

How to Review a Private Placement Memorandum (PPM) for a Delaware Statutory Trust (DST) Offering

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Abstract

This white paper explores the critical importance of thoroughly understanding the Private Placement Memorandum (PPM) when considering investment in a Delaware Statutory Trust (DST) as part of a Section 1031 tax-deferred exchange. PPMs are utilized in private placement offerings for a variety of structures. PPMs are required to be delivered to investors prior to the investor providing capital to invest. As DSTs have become an increasingly popular vehicle for deferring capital gains taxes through like-kind real estate exchanges, investors must navigate complex legal and financial structures. The PPM serves as the primary disclosure document, outlining key details such as investment strategy, risk factors, fee structures, property specifics, sponsor background, and legal obligations. Misinterpreting or overlooking information in the PPM can expose investors to unintended risks, tax consequences, or illiquidity. This white paper aims to demystify the PPM and highlight the due diligence necessary to align DST investments with long-term financial goals, ensuring regulatory compliance and maximizing the benefits of the 1031 exchange. This is not an offer to purchase securities.

Executive Summary of This White Paper

The use of Delaware Statutory Trusts (DSTs) in 1031 tax-deferred exchanges has grown significantly over the past two decades. DSTs provide real estate investors with a passive and diversified alternative to direct property ownership. Investors seeking to defer capital gains taxes through a “like-kind” exchange may elect to utilize a DST. This may be because of unique advantages including access to institutional-quality properties, professional management, and the ability to meet strict IRS deadlines. However, these benefits come with layers of potential complexities, making the **Private Placement Memorandum (PPM)** a critical document in the investment decision-making process.

The PPM is the cornerstone disclosure document that outlines the full scope of the DST offering. It contains vital information about the investment strategy, asset details, financial projections, risk disclosures, sponsor background, exit strategies, fee structures, and tax implications. All of these items are important for investors engaging in a §1031 exchange. The exchange requires compliance with very specific timing requirements. These timing requirements need to be followed. Failing to fully understand the PPM can result in unintended tax liability. In addition, there may be a potential loss of investment capital, or exposure to illiquidity and operational risks.

This white paper underscores the importance of **comprehensive due diligence** in reviewing a DST’s PPM. It provides a detailed breakdown of key PPM sections, clarifies common misconceptions, and highlights red flags investors should be aware of. In addition, it outlines how understanding the PPM supports better alignment between the investor's goals and the DST’s risk-return profile, especially in the context of estate planning, retirement income, and portfolio diversification.

Given the irrevocable nature of §1031 exchanges and the passive, long-term nature of DST investments, this white paper strongly suggests and advocates for increased investor education and engagement with qualified tax and legal advisors. Ultimately, understanding the PPM is not just about compliance, it is about safeguarding one’s financial future.

Background

Within the past six years we have reviewed nearly 700 Private Placement Memorandums (PPMs) for a variety of Alternative Investments (ALTS). We maintain records and summaries of all the offerings we have reviewed. Fortunately, the formatting of a PPM follows a predictive pattern, and information is laid out in a similar sequence in almost all PPMs. That enables us to provide a review of potential alternatives for investors seeking ALTS. Most of the requests are for Delaware Statutory Trust used in conjunction with a Section 1031 tax deferred exchange. Other investors will seek REITs, Oil & Gas Programs, IRA to ROTH conversions and other alternative investments seeking to diversify their portfolios. This is an overview and suggestion on how to review a PPM.

Private Placement Memorandum Executive Summary of the Offering

Delaware Statutory Trusts (DSTs) are increasingly popular vehicles for investors seeking exposure to institutional-quality real estate while preserving tax advantages through §1031 exchanges. DSTs are not for everyone since it is required that investors be considered an accredited investor. For many investors, DSTs provide passive ownership, portfolio diversification, and potential for predictable income streams. However, like all private placements, DSTs carry risks, including illiquidity, sponsor dependence, and real estate market volatility. Having accredited investor status does not automatically mean that the investment is suitable for every investor.

Most PPMs begin with a summary that highlights the property, the investment strategy, and high-level terms. Some PPMs will ease into the text and technical prose with color brochure materials. Other PPMs will be somewhat of a spartan or generic flow with all text and no brochures.

