Key Questions to Ask Before Trusting a Broker's DST Recommendation

When a broker recommends a Delaware Statutory Trust (DST) as part of a 1031 exchange, the pitch often sounds straightforward: defer capital gains taxes, step into a passive real estate investment, and enjoy hands-off ownership. But DSTs are not one-size-fits-all products. They involve complex structures, sponsor risk, and disclosure obligations that can catch investors off guard. If you have suffered losses from a DST that did not perform as promised, you may be looking for a securities attorney for DST losses to evaluate whether the broker's recommendation met legal standards. Understanding what questions to ask up front can help you spot red flags before you commit, or, if you have already invested, help you decide whether your broker acted responsibly.

DSTs are typically offered as securities, which means brokers must comply with suitability and disclosure rules. Yet many investors treat a DST recommendation as a simple real estate swap, unaware that the sponsor's track record, the property's financial projections, and the fee structure all matter. To protect yourself, ask direct questions about the broker's process, the sponsor's history, and the risks embedded in the deal. The answers will tell you whether the recommendation was tailored to your situation or simply a product push.

Why the Broker Picked This Particular DST

The first question to ask is why the broker chose that specific DST over others. A good recommendation starts with your investment profile: your risk tolerance, time horizon, income needs, and existing asset mix. The broker should be able to explain how the DST fits into your overall plan, not just why it looks good in isolation. If the answer focuses only on tax deferral or past returns, that is a warning sign. DSTs vary widely in property type, leverage, and management quality. A broker who cannot articulate why this one suits you may be relying on a preferred vendor list or a higher commission.

Ask for a written explanation of how the DST meets your specific financial goals. A thorough broker will provide a suitability letter or a comparable document that ties the investment to your personal circumstances. Without that, the recommendation may lack the due diligence that securities law requires.

The Sponsor's Track Record and Alignment

DST performance depends heavily on the sponsor, the firm that acquires, manages, and eventually sells the property. You want to know the sponsor's history with similar assets. Ask how many DSTs the sponsor has sponsored, how many have reached full occupancy or met

their cash-flow projections, and how many have defaulted or gone into foreclosure. A sponsor with a clean record on paper might still have conflicts of interest. Find out whether the sponsor or its affiliates receive fees for property management, leasing, or refinancing. Those fees can eat into returns and create incentives that do not align with your interests.

Also ask whether the sponsor has ever been involved in litigation with investors or regulators. Public records, FINRA filings, and state securities databases can reveal patterns. If the broker dismisses these concerns as unnecessary due diligence, that itself is a red flag. A responsible broker will welcome your questions and help you gather information, not discourage it.

Disclosures and Risk Factors

A DST offering memorandum (also called a private placement memorandum or PPM) is the key disclosure document. Ask the broker to walk you through the risk factors section. Every DST has risks: lease-up delays, interest rate changes, tenant concentration, environmental liability, and the possibility that the property will not sell at the expected price when the trust ends. The broker should explain how each risk applies to this specific deal and what happens if things go wrong. If the broker glosses over risk or says the deal is “safe” because it is backed by real estate, be skeptical. Real estate has its own volatility, and DSTs add layers of sponsor dependency and illiquidity.

Ask about the DST’s debt structure. Many DSTs use leverage, and the terms of that debt matter. A floating-rate loan can cause problems if rates rise. A balloon payment at the end of the term can force a sale or refinancing at an unfavorable time. The broker should explain how the debt works and what happens if the property cannot support it.

Compensation and Conflicts

Brokers earn commissions on DST sales, often as a percentage of the amount invested. Ask how much the broker and his or her firm receive from this transaction. Some states require this disclosure; others do not. Even where it is voluntary, a transparent broker will answer directly. If the commission is significantly higher than what you would pay for a comparable investment, that could influence the recommendation. Also ask whether the broker receives any additional compensation from the sponsor, such as marketing fees or finder’s fees. These arrangements are not necessarily illegal, but they should be disclosed so you can weigh them.

If the broker works for a firm that also has a relationship with the sponsor, ask whether that relationship affects the selection process. An independent broker who screens multiple sponsors is more likely to put your interests first than one who is limited to a proprietary product list.

What Happens if the Broker's Recommendation Was Flawed

Even careful investors can end up with losses. If your DST investment has declined in value, generated no income, or led to a forced sale at a loss, you may wonder whether the broker's recommendation was suitable in the first place. That is where the legal framework matters. Brokers and broker-dealers have a duty to recommend only investments that are suitable for you based on your financial situation, risk tolerance, and investment objectives. They must also disclose material facts about the investment. If they failed to do either, you may have a claim for securities fraud, negligence, or breach of fiduciary duty.

Evaluating a potential claim often requires reviewing the offering documents, the broker's recommendations, and your own financial profile. A securities attorney for DST losses can help you determine whether the broker's actions fell short. For example, if the broker recommended a high-risk DST to a retiree living on fixed income, that may be unsuitable. Similarly, if the broker failed to disclose that the sponsor had a history of defaults or that the property was in a declining market, that could be a disclosure failure.

If you are researching your options, resources like investmentfraudlawyers.com can help you understand what to look for in a potential claim. The site provides information on broker-dealer recommendations, due diligence standards, and sponsor conduct that may be relevant to your situation. Consulting a qualified attorney is the next step to assess your specific facts.

Documenting Everything

Whether you are still considering a DST or already invested, keep records. Save emails, offering memoranda, pitch books, and any notes from conversations with the broker. If the broker made verbal promises about returns, safety, or liquidity, write down what was said and when. Documentation is critical if you later need to prove that the recommendation was unsuitable or that disclosures were missing. A securities attorney for DST losses will rely on these records to build a case.

Also ask the broker for a copy of the firm's written supervisory procedures. Large broker-dealers have policies about how DSTs are reviewed and approved. If the firm did not follow its own procedures, that could support a claim. If the broker is vague about those procedures or refuses to provide them, that is another red flag.

When to Walk Away

If a broker becomes defensive or evasive when you ask these questions, consider that a strong signal to pause. A legitimate broker who has done proper due diligence will be happy to show his or her work. If the answers are vague, contradictory, or dismissive, the recommendation may not be in your best interest. Trust your instincts. A DST is a long-term, illiquid investment,

and getting into a bad one can take years to unwind. Taking the time to ask hard questions now can save you from a costly mistake later.

For those already facing losses, the same questions can help you evaluate whether the broker's conduct was reasonable. If the answers reveal gaps in disclosure, suitability, or sponsor vetting, you may have grounds to seek recovery. A securities attorney who understands DST structures can review the facts and advise you on your options. Resources such as investmentfraudlawyers.com can help you connect with legal professionals who focus on this area, but the ultimate decision about whether to pursue a claim depends on the specifics of your case.