



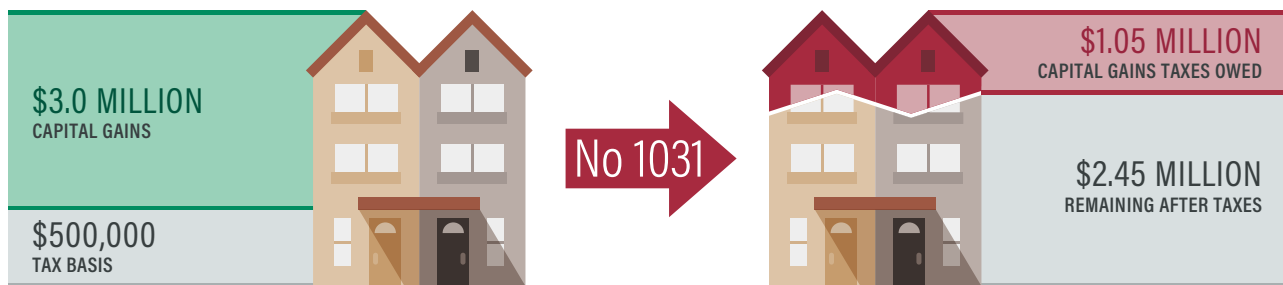
1031 and DST Investing Strategy

The **1031 exchange** is one of the most effective ways to defer the capital gains taxes that an investor would otherwise owe after selling an investment property. **Delaware Statutory Trusts**, or “**DSTs**”, are popular investment structures that enable investors to invest in diversified portfolios of institutional-grade commercial real estate. Since DSTs qualify for 1031 exchange purposes, an investor can complete their 1031 exchange by investing in diversified portfolios of passive income-producing real estate through DSTs. This strategy can help protect your capital with broader diversification, free you from the burdens of property management with access to professional asset management, and provide you a source of stable, passive income backed by institutional-quality real estate.

Selling property held for investment or business can trigger taxes exceeding 35% of capital gains. A 1031 exchange can help defer all of those taxes so that investors keep all of their equity working on their behalf. Each investor's tax situation is unique, so consult their CPA and our 1031 specialists throughout the process.

SALE *WITHOUT* A 1031 EXCHANGE

For example, if you sell an investment property for \$3.5 million that was originally purchased for \$500,000, you would realize \$3.0 million in capital gains. Approximately **35%+ of this gain, \$1.05 million, may be owed in capital gains taxes**, leaving only \$2.45 million available to reinvest after taxes without a 1031 exchange.