Investors may look initially at the Property Snapshot. This may include typical real estate presentations such as location (location, location), type of property or asset class, acquisition cost, and occupancy levels. We will amplify these items in a future section. The next layer may include investment objectives. Meaning is the offering focused on stable income, capital appreciation, or a blend. Something that is typically outside the normal real estate battery of questions would be the Sponsor overview. This background of the sponsor and the affiliated companies is very important.

A note to the investor would be that the summary often paints an optimistic picture. The brochures and illustrations may be engaging but do not stop there. There are many deeper details contained in later sections.

The **Private Placement Memorandum (PPM)** is the single most important document governing a DST investment. While it is still possible to request and receive a hard copy of the PPM, most PPMs are delivered electronically. It provides disclosures required by law and serves as the investor's roadmap to understanding risks, financial projections, sponsor obligations, and structural features. This white paper provides a practical framework for reviewing a PPM, helping investors identify critical details, how to ask the right questions, and make more informed investment decisions. Occasionally investors may request to have the short version (remember the old cliff notes for those who attended college years ago) or a version that is highlighted with all the "important elements". That is not permitted, and advisors may not supply a PPM with highlighted sections that may over emphasize a specific section and underplay other sections. Advisors who are committed to the business and deal with private placements and alternative investments such as DSTs on a regular basis make time to attend independent third-party due diligence meetings. These meetings analyze the offering documentation (PPM) as well as sponsor background. In addition, advisors should be in contact with the sponsors of these offerings to clarify any aspects of the PPM that may be outside the scope of a typical offering. We will provide examples.

Introduction: The Role of the PPM in DST Investing

A **Private Placement Memorandum** is a legal disclosure document prepared by the DST sponsor. Its purpose is twofold:

1. **Compliance** – To meet federal and state securities law requirements, ensuring material risks and details are disclosed. DST (and other ALTS) are Regulation D (Reg D) offerings. A **Reg D offering** is a type of private securities offering in the United States that allows companies to raise capital **without registering the securities with the SEC** (Securities and Exchange Commission), as long as they meet certain requirements. For issuers it is about compliance and liability protection. Reg D is commonly used by startups, real estate syndications, private equity funds, and other businesses that want to raise money more quickly and with lower costs than a traditional public offering.
2. **Investor Protection** – To equip investors with information necessary to evaluate the investment. This needs to be about protection and transparency.

Key Points Regarding Compliance:

A. Exemption from Registration

- Reg D provides exemptions under the Securities Act of 1933, so companies don't need to go through the lengthy and expensive SEC registration process.

B. Types of Reg D Offerings

- **Rule 504:** Under this rule a sponsor can raise up to \$10 million in a 12-month period. This may allow some general solicitation depending on state laws.
- **Rule 506 (b):** This provides for unlimited capital raise. This may be offered (sold) to unlimited accredited investors and up to 35 non-accredited (sophisticated) investors. Under this provision there is *No general solicitation/advertising allowed*. Under this rule investors can simply self-certify accredited status.
- **Rule 506 (c):** This rule also permits an unlimited capital raise. This allows for general solicitation and advertising. However, all investors must be accredited, and the issuer must verify the investor accredited status. There would be a requirement for a third-party advisor, CPA, attorney or other party to certify accredited status of the investor.

C. Who Can Invest

- Typically limited to **accredited investors** (high-net-worth individuals or institutions that meet SEC financial criteria).

- Accredited investor definition is based on an either-or criteria of income or net worth. Income requirements are \$200,000 for singles, \$300,000 for couples in the past two years. Net worth is \$1M excluding primary residence. These thresholds are currently being reviewed by the SEC.
- In some cases (like 506(b)), a limited number of sophisticated but non-accredited investors can participate. (Noted previously a limit of 35 non-accredited investors which sponsors will need to monitor).

D. Form D Filing

- Even though the offering is exempt from SEC registration, issuers must file a short notice called **Form D** with the SEC within 15 days after the first sale. Reg D offering still includes a mountain of required documentation.

E. Why Companies Use Reg D

- This registration enables sponsors faster access to capital. It may take nearly a year to bring a DST to the market so faster is a relative term.
- There are typically lower legal and compliance costs compared to Initial Public Offering. (IPOs)
- There is (potentially) more flexibility in structuring private placements
- A Reg D offering is a way for companies to raise private capital legally, without going public, while still complying with SEC rules.

