



The Changing Real Estate Investment Market:

*A Strategic Transition from Active to
Passive Real Estate*

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Executive Summary

As the U.S. real estate market evolves, many long-term property owners, particularly Baby Boomers, are reassessing how they want to own real estate. After decades of active management, many investors are seeking strategies that **preserve wealth, defer taxes, generate income, and simplify ownership** for themselves and future generations.

One solution gaining momentum is a multi-step transition from direct ownership to passive investing through a **1031 exchange** into a **Delaware Statutory Trust (DST)**, followed by a potential **721 UPREIT** transaction into a real estate investment trust (REIT). This approach allows investors to defer capital gains taxes, reduce management responsibilities, diversify holdings, and get access to institutional-quality real estate.

Demographic Shifts Driving Change

The Baby Boomer generation - approximately 67 million Americans born between 1946 and 1964 - now owns roughly **41% of all U.S. real estate**, representing an estimated **\$18–\$20 trillion** in value. As these owners age, priorities are shifting from growth and active control toward simplicity, income stability, and estate efficiency.

Common objectives among this group include:

- Reducing the operational burdens of property management
- Diversifying away from single assets or concentrated markets
- Protecting accumulated wealth from taxes and volatility
- Creating smoother estate transitions for heirs

These demographic realities are reshaping how capital moves within the real estate market.



Challenges Facing Long-Term Real Estate Owners

Investors who have owned and operated real estate for decades often encounter similar pressures:

- **Management fatigue** from years of hands-on landlord responsibilities
- **Limited liquidity** and overconcentration in one or two properties, markets, or asset types
- Significant embedded **tax liabilities** due to long-term appreciation
- **Succession concerns**, as the next generation may not want to (or be able to) step in and manage the properties

Together, these challenges drive demand for **solutions** that preserve value, minimize taxes, and provide passive income without the headaches of active ownership.

How Delaware Statutory Trusts (DSTs) fit into a Modern 1031 Strategy

A **Delaware Statutory Trust (DST)** is a legal entity created under Delaware law that allows multiple investors to own fractional interests in institutional-grade real estate. DSTs qualify as replacement property for purposes of a Section 1031 like-kind exchange, enabling investors to defer capital gains taxes while transitioning away from active ownership.

Key benefits of DST investing include:

- **Passive ownership**, with no day-to-day management responsibilities
- **Professional management** - including asset and property management
- **Regular income distributions**
- **Diversification** across property types and geographic regions
- **Full 1031 eligibility**, preserving tax deferral

For investors nearing retirement, or simply ready to step back, DSTs provide access to high-quality real estate without the operational burdens of direct ownership.

Extending the Strategy: The 721 UPREIT Path

Although DSTs are entities created with a perpetual term, DST investments typically have a finite life, often ranging from five to ten years. Increasingly, DST sponsors are affiliated with real estate investment trusts (REITs), creating a potential path to a Section 721 UPREIT transaction.

A **721 UPREIT** allows investors to exchange real estate, or qualifying DST interests, into a REIT's operating partnership in exchange for **operating partnership (OP) units**, without triggering an immediate **taxable event**. While similar in concept to a 1031 exchange, a 721 transaction does not involve strict identification timelines or replacement property requirements.

Potential benefits of a 721 UPREIT include:

- **Continued deferral** of capital gains taxes
- **Seamless transition** into a diversified REIT portfolio
- **Elimination** of the need for future 1031 exchanges
- **Fully passive**, long-term ownership structure

From an estate planning perspective, OP units are generally easier to divide among heirs, and upon inheritance, beneficiaries may receive a **step-up in basis**, potentially reducing or eliminating taxes for the next generation. This process can help prevent many of the issues that arise when parents pass real estate to the next generation and leave them to sort it out on their own.