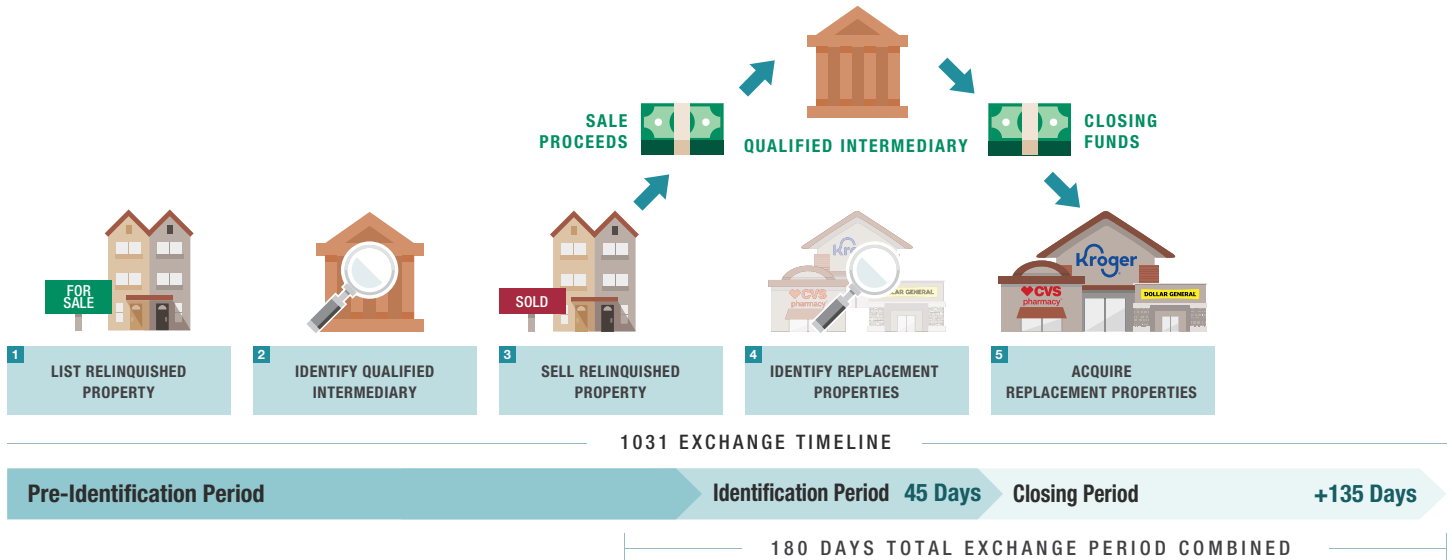
SALE *WITH* A 1031 EXCHANGE

Using a 1031 exchange to reinvest the proceeds from the sale of an investment property can defer all capital gains and depreciation recapture taxes, **preserving 100% of your capital** for the next investment opportunity and increasing your total income and return potential.



COMPLETING A SUCCESSFUL 1031 EXCHANGE

A 1031 exchange is not a traditional sale. With a 1031 exchange, no gains are officially realized, so no capital gains or depreciation recapture taxes are due.



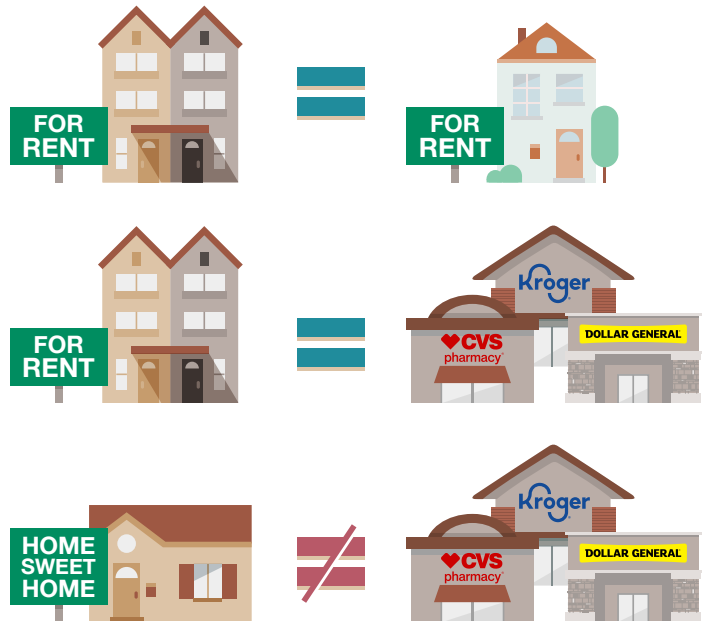
The IRS provides rules that investors must follow to defer their taxes via 1031 exchange. Though we have outlined the basics of a standard 1031 exchange below, each investor's case is unique and it is best for advisors or representatives to work with their clients' CPA and with one of our 1031 specialists to leverage our decades of experience to help you navigate each 1031 exchange every step of the way.

1. The ideal time to explore your 1031 exchange options is before your client sells their property; however, we can still help your clients successfully complete their exchange and defer their taxes through day 45 of their identification period that follows the sale of their property.
2. You must use a Qualified Intermediary to hold the proceeds of your sale at closing. Failure to do this will result in a failed exchange, which is irreversible. We can refer your client to many of the top national firms that work with us to provide this service.
3. Make sure your contract indicates your client's intent to complete a 1031 exchange prior to closing. This can be as simple as including the following sentence in your contract: "Seller intends to complete a 1031 exchange with the proceeds from the sale."
4. You have 45 days from the date of sale to identify the investments that your clients intend to use to complete the exchange. There are several IRS rules that must be followed at this stage that we can help your clients navigate to ensure they defer 100% of their taxes.
5. You have 135 days after your 45-day identification period to close any of the investments your clients have identified for their exchange. That said, we help the vast majority of investors complete their exchange almost immediately after their 45-day period starts to eliminate the risks of a failed exchange, allowing them to begin earning monthly income as soon as possible after their sale.

PROPERTIES MUST BE “LIKE KIND”

In a 1031 exchange, the replacement property must be “like kind” to the relinquished property. Generally, any real estate held for business or investment purposes in the U.S. is considered like kind. The difference in type, grade, and quality does not matter. For example, you can exchange a residential rental property for another, or a residential rental property for a commercial property, and vice versa.

Your personal residence or second home are not considered to be of like kind to any real estate held for investment or business purposes, and they cannot be used in a 1031 exchange.



PROCEEDS MUST BE REINVESTED

The value of the replacement property must be equal to or greater than the value of the relinquished property to obtain a full deferral. Any proceeds that are not reinvested constitute gain, so you would have to pay capital gains taxes on those funds.

