



Tax-Deferral Real Estate Strategies

What every investor and financial professional needs to know

The 1031 Exchange

Section 1031 of the Internal Revenue Code provides an effective strategy to defer capital gains tax through the exchange of real property for like-kind real property, which includes business/investment real estate, but not a primary residence.

The Delaware Statutory Trust

A Delaware statutory trust (DST) is a legal entity that allows multiple investors to pool their money to own and earn income from real estate properties, managed by a trustee, while offering potential tax benefits like deferring capital gains through a 1031 exchange.

Maximizing Tax Deferral

- Find like-kind properties for reinvestment and adhere to proper 1031 exchange timeline
- Use a Qualified Intermediary (QI) to manage proceeds
- Buy enough replacement property to defer all capital gains
- Leverage cash earned from sale and buy more valuable property
- Build wealth by trading up for higher-value properties

The 721 Exchange

Section 721 of the Internal Revenue Code provides an alternative tax-deferral strategy to Section 1031 for property owners who are interested in selling real estate assets and wish to find an alternative to owning direct real estate. A Section 721 exchange allows investors to contribute ownership in real property to an operating partnership of a REIT in exchange for limited partnership interests in the operating partnership.

Potential Benefits of 721 Exchange via DST



Diversification

Access to an existing and growing portfolio of professionally managed, institutional-quality real estate diversified by asset classes and geography.



Income

An operating partnership that intends to provide regular income through an actively managed portfolio of income-producing properties. Distributions are not guaranteed and there is no guarantee that objectives will be met.



Capital Appreciation

Holders of limited partnership interests may experience appreciation of their invested capital if the value of the real properties in the portfolio rises.



Tax & Estate Planning

Heirs to limited partners may receive a step-up in the tax basis of their limited partnership interests, effectively eliminating the previously deferred U.S. Federal Income Tax on Capital Gains. Heirs have the flexibility to make individual decisions in respect to the sale of their inherited interests, whereas traditional heirs of investment property may require collective decision making.



Flexibility & Self-Directed Liquidity

The redemption program for limited partnership interests may provide more liquidity than other forms of real property ownership and allows owners to redeem interests in whole or in part, potentially managing periodic taxable gain recognition in alignment with specific financial goals and objectives.




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Important Distinctions between 1031 and 721 Exchanges

- ✓ 721 exchange allows for greater portfolio diversification in terms of dollar value (portfolio of properties vs. one property)
- ✓ 1031 exchanges offer investors liquidity at the end of each DST cycle, whereas 721 exchanges have limited liquidity through redemption, with each redemption being a taxable event
- ✓ Executing a 721 exchange prevents subsequent 1031 exchanges

Steps to Executing a 721 Exchange via DST

<p>1 Sell your property</p>	
<p>2 Money is invested into a DST for a minimum of 2 years</p>	
<p>3 REIT's operating partnership has an option to acquire the DST interest and investors receive OP units</p>	
<p>4 Investors with OP units may have opportunity to redeem OP units</p>	

*Timeline may differ based on investment structure

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- No public market currently exists, and one may never exist, for the interests of any IPC-sponsored program. The purchase of interests in any IPC-sponsored program is speculative and is suitable only for persons who have no need for liquidity in their investment and who can afford to lose their entire investment.
- IPC-sponsored programs offer and sell interests pursuant to exemptions from the registration provisions of federal and state law and, accordingly, those interests are subject to restrictions on transfer.
- There is no guarantee that the investment objectives of any particular IPC-sponsored program will be achieved.
- The actual amount and timing of distributions paid by IPC-sponsored programs is not guaranteed and may vary. There is no guarantee that investors will receive distributions or a return of their capital.
- Investments in real estate are subject to varying degrees of risk, including, among other things, local conditions such as an oversupply of space or reduced demand for properties, an inability to collect rent, vacancies, inflation and other increases in operating costs, adverse changes in laws and regulations applicable to owners of real estate and changing market demographics.
- IPC-sponsored programs depend on tenants for their revenue, and may suffer adverse consequences as a result of any financial difficulties, bankruptcy or insolvency of their tenants.
- IPC-sponsored programs may own single-tenant properties, which may be difficult to re-lease upon tenant defaults or early lease terminations.
- Disruptions in the financial markets and challenging economic conditions, including those resulting from the novel coronavirus and resulting pandemic, could adversely affect the operating results of properties owned by IPC-sponsored programs and the ability of such programs to service the indebtedness on their properties.
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