***Disclaimer:** DST investments involve inherent risks associated with real estate, including market fluctuations, tenant issues, vacancies, and regulatory changes. Investors should carefully assess costs, fees, and tax implications before investing in a DST.*

A Growing Market for Passive Exchange Solutions

The DST and passive-exchange market has expanded significantly in recent years. In 2024, DSTs raised more than **\$5 billion in equity**, with estimates suggesting **\$7.5 billion** raised in 2025 and continued growth expected in 2026.

Industrial and multifamily assets now account for more than half of all DST offerings and nearly two-thirds of invested capital, reflecting investor demand for stable, income-producing property types with durable fundamentals.

These trends underscore a broader shift: aging property owners are increasingly seeking to unlock equity, reduce complexity, and maintain tax efficiency while remaining invested in real estate.

Who Benefits from a DST-to-REIT Strategy

The combined use of a 1031 exchange, DST structure, and potential 721 UPREIT transaction is particularly well suited for:

- Owners nearing or entering retirement
- Investors with highly appreciated, low-basis assets
- Families focused on long-term estate planning
- Investors seeking passive income without exiting real estate entirely

When structured thoughtfully, this approach offers a clear, tax-efficient path from hands-on ownership to professionally managed, institutional-quality real estate.



Disclaimer: Sponsors are not obligated to acquire the DST. Distributions and liquidity are not guaranteed and are subject to the discretion of the board. Investors considering a 721 exchange should be aware of the complexity and risks involved and are strongly encouraged to seek guidance from financial, legal, and tax professionals experienced with this type of transaction.

SR Realty Trust: A Long-Term Home for Passive Investors

SR Realty Trust (SRRT) is a privately held, diversified REIT sponsored by **Schafer Richardson**, a family-owned real estate firm with a 30-year operating history in the Upper Midwest. SRRT emphasizes alignment through meaningful principal co-investment and a disciplined focus on long-term value creation.

As of 2026, SRRT manages a ~**\$571 million** portfolio across **53 investments**, totaling almost **5.7 million square feet**. The portfolio is concentrated in industrial and multifamily assets, sectors known for stable cash flow and resilient demand. SRRT sponsors DSTs to help families navigating through this process.

By combining institutional-quality management with family-owned values, SR Realty Trust provides investors with a **passive, diversified, and tax-efficient** platform for long-term participation in commercial real estate.

Conclusion

The real estate investment landscape is evolving. For many long-term owners, the goal is no longer maximizing control, it is **maximizing simplicity, income stability, and legacy outcomes**. Strategies that integrate 1031 exchanges, DSTs, and 721 UPREIT transactions offer a compelling framework for transitioning from active ownership to a more passive, durable real estate portfolio designed for the next phase of wealth stewardship.

This material is not tax or legal advice, and potential investors should speak with their attorney or CPA prior to considering an investment. SR Realty Trust, Inc. and its representatives do not guarantee the accuracy and validity of the information herein. Investors should conduct their own investigation before considering any investment. There is material risks associated with real estate investments, including real estate investment trusts. These include, but are not limited to, real estate is typically an illiquid investment, tenant vacancies, declining market values, and potential loss of entire investment principal. Please pay careful attention to the "Risk" section of the PPM/Memorandum. Past performance is not a guarantee of future results and potential cash flow, potential returns, and potential appreciation are not guaranteed in any way and adverse tax consequences can take occur. Please read carefully the Memorandum in its entirety before making an investment decision.

IRC Section 1031, IRC Section 1033 and IRC Section 721 are complex tax code sections; therefore, you should consult your tax and legal professionals for details regarding your situation. Pricing of the UPREIT transaction is not determined until the option is exercised.

Investments in SR Realty Trust, Inc. are available only to accredited investors (generally described as investors with a net worth in excess of one million dollars, exclusive of primary residence) and accredited entities only (generally described as an entity owned entirely by accredited individuals and/or an entity with gross assets of greater than five million dollars). If you are unsure if you are an accredited investor and/or an accredited entity, please verify with your CPA and attorney prior to considering an investment. You will be required to verify your status as an accredited investor.

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