TITLES MUST BE IDENTICAL

The ownership title for the replacement property must be identical to the title on the deed for the relinquished property. This requirement can be met even if you use a pass-through entity to take title to your replacement property.



PROPERTY IDENTIFICATION RULES

You have 45 calendar days after closing on your original investment property to identify potential replacements. Your property identification must comply with one of the following three rules. If you violate the rule chosen for your 45-day identification period, your transaction will fail to qualify as a 1031 exchange and you will have to recognize all your capital gains and depreciation recapture for tax purposes.

3-PROPERTY RULE

You may identify up to three potential replacement properties and purchase any or all of them, regardless of their total value.



200% RULE

Alternatively, you may identify more than three potential replacement properties if their total value does not exceed 200% of the gross sale price of the relinquished property. You may purchase any number of the identified properties.

95% RULE

If you cannot use the 3-property rule or the 200% rule, you may identify any number of potential replacement properties, regardless of their total value, as long as you purchase 95% of the total value of all the properties identified.



In identifying replacement property, you are not restricted to identifying individual investment properties. Real estate investors who need stable, passive income can also use an investment offering structured as a **Delaware Statutory Trust**, or “**DST**” to complete a 1031 exchange.

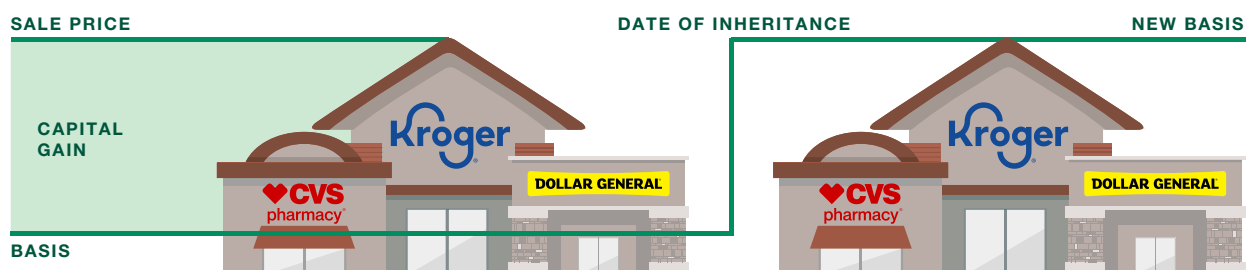


A DST investment can significantly increase your diversification and income potential. Once you have identified suitable DST investment(s), your Qualified Intermediary forwards the funds for the closing.

BENEFITING YOUR HEIRS

You can continue to defer capital gains taxes using the 1031 exchange process until you pass assets onto your heirs. DST shares can be evenly divided and passed on to multiple heirs, greatly simplifying investors' estate planning.

When real property is passed to your heirs, whether held directly or through a DST, the basis by which the capital gains are determined steps up to the current market value at the time of inheritance. After your heirs inherit the investment property, they may sell it for its current value without realizing any capital gains.



A DST is a vehicle that makes it possible to own shares of a diversified portfolio of passive income-producing real estate. The DST itself can hold title to real estate, borrow money from a bank, and shield its owners from personal liability.

You can purchase units in a DST and benefit from your pro rata share of the rental income, tax deductions, and any long-term gains achieved by the underlying real estate. The ownership of the real estate “passes through” the DST to its owners. For this reason, acquiring an interest in a DST can satisfy the IRS requirements for a 1031 exchange while significantly increasing your access to institutional quality real estate and diversification.

**THE IRS RULED THAT A DST MEETING THE FOLLOWING CONDITIONS
IS ELIGIBLE FOR 1031 EXCHANGE (REV. RUL. 2004-86)**

- ✓ The DST actually operates as a trust, rather than a de facto partnership.
- ✓ The DST only spends money on repairs, maintenance, minor improvements, and legal obligations.
- ✓ The DST distributes all of its available cash to investors on at least a quarterly basis (most DSTs pay monthly distributions).
- ✓ If the DST sells any of its assets, it either distributes the proceeds to investors or reinvests them in short-term debt instruments on behalf of investors.
- ✓ The DST receives no additional investment capital after closing.
- ✓ The DST neither refinances its loan from the bank nor borrows any additional funds after closing.
- ✓ The DST does not renegotiate any leases or enter into any new lease agreements unless a tenant defaults. A master lease can be used to address this limitation by allowing the offering's sponsor to provide cash flow to investors and renegotiate its subleases to the tenants.

