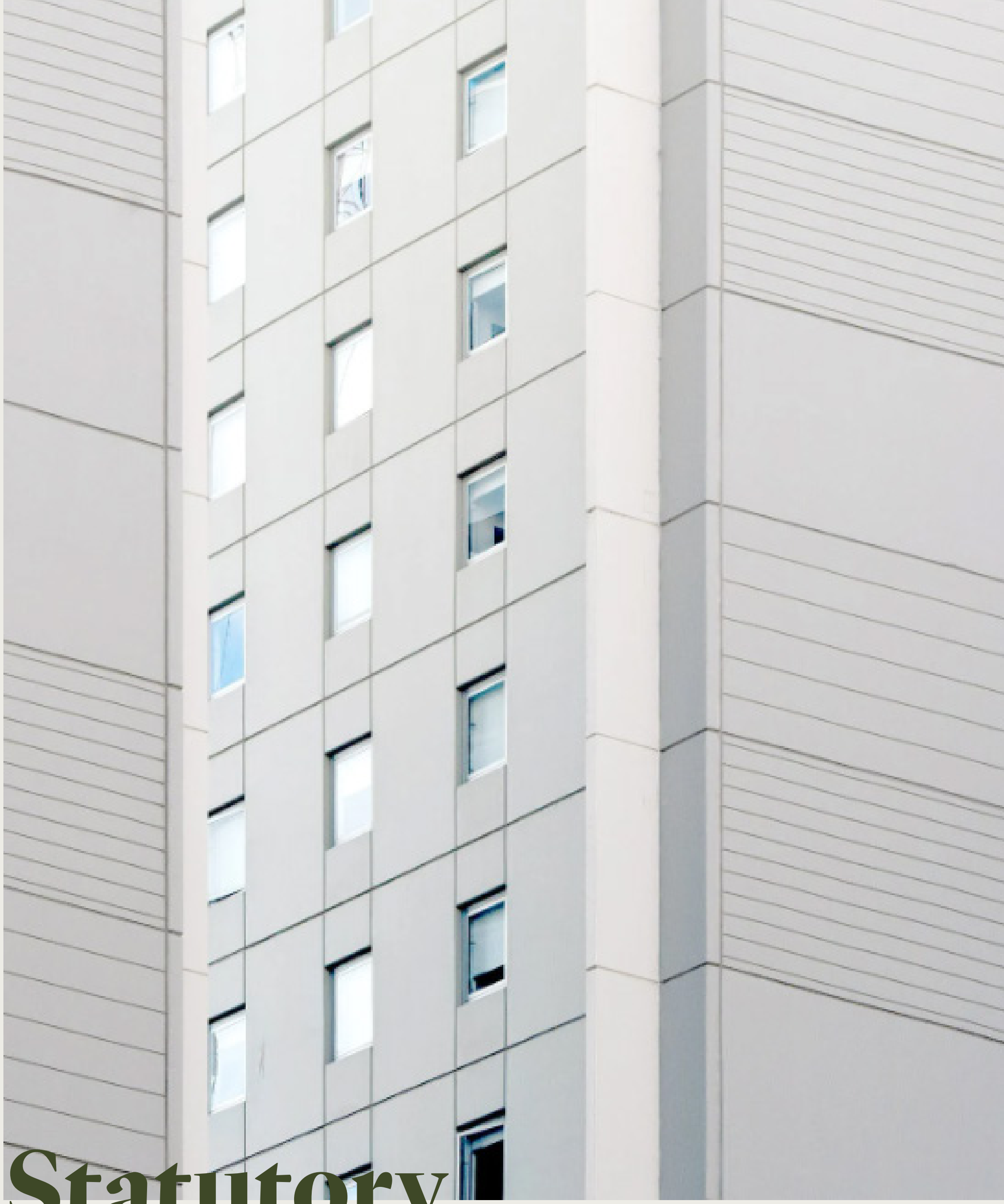


Delaware Statutory Trusts Overview

THE DELAWARE STATUTORY TRUST (DST) HAS EMERGED AS A POPULAR VEHICLE FOR FRACTIONAL OWNERSHIP. UNDERSTANDING DSTS MAY HELP WITH A 1031 EXCHANGE.

