



**PEREGRINE**  
Private Capital Corporation

Discipline. Drive. Commitment.



PEREGRINE PRIVATE CAPITAL CORPORATION

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## RIP TIC

For purposes of 1031 exchange, TICs or Tenant-in-common programs are dead, gone, done, finished. Their user-unfriendly format, requiring unanimous investor approval of fundamental property management decisions like, refinancing, re-tenanting and sale hastened their demise. No one was ever on the same page.

DSTs or Delaware Statutory Trusts have taken their place. Here are some of the many advantages of the DST format:

**No Management Burden.** All management authority in a DST vests with the property sponsor/manager. Unlike TICs, the Delaware Statutory Trust structure takes all decision making out of the hands of investors and places it in the hands of the sponsor affiliated trustee. Therefore, in times of crisis, DSTs are much more agile decision makers than TIC programs. There is no risk of participants being held hostage by a "rogue investor." This was often the case with TICs, resulting in untenable work out situations. With DSTs, crucial property management decisions are made in a timely manner.

**Structural Simplicity.** In a TIC deal, each investor owns a fractional interest in the underlying real estate through a special purpose entity, usually a limited liability corporation (LLC). This was cumbersome and expensive. Investors also had to pass muster with the lender and formally become borrowers under the loan agreement. In a DST offering, there is only one signatory trustee on the loan, the property sponsor. Investors enjoy the benefits of leverage (increased cash flow, greater tax sheltering) and none of the liabilities. Therefore, the lender performs no due diligence on investors.

**Lower Cost.** Because DSTs do not require the creation or maintenance of an LLC for ownership purposes, this cost is eliminated. Furthermore, this greatly simplified ownership format results in increased transferability. To sell his or her share of a DST program all an owner need do is find a willing buyer. There is no lender approval necessary.

**Greater Diversification.** DST programs can achieve great scalability and diversification. Because the IRS limited the number of investors in any single TIC program to 35, these properties were smaller (less than \$25 million total value). They also required a higher minimum

which tended to concentrate assets. DSTs however, are not subject to an investor limit under tax law. Thus, DSTs can own properties with aggregate values much greater than any TIC deal. This allows for much greater diversification of investment across multiple DST programs in much smaller increments.

Delaware Statutory Trusts (DSTs) are a big step up for all real estate investors in terms of: simplicity, flexibility and durability. Make sure your clients know how the world has changed.

**Robert S. Smith**  
President/CEO  
Peregrine Private Capital



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5000 Meadows Road, Suite 230, Lake Oswego, Oregon 97035 | P 503.241.4949 | TF 866.762.4520 | F503.469.4578  
RS@PeregrinePrivateCapital.com | www.PeregrinePrivateCapital.com

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