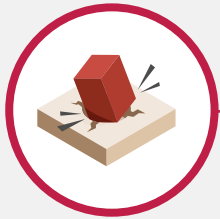
SOLE OWNERSHIP



LESS DIVERSIFIED OWNERSHIP



ALL THE BURDENS OF MANAGEMENT



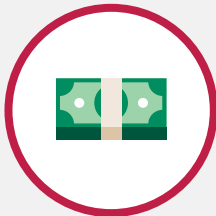
HARD TO FIND REPLACEMENT OPTIONS
THAT MATCH EXACT 1031 REQUIREMENT



HARD TO FIND, INSPECT, AND CLOSE
WITHIN IDENTIFICATION DEADLINE



ADDITIONAL LIABILITY
AND LENDER RECOURSE



LIMITED TO ONE INDIVIDUAL'S
INVESTMENT CAPITAL



OPTIONS OFTEN LIMITED BY
LOCATION OR ASSET CLASS

DST OWNERSHIP

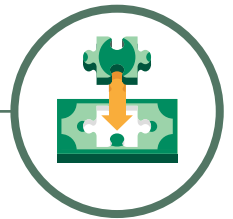
DIVERSIFICATION ACROSS A PORTFOLIO OR
MULTIPLE PORTFOLIOS OF PROPERTIES



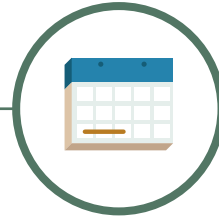
NONE OF THE BURDENS OF MANAGEMENT



INVESTMENT AMOUNT MAY BE CUSTOMIZED
TO FIT EXACTLY WHAT IS NEEDED



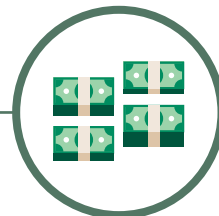
INVESTORS CAN CLOSE ESCROW
IN AS FEW AS 1-3 DAYS



LIMITED LIABILITY AND
NON-RECOURSE FINANCING



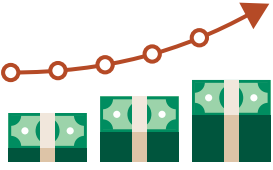
COMBINES INVESTMENT CAPITAL
OF MULTIPLE INVESTORS



CAN BE DIVERSIFIED ACROSS THE
NATION AND BY ASSET CLASS



POTENTIAL BENEFITS OF A DST



CASH FLOW

Net cash-on-cash returns typically start around 5-7% per year on your equity investment and are paid to investors on a monthly basis.



DIVERSIFICATION POTENTIAL

Acquiring a share in a DST or multiple DSTs with well diversified portfolios of assets can protect your capital from being overly dependent on any one property, location, asset class, tenant, industry, lease term, or debt term.



DUE DILIGENCE

DST sponsors are required to provide you with upfront access to appraisals, property condition reports, environmental reports, loan documents, and all market and property underwriting data.



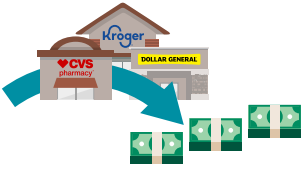
PASSIVITY

The sponsor is responsible for all management, accounting, reporting, and investor services so that you are able to receive fully passive cash flow.



TIMING

Since DSTs have already completed the underwriting, diligence, financing, and closing processes upfront, you can often close on a DST in as few as 1-3 days to successfully complete a 1031 exchange on time.



TAX DEDUCTIONS

A DST's tax benefits pass through to you during the hold period, including deductions for interest and depreciation. After the hold period, you may choose to defer any taxes that might otherwise be due on the capital gain and depreciation recapture by performing another 1031 exchange.



NON-RECOURSE FINANCING

DST investment offerings are often pre-packaged with long-term, non-recourse financing at 35% to 60% loan-to-value, so you can replace any equity and debt you may have to satisfy 1031 exchange requirements. There are also DSTs with much higher debt levels for special tax situations, and with no debt for investors that may prefer a debt-free instrument.



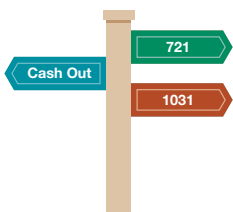
LIMITED LIABILITY

A DST provides the same limited liability protection as an LLC, shielding your personal assets from liability in case anything goes wrong with the investment.



BANKRUPTCY REMOTENESS

A DST is “bankruptcy remote”, which means that your capital is safe from any potential creditors, bankruptcies, liens, or judgments that any of the other investors may encounter personally.



FLEXIBLE EXIT

Some DSTs are designed to provide multiple exit options, helping investors plan a strategic exit. For an appropriately designed DST, investors may have the option to cash out (potentially realizing capital gains), perform another 1031 exchange, or perform a 721 exchange to acquire ownership in a Real Estate Investment Trust (or “REIT”).