An alternative to individual ownership of real estate is a fractional ownership in institutional-quality real estate. Most large estates, family trusts, endowments, foreign investors, pension funds, life insurance companies, and individual high net worth investors participate in fractional ownership through one of the following legal entities:

REITs | DSTs | TICs | LLCs and/or Limited Partnerships

It is not uncommon for America's institutional-grade real estate to be owned through some sort of multiple-ownership entity. However, only the **DST** (Delaware Statutory Trust) and **TIC** (Tenancy in Common) structures have been **approved by the IRS for use in 1031 Exchanges.**

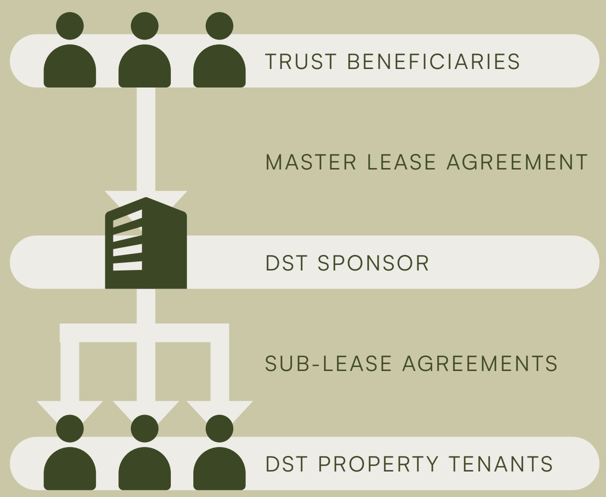
The Delaware Statutory Trust (DST) takes management out of the hands of investors and places it into the hands of an experienced, sponsor-affiliated trustee.

THE HANDS-OFF NATURE OF A DST HAS MADE IT A POPULAR FRACTIONAL OWNERSHIP ENTITY AMONG INVESTORS.

WHAT IS A DST?

A Delaware Statutory Trust (DST) is an investment vehicle that is often unknown to 1031 Exchange investors, that qualifies as replacement property in a 1031 Exchange (per IRS Rev Ruling 2004-86). Despite the name, neither the property nor the investors need to be located in Delaware.

When you invest in real estate that is held in a Delaware Statutory Trust, you are considered to have acquired an undivided interest in that property (or properties), and therefore own a direct interest in the real property in proportion to your investment percentage. This allows you to qualify your investment as replacement property under the like-kind exchange rules of a 1031 Exchange.



HOW DOES A DST WORK?

DSTs are formed by a third party, called the sponsor, who creates the DST by acquiring a property or properties and putting them into the trust. Sponsors then open the trust so investors can purchase a beneficial interest. Sponsors are professional real estate and management companies whose business is to acquire and manage investment real estate that would not be available to smaller investors. As a beneficiary of the trust, you would have no say in the day-to-day management of the property or the eventual sale of the property — these activities are handled by the Sponsor. However, the sponsor of the DST will outline the strategy and timeline for disposition of the property in the private placement memorandum (PPM).

Some DST sponsors manage properties on behalf of the DST while other sponsors hire professional management and oversee the management company. The goal is to improve the operation of the property to increase income and long-term value, although there is no guarantee that will happen. Because the sponsor manages and operates the property — including overseeing the leasing of units as well as for paying all property expenses and making the majority of repairs and renovations that may be required at the property — investors in the property enjoy the benefits of their investment with no management headaches, no out of pocket expenses, and no capital calls.

WHY ARE DSTS BENEFICIAL?

DSTs offer access to top-tier properties and management that would typically only be available to large institutional investors such as life companies, foreign investors, pensions, large endowments, large family trusts, and public and private real estate investment trusts (REITS). The underlying property clients may invest in through a Delaware Statutory Trust could be, but are not limited to: large multi-family properties, Class A office buildings, student housing, medical offices, self-storage, and triple net leases with large national credit-rated corporations.

Many sophisticated investors look at high quality investment real estate because historically it has offered the potential for capital preservation, consistent income, tax benefits, and a hedge against inflation. DST offerings give investors the opportunity to own a different class of property than they otherwise might be able to afford if they were trying to acquire it themselves.