Key Points Regarding investor protection:

A. Full Disclosure of Risks

- A PPM lays out all known risks related to the investment: market risks, management risks, liquidity risks, conflicts of interest, etc.
- This gives investors the information they need to make an informed decision, rather than being misled by sales pitches. Advisors need to be well versed in the offering documents to answer questions. Investors may also interface directly with the sponsor representatives via webinars and direct conversations.

B. Transparency of Terms

- The PPM explains the structure of the deal:
 - Minimum investment- In most DST offerings where a §1031 exchange is utilized as the vehicle (for replacement property) the minimum is \$100,000. Cash investors may have a lower threshold of investing. This lower threshold enables smaller accredited investors the ability to enter the investment vehicle.

- Investor rights and restrictions are defined, and DSTs should be considered illiquid investments (similar to most real estate investing).
 - Use of proceeds- this is a critical portion of the PPM, and we will amplify the importance in a later part of the paper.
 - Fees, distributions, and profit splits while part of the use of proceeds need to be clarified as to exactly who is participating in the acquisition, packaging and offering of the DST. There will also be an exit fee or cost when the DST is sold at the end of the holding period.
- The fee disclosure ensures investors understand how their money will be used and what they can realistically expect.

C. Legal Safeguards Against Misrepresentation

- By providing written disclosures, issuers limit liability and reduce the risk of being accused of fraud or misrepresentation.
- For investors, this creates a paper trail of what was promised vs. what was delivered. If something goes wrong, the PPM can serve as evidence. Advisors should arrange for additional support materials in addition to the PPM. These may include area information, jobs statistics, appraisal information as well as competitive set of other properties in the area if possible.

D. Suitability & Compliance

- In offerings that allow non-accredited investors (e.g., Rule 506(b)), the PPM often includes questionnaires or investor representations to confirm that investors are financially sophisticated enough to evaluate the risks.
- This ensures investors aren't putting money into deals beyond their means or understanding.
- There is a new movement to permit Retail Investor Access to Private Market Assets Through Registered Funds. As of this writing, there is a recommendation by the SEC Investor Advisory Committee. There will need to be clarification on how to effectively monitor and evaluate who is investing. We will provide a deeper dive into this new movement in future writing.

E. Exit Strategy & Liquidity Warnings

- Most private placements are illiquid (you can't easily sell your interest).
- The PPM must clearly disclose these limitations, so investors know upfront that their money may be tied up for years.

- The exit strategies may include a cash out options, utilizing another §1031 exchange, a §721 UPREIT that may be optional or mandatory. Investors as well as advisors need to fully understand the potential exit strategies.

Bottom line on the Role of the PPM:

A PPM protects investors by providing honest, comprehensive, and legally required disclosures about the risks, terms, and structure of a private offering. It helps prevent misunderstandings and gives investors the ability to decide whether the deal aligns with their goals and risk tolerance. Once the DST has been fully subscribed the operation of the property or asset is vitally important.

Here is a side-by-side comparison on the protections provided in the PPM to Investors and Issuer.

Investor Protections	Issuer Protections
Risk Disclosure: Gives investors a clear picture of potential risks so they can make informed choices.	Limits Liability: Written disclosure helps defend against claims of fraud or misrepresentation.
Transparency of Terms: Outlines fees, profit splits, distributions, voting rights, and exit strategies.	Sets Expectations: Ensures all investors receive the same information, reducing disputes later.
Use of Proceeds: Explains exactly how funds will be used, preventing misuse or hidden agendas.	Regulatory Compliance: Demonstrates good faith with SEC requirements (Form D, Reg D rules).
Investor Suitability: Includes questionnaires to confirm investors are accredited or sophisticated enough.	Proof of Due Diligence: Shows the issuer took steps to verify investor qualifications.
Liquidity Warnings: Discloses that securities are illiquid and may not be resold easily.	Protects Business Plans: Clarifies long hold periods so investors can't claim they were misled about exit timing.
Legal Recourse: Creates a documented basis if an issuer acts outside disclosed terms.	Unified Agreement: All investors sign under the same rules, avoiding one-off negotiations or special deals.