The Benefits of DST Ownership

Investors considering a 1031 exchange to defer capital gains and depreciation recapture taxes on the sale of investment property may benefit from reinvesting in a Delaware Statutory Trust (DST). DSTs are popular investment structures that enable investors to invest in diversified portfolios of commercial real estate for passive income. An investor can complete their 1031 exchange by investing in a diversified DST to reap distinctive benefits:



BROAD DIVERSIFICATION ACROSS A PORTFOLIO OR MULTIPLE PORTFOLIOS

Acquiring a share in DSTs with well diversified portfolios of assets can protect your capital from being overly dependent on any one property, location, asset class, tenant, industry, lease term, or debt term.



PASSIVE CASH FLOW WITH REDUCED MANAGEMENT BURDENS

DST investments can potentially provide monthly income generated from multiple commercial properties. The DST's sponsor is responsible for all management, accounting, and investor services, so the cash flow you receive is fully passive.



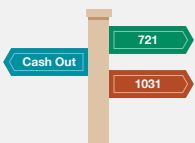
INVESTMENT AMOUNT MAY BE CUSTOMIZED TO FIT EXACT NEED

Sole-ownership replacement options can be difficult to fit to your exact exchange needs. By identifying one or more DST offerings, you can tailor your investment amount to potentially eliminate all taxable boot and defer 100% of tax liability.



INVESTORS CAN CLOSE ESCROW IN AS FEW AS 1-3 DAYS

Since DSTs have already completed the underwriting, diligence, financing, and closing processes upfront, you can often close on a DST in as few as 1-3 days to successfully complete a 1031 exchange on time.



STRATEGIC LONG-TERM PLANNING WITH FLEXIBLE EXIT OPTIONS

Some DSTs are designed to provide multiple exit options, helping investors strategically plan either to perform another 1031 exchange, perform a 721 exchange to acquire ownership in a REIT, cash out, or any combination of these options.

Is a 1031 Exchange Into a DST Right for You?

To determine whether a tax-deferred 1031 exchange into DST shares is right for your financial situation, begin by working with your representative or advisor to answer these questions:

ARE YOU WILLING TO PASS RESPONSIBILITY AND CONTROL TO PROFESSIONAL MANAGEMENT?

If you are looking to hand over the responsibilities of management to a professional real estate management company, such as the sponsor of a multi-property portfolio, an appropriately managed DST may be a preferred replacement option.

WHAT PROPERTY ARE YOU TRYING TO SELL OR EXCHANGE?

To qualify for a 1031 exchange into DST shares, the property you are selling must have been held for productive use in trade, or business, or for investment. Your personal residence or second home cannot be used in a 1031 exchange.

IS YOUR PROPERTY ALREADY LISTED FOR SALE, UNDER CONTRACT, OR AT CLOSE OF ESCROW?

Depending on how far along you are in the sale process, you may still be able to sell your property as part of a 1031 exchange, but it is important that you avoid receipt of the funds by working with a Qualified Intermediary.

HAVE YOU IDENTIFIED A QUALIFIED INTERMEDIARY ("QI" OR "1031 ACCOMMODATOR")?

If you have identified a QI and they are in receipt of funds from the sale of your relinquished property, you have limited time to identify and close on replacement property to qualify for a 1031 exchange, making a DST a convenient option.

IS THERE DEBT REMAINING ON THE PROPERTY YOU ARE SELLING?

Depending on the amount of debt remaining, it may be best to identify multiple DST offerings to fit your exchange's total loan-to-value needs. If you have no mortgage balance left, an All-Cash DST offering may streamline your exchange.

WHAT IS THE ADJUSTED COST BASIS OF YOUR PROPERTY?

If the adjusted cost basis of your property is relatively close to your estimated sale amount, you may not want to perform a 1031 exchange since you stand to realize little in capital gains, making the tax liability minor enough to consider incurring.

This material has been prepared for educational purposes only and is not a solicitation to purchase securitized real estate investments. Every real estate investment, including DSTs, is speculative, illiquid, and has the potential for complete loss of principal. This information is intended to highlight some of the components that investors should analyze when considering DSTs. Objectives, benefits and characteristics found in DST structures may vary for individual DSTs. Potential benefits do not guarantee performance. Investors should read any DST offering in its entirety and conduct their own due diligence, and consult their tax and/or legal counsel before considering any investment.



This information is intended to highlight the typical objectives, benefits, and characteristics found in DST structures and may vary for individual DSTs. This is not a recommendation of any specific DST or investment offering. Potential benefits do not guarantee performance and the private placement memorandum of any DST offering should be reviewed before any investment is considered.

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