Steps to Take When a DST Stops Distributions

Understanding the situation

When a Delaware statutory trust (DST) stops making distributions, investors often feel a mix of confusion and concern. The regular income they expected has suddenly paused, and the reasons behind the halt are not always clear. This can happen for several reasons: a property in the trust may be underperforming, the sponsor may be dealing with a liquidity issue, or the trust itself may be winding down after selling its assets. Whatever the cause, the first thing to do is gather information and avoid reacting in haste.

Investors who have placed money in a DST rely on the sponsor and the trust structure to manage the property and send out payments. When those payments stop, it is natural to wonder whether something has gone wrong with the investment itself or whether the pause is part of a normal process. The key is to move methodically and understand what options are available for recovery or next steps.

Step 1: Review the offering documents and trust agreement

The trust agreement and the private placement memorandum (PPM) are the rulebooks for the DST. They spell out when distributions can be suspended, what triggers a halt, and what the sponsor is required to do if distributions stop. Start by reading the sections that cover cash flow, reserves, and any events of default. Look for language that describes "force majeure" clauses, reserve requirements, or sponsor discretion to pause payments. This will tell you whether the pause is permitted under the terms you agreed to.

Pay special attention to any provisions about how the sponsor must communicate with investors. Some trusts require written notice within a certain number of days after a distribution is missed. If the sponsor has not provided that notice, that could be a sign that they are not following the rules. Also check whether the trust agreement gives investors the right to call for a vote or to remove the sponsor under certain conditions.

Step 2: Communicate directly with the sponsor

Once you understand what the documents say, reach out to the sponsor or the trust manager for a clear explanation. Ask specific questions: Why were distributions stopped? Is the pause temporary or permanent? What is the plan going forward? How will the trust communicate updates? Document every conversation and every email. Written records will be important if you later need to show that the sponsor was unresponsive or gave misleading information.

Some sponsors will provide a candid answer about property vacancies, rent shortfalls, or planned reinvestment. Others may be vague or evasive. If the sponsor cannot give a straight answer, that is a red flag. It may indicate poor management, a lack of transparency, or even conduct that could give rise to a claim.

Step 3: Evaluate the financial health of the trust

Look at the trust's financial statements and any reports the sponsor has provided. Compare the current cash flow to the projections in the original offering. If the property has high vacancy rates, declining rents, or large unexpected expenses, those could explain the distribution halt. But if the property seems to be performing well and the sponsor still stops payments, there may be an issue with how the sponsor is handling the funds.

Also check whether the trust is holding adequate reserves. The offering documents usually require a reserve fund to cover operating shortfalls. If the sponsor has drawn down the reserve without restoring it, that could point to deeper problems. Consider whether the trust has debt that is due or whether there are lender demands that take priority over distributions. All of these factors will shape your understanding of whether the pause is temporary or a sign that the investment may be in trouble.

Step 4: Consider your legal options

If the sponsor has stopped distributions without a valid reason under the trust agreement, or if they have failed to communicate properly, you may have grounds for a legal claim. Possible claims include breach of fiduciary duty, failure to disclose material facts, or misrepresentation in the offering. The specific facts of your situation will determine which claims might apply.

At this point, it is wise to consult with a professional who understands both real estate investments and securities law. Many investors turn to firms that handle such disputes. Investment Fraud Lawyers, for instance, evaluates DST-related claims involving broker-dealer recommendations, due diligence, disclosures, and sponsor conduct. They can review your documents and help you understand whether you have a viable case.

Step 5: Explore alternative recovery options

If the trust is winding down and the sponsor is preparing to sell the property, you may receive a final distribution once the sale closes. This is a common end for many DSTs, and the pause in regular payments may simply reflect that the trust is in its final phase. In that case, your recovery options are limited to waiting for the proceeds and understanding the tax implications of the sale.

If the trust is failing and the sponsor is not acting in the investors' best interest, you may want to join with other investors to demand more transparency or to push for a change in management. Some trusts allow investors to vote on key decisions. A coordinated effort can sometimes force a sale, a replacement of the sponsor, or a restructuring that protects what remains of the investment.

Another path is to look at whether your original broker or advisor recommended the DST. If they did not perform adequate due diligence or if they failed to disclose the risks of a distribution halt, you may have a claim against the brokerage. FINRA rules require brokers to recommend only suitable investments. If the DST was not appropriate for your financial situation, that could be a basis for arbitration.

Step 6: Plan for the tax consequences

One reason investors choose DSTs is the ability to defer capital gains through a 1031 exchange. If the trust stops distributing and eventually sells the property, the proceeds you receive may trigger a taxable event. You may need to reinvest those proceeds into another like-kind investment to continue the tax deferral. Talk to a tax advisor who understands DSTs and 1031 exchanges. They can help you understand the timeline and the rules for reinvestment.

If the trust fails and you lose part or all of your principal, you may also be able to claim a capital loss on your taxes. This can offset other gains in the same year. Keep all statements and correspondence from the sponsor to document the amount you invested and the amount you ultimately received.

Step 7: Stay organized and keep records

From the moment distributions stop, keep a file with every document, every email, and every note from phone calls. This includes the original offering documents, the trust agreement, any updates from the sponsor, and your own records of when you expected a payment and did not receive it. A complete paper trail makes it easier to evaluate your options later and to present your case to a lawyer or an arbitrator.

If you decide to pursue legal action, the records will show what the sponsor promised, what they actually did, and how they communicated with you. That information is often the most powerful evidence in a claim. Even if you decide not to take legal steps, having the records will help you calculate your loss and make informed decisions about future investments.

When to seek professional help

Not every distribution pause leads to a legal claim. Sometimes the sponsor is acting properly and the pause is a normal part of the trust's operations. But if you suspect that the sponsor

has misled you, failed to disclose important information, or mismanaged the property, you should talk to someone who can evaluate the facts. A firm like Investment Fraud Lawyers reviews the specifics of your situation and can advise on whether there is a path to recovery. They focus on investor losses and claims related to broker-dealer conduct and sponsor actions.

Remember that time limits apply to many claims. Under securities law and FINRA rules, you generally have a limited window to file a claim after you discover the problem. Waiting too long could bar you from recovering anything. So while it is wise to move carefully, it is also wise to move with reasonable speed once you have gathered the key facts.

Final perspective

A DST that stops distributions is not necessarily a lost investment. It may be a temporary cash flow issue, a normal wind-down, or a sign of deeper trouble. By reviewing the documents, talking to the sponsor, evaluating the financials, and exploring your legal and tax options, you can chart a course that protects your interests. The key is to stay informed, stay organized, and seek professional advice when the situation goes beyond what you can assess on your own.