All Sponsors Are Not Created Equal

For those of you newly come to DST, it is critical to understand not all property sponsors are created equal. There is a natural tendency on the part of investors to assume that all property sponsors/managers are equally good, otherwise they would not be in the space. This is an incorrect assumption and can prove very dangerous where your hard earned investment dollars are concerned.

When DST started nearly 20 years ago, there were 3 companies present at the creation: Inland, Passco and Triple Net. The first two are still with us the third went away in a reverse merger with Grubb Ellis Company. By the peak of the housing market bubble in 2008, product demand so greatly exceeded supply, this skyrocketed to over 100.

Sadly for investors, most of these new additions to the DST sponsor mix were opportunistic. Whenever any market becomes hot it attracts bad actors. This is equally true of high tech stocks (think Theranos), crypto currencies, and real estate. Bad actors are those individuals who seek to capitalize short term on individual cupidity.

As such, much real estate product that should never have seen the light of day was sold to investors' foolishly chasing yield. Needless to say, when the market tanked these properties stopped performing. As vacancies grew, cash flow shrank. As things worsened debt service wasn't met and properties were foreclosed.

When all this investor cash went to money heaven, these opportunistic syndicators disappeared along with many of the brokers who sold their product.

When the dust settled and 1031 exchanges ramped back up in 2009-2010, nearly 80% of the DST market consolidated around two property sponsors: Inland and Passco. These two companies are 'heritage' players. By 'heritage' I mean they were present at the creation. Both these companies always strove to bring the highest quality product to market. From a corporate standpoint, they were organized in such a manner that when the economy turned down they had the resources on hand to support their product and investors.

When it comes to DST properties, the most important part of the disclosure process is their lack of liquidity. There is no organized secondary market for DST property interests. Therefore, when you buy it, you are in for the long term. It only makes sense that your property sponsor/manager brings this same level of commitment to you.

At their best, DST property sponsors should not be opportunistic. They should not be jumping in and out of the space when convenient or profitable. They too should be in it for the long term. There are currently 32+ property providers active in the DST space. All but three of these—Inland, Passco and AEI—are post 2008 inventions. *Caveat Emptor.*

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