1031 Capital Solutions

My DST is Converting to a REIT – What Now?

Under §721 of the Internal Revenue Code, a Real Estate Investment Trust structured as an Umbrella Partnership (“UPREIT”) can acquire a DST property in exchange for granting interests (“units”) in the operating partnership (“OP”). Like a 1031 exchange, this transaction is not taxable.

If a REIT is acquiring your DST, it means that your DST interests soon will become REIT OP units. Here are some FAQs and answers about the conversion:

What information do I need to give the REIT for this transaction?

The REIT is required to ascertain from you the cost basis of your DST investment. Your tax advisor can provide this number to you—see our cost basis explanation on the Literature page of our website.

Is there a fee being charged for this transaction?

In most instances, the REIT does not deduct a fee from your investment to convert to the REIT. However, some DSTs may charge a fee—check with your advisor.

What exactly will I own after the conversion?

Going forward, you will own OP units, which means you are a limited partner in the operating partnership of the REIT (other REIT investors who invest directly in the REIT typically own common shares of the corporation that is the general partner of the OP). The OP is the entity that owns the entire portfolio of properties in the REIT. You will own a share class of OP units designed to mirror an equivalent class of common shares—check with your advisor.

How will the fee structure change from a DST to a REIT?

The governance and compliance costs of a public REIT company are higher that DSTs, but the expense is spread over many more investors. Conversely, large REITs enjoy economies of scale that may lower the relative cost of certain operating expenses. Depending on your share class of OP units, there may be an ongoing service fee deducted from your REIT distributions—check with your advisor.

How does the sponsor determine my conversion ratio?

Generally, a third-party appraiser will determine the value of the DST property. On the day of the conversion, the published NAV of the REIT will determine the per-unit price of the OP units you are receiving; your prorated value of the DST will be used to acquire OP units at that price.

Why did my DST value change since my original investment?

At the outset of your DST investment period, your net asset value is effectively reduced by the marked-up syndication costs of the offering. In a positive market environment, it typically takes at least a few years for a performing property to appreciate enough to overcome these initial costs. If your DST has converted to a REIT in a short time frame—especially if overall real estate values have declined during that period—your DST value likely will be lower.

What kind of year-end statements and filing requirements will I have?

Instead of a Schedule E statement, you will receive a K-1 from the REIT. Most REITs offer a service to file any state-required forms on your behalf in the states where REIT properties are located.

How soon could I make a redemption request?

Any time after one year following the conversion date, you can submit a request to redeem some or all of your OP units. The terms and limits on the redemption program vary from REIT to REIT—check with your advisor for details

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