DST Risk Factors

If the purpose of this writing is the review the PPM in relation to the DST, the following Risk disclosures are required by securities law and typically referenced in multiple pages.

Common DST Risk Categories:

- Illiquidity – Interests cannot be easily sold or redeemed.
- Tenant Risk – Dependence on one or few number of tenants.
- Leverage Risk – Loan terms, refinancing restrictions.
- Market Conditions – Local real estate fundamentals and broader economy.
- Sponsor Risk – Track record, conflicts of interest, litigation history.

Single asset or Portfolio of Assets. Certain DSTs offer a single property such as a multifamily apartment (with multiple tenants) or a single site self-storage. Other DSTs offerings will combine multiple properties into one offering. Offerings with multiple properties will require additional pages to address all of the properties. For example, a portfolio of 15 properties in eight different marketplaces will require information on all properties. This style of portfolio may offer diversification as well as additional pages in the PPM. **Investor Note:** Pay special attention to tenant concentration risks. One tenant default can significantly impair distributions. We have extensive articles on this topic.

Sponsor and Management Team

The sponsor's expertise and track record often determine DST performance. Since 2004 when DST were first acknowledged by the IRS as a permitted replacement for a §1031 exchange there have been many sponsors who have entered the space. Some of the sponsors were large real estate companies with a long-track record of investment experience. DSTs may be the same type of real estate offering with a different "wrapper" according to some opinions. Meaning rather than a Tenant in Common (TIC) or REIT, the investment was structured to be offered to a potentially expanded investor pool (those investors executing a §1031 exchange). As a DST sponsor the longest track record may be 22 years. Inland Real Estate was one of the first DST sponsors. Inland was the company who petitioned the IRS to use DSTs in a §1031 exchange. Like other sponsors, Inland was an established real estate investment company expanding their offerings. Quickly the adoption of the DST offerings became sought after and there were many more sponsors. Some with extensive track records and others with limited track records. Recently very large REITs (Real Estate Investment Trusts) have started to offer DSTs. Imagine, a \$25 Billion REIT is now offering a \$50M DST. The strategy the REITs provide is for the DST to be moved back into the REIT after a safe harbor period (2 years). This may provide a large diversification pool of assets.

What to Review:

There are a number of items to research regarding the sponsor. The sponsor history prior to the DST offerings is one area to review. As stated previously there may be an experienced real estate investment firm who enters the DST sponsor role as a “new sponsor”, but not new company. There are also individual sponsor principals with experience from other firms who establish a new company and rely on business skills sets they bring to the new company. The success of previous programs should be noted with regards to realized returns and exit performance. The PPM should note the successful programs as well as marginal or unsuccessful programs. PPMs will also disclose any pending or former litigation that involves any of the principals (known as “bad actors”). The key elements of concern according to a third-party evaluation company may be in a review such as this. *“First this section attempts to ascertain the likelihood that an organization’s officers or key employees may commit fraudulent or risky activity and to identify whether the manner in which an organization conducts its business activities may position the organization for costly litigation. Second, this section attempts to identify disqualifying “bad actor” events under 17 C.F.R. §230.506(d) of issuers, affiliated issuers, and individuals. This review does not include registered representatives or selling group members. Third, this section attempts to identify areas of litigation-related contingent liabilities that may affect the organization’s financial position”*. When we meet with sponsors and third-party due diligence firms we do ask a plethora of questions. Many times, there will be co-investment by the sponsor which may demonstrate alignment of interest. This would be a favorable aspect of the offering.

Property Overview

The PPM should provide details on the property or portfolio. Single properties may be easier to review and obtain information. Portfolios of properties will have additional information. A single property may become easier to identify on the 45-day identification list since portfolios of properties need to be identified individually even if offered as one acquisition. This becomes an extra detail to avoid any confusion in the completion of the required identification process if a §1031 exchange is being used. The DST offerings (properties) typically are identified in the offering with a name. However, on the 45-day identification list the specific address of the property needs to be listed.