POTENTIAL ADVANTAGES

A DST may have advantages over other forms of real property ownership. Although DST ownership, as with any investment, is not without risk, its structure can benefit the specific needs of the right investors. Some advantages include:

Income potential*

- DST investments seek to offer long-term recurring income deposited directly into the investor's designated account, typically each month or quarter.
- Income from a DST is tax advantaged to the extent an investor is able to deduct their proportionate share of mortgage interest and depreciation.

No management responsibilities

- The DST is the sole decision-making authority on the investor's behalf, responsible for all property management, asset management, and property operations.
- The Sponsor typically has extensive background in managing and maintaining the types of properties in their respective DSTs.
- Sponsors provide regular investor reports on the performance of the underlying DST properties.

Flexible deal structuring

- The minimum investment for most DSTs that qualify for a 1031 Exchange is generally $100,000. This allows most exchange investors to diversify among a number of different properties by type and geography quickly and easily while still qualifying under exchange rules.
- Your investment can be perfectly sized to the amount of debt and equity you have to exchange.
- DSTs have varying debt-to-equity ratios. We can help you choose investments that maximize your tax deferred amount.
- DSTs are helpful for investors with excess profit from the sale of relinquished property (AKA "boot") after purchasing other properties. This excess can be invested into a DST, saving investors from an unnecessary tax liability.
- One or more DSTs can be used as back-up properties in the event the target property falls out of escrow for any reason.

Access to institutional-quality properties

- DSTs allow the average investor to acquire partial ownership in institutional-quality properties that otherwise may be out of reach for the smaller investor.
- Properties are overseen by professional property managers experienced in improving operations of the specific property type.
- DSTs typically undergo more due diligence and disclosure than direct owner investment real estate.

*Potential cash flows/returns/distributions are not guaranteed and could be lower than anticipated.

Streamlined investment process

- The sponsor arranges financing that is non-recourse to the investor, and financing is generally on better terms than is available to the individual investor. As the investor, you are not required to provide tax returns or financial statements to lenders. Nor are you required to guarantee the loan. In addition, the asset, but not the debt will be reflected on your financial statement. And, the debt will not appear on your credit report.
- With a DST, other than the exchange fee, there are no closing costs for title and escrow.
- DST investments are "pre-packaged," meaning the mortgage is already in place and property due diligence such as title, appraisals, inspections, survey, and environmental assessment has been completed.
- Your investment in DSTs and your 1031 Exchange can both be completed quickly with limited paperwork.
- Helps reduce the risk of missing 45-day or 180-day 1031 Exchange deadlines.

Diversification

- DSTs provide an excellent way to diversify 1031 Exchange funds among a number of different types of properties in various geographic locations. This may help manage risk. Because of the streamlined process for investing in DST's, acquiring a more diverse portfolio may be easier and less expensive than acquiring a diverse portfolio on a direct 100% ownership or fee basis.
- Because DSTs are "pre-packaged," it is possible to evaluate a variety of potential investment options across the U.S. in a short period of time.

Estate and tax planning

- DSTs can help facilitate estate planning because beneficial interests can be bequeathed to different individuals or organizations in varying amounts.
- With DSTs, investors benefit from potential stepped-up cost basis for heirs.
- The investor can do another 1031 Exchange when the original DST property is sold. This can be done indefinitely.
- You may be able to offset passive income from your DSTs against passive losses from other investments. You must confirm this with your tax advisor on a case-by-case basis.
- Your DST investment may qualify for the new 20% pass through deduction created by the Tax Cuts and Jobs Act.

DISADVANTAGES

Despite its advantages, the DST structure does have its limitations. They include, but are not limited to:

Illiquid asset

Commercial real estate is regarded as an illiquid asset, meaning it may take substantial time to sell a property. DST interests may be even more illiquid as an individual investor has limited or no control over property sale decisions. Under a DST structure, property sale decisions are made entirely by the Trustee. Although legally transferable, there is currently no secondary market for DST Interests.

Fixed investment period (holding period)

The decision to sell the DST is determined by the Sponsor, based on market conditions and other variables. The average holding period is 5-7 years.

Passive investment

While many investors consider passiveness to be an attractive feature, investors have no control or involvement in the property management or the final disposition timing and strategy.