Key Items to Review:

The underlying asset of the DST is real estate and as such will have the fundamentals described. This includes fundamental location such as the demographic, employment, and schools (important for multifamily properties). Infrastructure needs such as transportation networks (access to rail in certain areas may be important). For certain properties the tenant analysis becomes very important. What are the lease terms, renewal risks, and credit worthiness? Triple net lease properties may have certain advantages with credit worthy tenants. The physical condition of the property

becomes important and if there was deferred maintenance in the case of an older building. There may also be independent appraisals as well as engineering reports included in the PPM or available as a supplement. One element to understand is how the property was acquired. Was the acquisition through an affiliated party where the DST sponsor has an interest? Sponsors that are vertically integrated may provide some efficiencies when bringing a DST to market. There may also be occasions where there has been a markup from the affiliated party acquisition of the property and then the ultimate sale to the DST. A markup would be an excessive amount added to the price of the property when purchased by the affiliated and sold to the DST. This would be disclosed.

One recent inclusion in supporting documents may be a cost segregation study on certain DSTs. Since the new legislation signed into law on July 4, 2025, 100% depreciation may again be utilized.

There are also the overall fundamentals of the real estate investment. Let's review a Hypothetical Property Example. The property is a Class A multifamily complex, Phoenix, AZ. The Total Acquisition price (including all cost & fees) is \$80 million, 50% LTV financing. The complex has 300 apartment units and is 95% occupancy. The **Strengths** are a strong local market fundamentals with a Diversified tenant base. The rent assumptions (annual increases) are conservative. The **Risks** may be with the loan. If the loan has a balloon maturity in seven years this may cause an issue. DSTs may not refinance the loan. There may also be high acquisition fees as well as a limited capital reserve allocation. If the DST needs to be sold prior to the end of the loan maturity this is a point of discussion.

The investor decision may be to allocate partially to balance risk with diversification across other DSTs.

Financial Projections and Assumptions

Somewhere within the PPM will be financial projections. These may be stated in a chart or in a form very similar to an excel spreadsheet. The projections provide sponsor expectations but are not guaranteed. There may also be the reference to pretax and after-tax potential return. Many times, the after-tax implication takes into effect the highest tax bracket as well as a state income tax to arrive at a potential total rate of 40%. All investors may not fall under this category. Certain investors may seek DST located in tax favored states. Although many states that have a state income tax will have an offset with state income taxes paid in another state.

What to Evaluate:

Within the volumes of information contained within the PPM when it comes to financial aspects of the DST, there are specific items to review. If the property is a multifamily property, the rent growth (past and projected) is a key metric. The occupancy rate (or vacancy rate) is typically expressed as a percentage. Most markets have detailed reports on the competitive set to establish the vacancy rates. Over the past few years occupancy rates projected in the PPM have come under pressure. The (typically projected) rental growth expressed as a 5% rate of growth may not hit that

level and may actually be flat (or negative) due to interest rate increases. Historically this has moved up and down over the years. Inflation may have caused expenses to escalate over the past few years. The double-edge sword of flat rent growth and increased expenses (taxes & insurance) may continue to put pressure on the property. If there is a loan on the property another key metric is the debt coverage ratio (DSCR). Years ago, a familiar term that was used was “Cap Rate Compression”. Many times, the compression factor created an opportunity for an exit. The same Net Operating Income (NOI) when acquired may create a profit as cap rates compress. If cap rates do not compress the value may not increase.

Legal Structure and Compliance

DSTs are governed by IRS Revenue Ruling 2004-86. This was the ruling that permitted DSTs to be acknowledged and permitted to satisfy the §1031 replacement requirements for completing the exchange. There are on-going requirements for the DST to adhere to comply with ruling. If sponsors violate any of the requirements (known as the Seven Deadly Sins) the §1031 exchange may be in jeopardy and investors may face immediate tax consequences.

Key Points to Confirm for investors.

One of the first questions from a CPA (who may not deal with §1031 exchanges let alone DSTs) will ask, is the DST compliant. The answer is yes. DSTs are IRS compliance for §1031 eligibility. There are key elements to understand. There are limited investor rights with passive ownership. With passive ownership comes passive management. The DST itself has restrictions on refinancing and improvements. Most PPMs will address the IRS compliance issue with statements regarding the use of §1031 exchange and how each investor should seek their own counsel on qualification.

Subscription Agreement and Investor Qualifications

Within the PPM there will be a sample of the Subscription Agreement or Investor Questionnaire. Typically, there will be separate agreements sent for electronic signatures with the assistance of the financial advisor or broker dealer representative. Final documents govern investor responsibilities. If a Qualified Intermediary (QI) is involved the instructions are straight forward. As soon as the subscription agreement is completed with the contact information of the QI the sponsor makes direct contact with the QI.

Key Investor Responsibilities:

There are investor responsibilities that need to be acknowledged by the investor. Starting with the Accredited Investor certification and the Acknowledgement of risks. The PPM also contains an Agreement to restrictions on transferability.

Use of Proceeds

Over the past numbers of years, we have attended independent third-party conferences where PPMs (as well as Sponsor background and experience) are reviewed, and the attending attorneys opine on the structure and function of the PPM. Most of these participants agree that the "Use of Proceeds" section is one of the most important parts of a Delaware Statutory Trust (DST) Private Placement Memorandum (PPM). This is because it outlines exactly how investor capital will be used. This directly impacts the risk, return, transparency, and credibility of the investment. If you're evaluating a DST PPM and the "Use of Proceeds" section is vague, overly complex, or seems heavily skewed toward sponsor profits — **that's a red flag.**

Here's why it matters so much:

1. Investor Transparency & Trust

Investors want to know where their money is going. The "Use of Proceeds" section provides a detailed breakdown of how the sponsor plans to allocate funds: purchase price, fees, reserves, improvements, commissions, etc. Full disclosure builds trust and reduces the risk of misrepresentation or fraud.

2. Risk Assessment

How proceeds are used gives investors insight into the risk profile of the DST. There are two elements that may be very observable. A high percentage going to fees or commissions could be a red flag. A large reserve allocation could indicate caution or anticipated capital needs. Certain investors may require leverage (for debt replacement in a §1031 exchange) other investors may desire leverage to increase potential tax efficiencies. Investors can evaluate whether the leverage (if any) is reasonable and whether capital expenditure is being used to improve the asset or just to maintain it.

3. Fee Structure Clarity

Attempting to have a clear view of the fee structure may be challenging at times. Most PPMs will have a list of the associated fees that are needed to bring the DST to the market. DST investments often have layered fees (e.g., acquisition fees, loan fees, property management fees). This section shows how much of the investor's money goes to the actual real estate asset versus to the sponsor or intermediaries. It helps compare offerings across sponsors and avoid overpriced deals. Third party reports will evaluate how fees of the PPM (offering) are being evaluated compared to other offerings and programs. Here is an example of a third-party evaluation firm reviewing that aspect. *[Reporting firm] assessed the fees and expenses for this offering relative to the fees and expenses of other recent DST offerings. The industry medians and middle-eighty percentile ranges (labeled as DST Range throughout this section) were derived using information from private DST offerings analyzed by [Reporting Firm] between [Date] and [Date].*

Larger offerings may have more potential efficiencies than small offerings when evaluating fee structure. There are basic costs for the legal aspects (compliance) to facilitate the proper structure of the DST. Here is an example of a third-party evaluation firm reviewing that aspect. *Offering expenses are above the typical DST industry range, due to the presence of a wholesaler fee, and above average organization and offering (O&O) costs, which is a function of the fixed costs of a relatively small equity raise.*

4. Alignment of Interests

Alignment of interest is how the sponsor structures the use of proceeds reflects their alignment with investors. Are they investing alongside the investors? Are they front-loading fees? A fair, transparent allocation usually indicates a sponsor is more likely to act in the best interests of investors. Here is an example of a third-party evaluation on interest and fees. [Reporting Firm] *considers the front-end and back-end sponsor compensation to be within the typical range for multifamily DST offerings that [Reporting Firm] has recently analyzed. However, the ongoing operating compensation metrics are slightly higher than the industry range due to the relatively small size of the program.*

5. Regulatory & Legal Protection

Inaccurate or vague use-of-proceeds disclosures can lead to legal consequences under SEC rules (especially for Reg D offerings). This section protects both the investors and the sponsor by clearly documenting expectations.