Fees

The fees represent the cost to acquire, meet all SEC guidelines, and market the DST. In the end, it is about return on investment compared to alternatives. Our past clients found when they understood the benefits of the right DSTs for their own unique situation, the fees became secondary to the potential returns and diversification ability. Note that fees are not out of pocket and that projected returns are calculated on your full equity investment, net of all fees.

Modest returns*

Due to the passive nature of DSTs, sponsors typically select properties with lower risk profiles. While these properties may provide the benefit of more consistent cash flow potential, they generally also produce lower return potential. Investors who have previously operated their own properties may be accustomed to higher return potential. Investors in DSTs generally accept a lower total return in exchange for a passive investment, the anticipation of more consistent potential cash flow, tax benefits, and potential appreciation — and no management headaches.

Possible Springing LLC conversion

The DST may have a Springing LLC conversion feature in place so that if the DST is in jeopardy of losing the real property, the DST may convert to a limited liability company in accordance with the trust agreement. The trustee will be the managing member of the Springing LLC. Once a DST is converted to an LLC, it will be treated as a partnership for tax purposes. Investors will NOT be able to do a 1031 exchange if the LLC sells the asset. However, there are no prohibitions against converting back to a DST after making necessary adjustments. It is possible that if a DST is forced to convert into an LLC, its investors may lose their ability to do a subsequent 1031 exchanges.

MANAGING RISK

As with all investments, there are risks with a DST. Risks are disclosed in the private placement memorandum for each investment. As your 1031 Exchange replacement property partner, we seek to help manage your risks by:

Analyzing the sponsor's experience.

Comparing and analyzing the Private Placement Memorandum information against our comprehensive due diligence process.

Diversifying your 1031 Exchange proceeds among sponsors, property types, geography, and tenants when suitable.

Reviewing disposition timing and strategy outlined in the PPM for compatibility with your short term and long term financial goals and needs.

*Potential cash flows/returns/distributions/appreciation are not guaranteed and could be lower than anticipated. Prospective investors should perform their own due diligence carefully and review the "Risk Factors" section of any private placement memorandum before considering any investment.

Accredited Investors in or considering a 1031 Exchange can benefit from understanding how a DST might fit their 1031 Exchange requirements. Many of our clients have found that DSTs were a suitable solution to their 1031 Exchange situation:

IF YOU'RE...	CONSIDER...
A passive investor who is more risk-adverse and seeking monthly income potential	• Diversifying your investment into a portfolio of DSTs, which may provide you monthly income potential, and relieve you of management headaches
A hands-on, active real estate investor	• Identifying a DST as a back up property, in the event the target property falls out of escrow for any reason • Investing leftover funds from the sale of relinquished property to help maximize your tax deferral

Contact us today for professional, tailored guidance on your passive real estate investment needs:

legacyire.com (916) 908-1031

LEGACY INVESTMENTS & REAL ESTATE

Because investor situations and objectives vary this information is not intended to indicate suitability or a recommendation for any individual investor.

This is for informational purposes only, does not constitute individual investment advice, and should not be relied upon as tax or legal advice. Please consult the appropriate professional regarding your individual circumstance.

Potential cash flows/returns/appreciation are not guaranteed and could be lower than anticipated.

Diversification does not guarantee a profit or protect against a loss in a declining market. It is a method used to help manage investment risk.

There are material risks associated with investing in DST properties and real estate securities including liquidity, tenant vacancies, general market conditions and competition, lack of operating history, interest rate risks, the risk of new supply coming to market and softening rental rates, general risks of owning/operating commercial and multifamily properties, short term leases associated with multi-family properties, financing risks, potential adverse tax consequences, general economic risks, development risks, long hold periods, and potential loss of the entire investment principal.

DST 1031 properties are only available to accredited investors (typically defined as having a $1 million net worth excluding primary residence or $200,000 income individually/$300,000 jointly of the last two years; or have an active Series 7, Series 82, or Series 65). Individuals holding a Series 66 do not fall under this definition) and accredited entities only. If you are unsure if you are an accredited investor and/or an accredited entity, please verify with your CPA and Attorney.

Securities offered through Concorde Investment Services, LLC (CIS), member FINRA/SIPC. Legacy Investments & Real Estate is independent of CIS.

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