Summary

Why It Matters	What It Tells You
Transparency	Where your money is really going
Risk & Financial Health	Leverage, reserves, capital expenses, etc.
Sponsor Incentives	Are they taking too much up front?
Legal/Regulatory Compliance	SEC protection via clear disclosures
Investment Quality Signal	Efficient vs. wasteful use of capital

Here's a sample "Use of Proceeds" breakdown for a typical DST offering, showing how investor capital might be allocated. This is a simplified version, but it reflects common structures seen in real estate DST private placements.

Total Offering Size: \$80,000,000

DST Property Type: Multifamily Apartment Complex

Leverage: 50% LTV (Loan of \$40M; Total Project Value = \$80M)

Category	Amount (\$)	% of Total Offering	Description
Real Estate Purchase Price	\$72,500,000	–	Paid via equity + debt (total offering is greater than purchase price)
Equity Portion of Purchase	\$32,000,000	80.00%	Investor equity used to partially fund acquisition
Acquisition Fee (to Sponsor)	\$1,200,000	3.00%	One-time fee to sponsor for sourcing/deal structuring
Loan Fees & Closing Costs	\$800,000	2.00%	Legal, title, loan origination, appraisals, etc.
Broker-Dealer Commissions	\$2,000,000	5.00%	Sales commissions to BD reps (if applicable)
Reserves / Working Capital	\$1,600,000	4.00%	Capital reserves for repairs, tenant turnover, etc.
Organizational & Offering Costs	\$1,600,000	4.00%	Legal, PPM drafting, marketing, admin costs
Total Use of Proceeds	\$40,000,000	100.00%	(Rounded)

Key Insights from This Example

There are a few items to amplify from the example above. 80% of funds go directly toward the real estate equity. This is a good sign, indicating that most of the capital raised is being invested. The total Fees reflecting the 3% acquisition plus 5% commissions and 4% organizational costs equal a total 12% of the raise. This may indicate the DST is worth comparing to other DSTs. \$1.6M in reserves shows some cushion for property expenses or capex (if indicated in the PPM). This helps reduce operational risk. Note: reserves not used are returned to investors. Ongoing quarterly reports will provide current balances in accounts.

What to Watch for in Real Deals

Well, it may be obvious that if there are too many fees (15–20%) this reduces how much capital is working for the investment. Not all DST will have reserves (potentially in the case of triple net lease structures with large players like Amazon). However, no reserves may signal future capital calls (which DSTs typically can't make). There may be Hidden Fees in other sections. Many advisors well versed in DST will cross-reference with the “Fees and Compensation” section.

Nearly Final Questions to Ask regarding the Use of Funds: (there are many, but here are a few in summary)

1. What percentage of funds for property acquisition versus fees and reserves?

2. Are selling commissions and organizational costs clearly disclosed?
3. Does the sponsor retain a performance promotion or other incentive compensation?

Overall Best Practices for Reviewing a PPM

1. Read beyond the executive summary.
2. Engage tax, legal, and real estate advisors.
3. Compare fee structures across offerings regarding the Use of Funds.
4. Understand leverage and refinancing terms.
5. Assess sponsor alignment and co-investment.

Conclusion

A DST can be an effective vehicle for tax-deferred real estate investing, but it is not without risk. The PPM is the single most important disclosure document. Investors who carefully analyze the PPM, engage professional advisors, and compare offerings are better equipped to protect capital and make sound decisions.

About the Author Al DiNicola

NAMCOA® is a SEC registered investment advisory firm that provides comprehensive portfolio management, financial planning, and fiduciary decision-making services on behalf of retirement plan sponsors. Our Difference is summarized by our fiduciary approach which enables us to better meet portfolio and retirement plan objectives, resulting in stronger risk adjusted returns for investors and peace of mind for Clients. We also focus on alternative real estate investment. Many real estate investors are seeking tax deferred solutions utilizing §1031 exchanges or Opportunity Zones.

Alternative investments and DSTs are not for all investors. The acquisition of a certain alternative investments including DSTs is for accredited investors only. Contact your investment adviser for additional details on how a DST may be a solution to your §1031 Exchange and suited for your investment future. For more information on how to properly set up an IRC §1031 Tax Deferred Exchange or if you are an accredited investor and would like additional information on a DST contact Al DiNicola at 239-691-8098 or email adinicola@namcoa.com.

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