



THE POWER OF 1031 EXCHANGES

& Delaware Statutory Trusts

*A tax deferred approach to
selling real estate*



Exchange-X™

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1031 Risk Disclosure:

- There is no guarantee that any strategy will be successful or achieve investment objectives;
- Potential for property value loss – All real estate investments have the potential to lose value during the life of the investments;
- Change of tax status – The income stream and depreciation schedule for any investment property may affect the property owner's income bracket and/or tax status. An unfavorable tax ruling may cancel deferral of capital gains and result in immediate tax liabilities;
- Potential for foreclosure – All financed real estate investments have potential for foreclosure;
- Illiquidity – Because 1031 exchanges are commonly offered through private placement offerings and are illiquid securities. There is no secondary market for these investments.
Reduction or Elimination of Monthly Cash Flow
- Distributions – Like any investment in real estate, if a property unexpectedly loses tenants or sustains substantial damage, there is potential for suspension of cash flow distributions;
- Impact of fees/expenses – Costs associated with the transaction may impact investors' returns and may outweigh the tax benefit.

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PART 1

What is a 1031 Exchange?

Section 1031 of the Internal Revenue Code, is a method for deferring capital gains and depreciation recapture tax from the sale of real property. This is done by completing what is most commonly referred to as a like-kind, or 1031 exchange. This makes the 1031 exchange potentially the single most important tax strategy for preserving and growing the value of your real estate investments.



EXAMPLES OF LIKE-KIND PROPERTIES

- OFFICE BUILDINGS
- RETAIL CENTERS
- WAREHOUSES
- VACANT LAND
- DUPLEXES AND TRIPLEXES
- SINGLE-FAMILY RENTALS
- APARTMENT BUILDINGS
- CONDOMINIUMS
- INDUSTRIAL PROPERTY
- RENTAL RESORT PROPERTY
- HOTELS AND MOTELS
- MINERAL RIGHTS
- WATER RIGHTS
- AIR RIGHTS
- DEVELOPMENT RIGHTS
- EASEMENTS
- TENANCY-IN-COMMON (TIC) INTERESTS
- DELAWARE STATUTORY TRUST (DST) INTERESTS
- LEASEHOLD INTERESTS
- NEW YORK COOPERATIVES

Defer Capital Gains

Section 1031 of the Internal Revenue Code provides an effective strategy for deferring capital gains tax that may arise from the sale of your investment property.

By exchanging property for like-kind real estate, property owners may defer their taxes and use the sales proceeds for the purchase of replacement property.

Like-kind real estate includes business and investment property, but excludes any personal use property.

Did You Know...

A 1031 exchange may afford you the opportunity to defer capital gains taxes and build wealth



Las Vegas Training Facility DST

Henderson, NV
Capital Square

IN A 1031 EXCHANGE, capital gains taxes on the sale of a property are deferred.

This makes the 1031 Exchange potentially the single most important tax strategy for striving to preserve & grow the value of your real estate investment.

WHICH REAL ESTATE INTERESTS QUALIFY FOR 1031 EXCHANGE?



INTERESTS THAT QUALIFY

- Fee-Simple
- Leasehold
- Fractional (DST or TIC)
- Water rights
- Mineral rights
- Oil & gas interests
- Rental homes
- Business properties



INTERESTS THAT DON'T QUALIFY

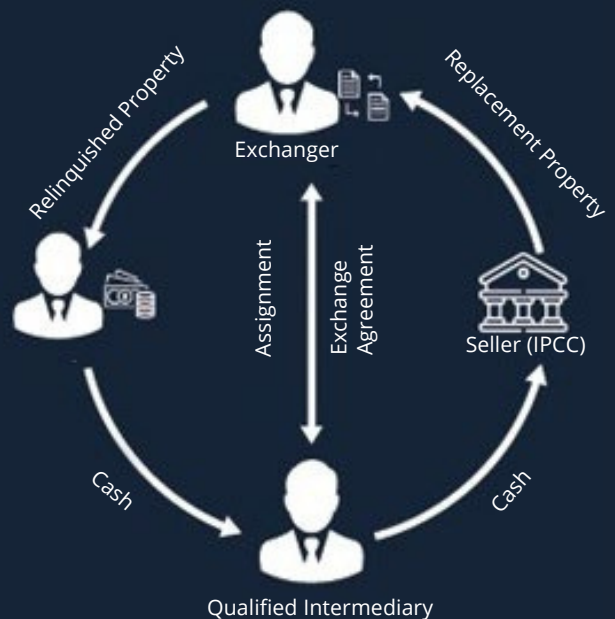
- Personal residence
- Development for resale
- Construction or fix/flips
- Property purchased for resale
- Real Estate Investment Trusts (REITs)

HOW DOES A 1031 EXCHANGE WORK?

PROCESS OF A TYPICAL 1031 EXCHANGE

There are THREE BASIC STEPS In a Typical 1031 Exchange

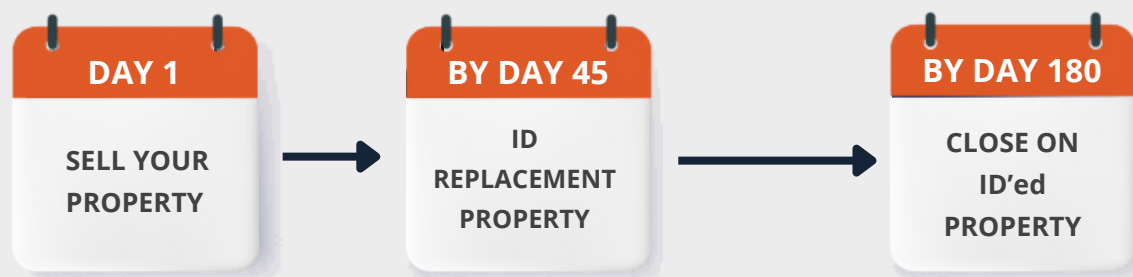
- 1 EXCHANGER SELLS PROPERTY and proceeds are escrowed with a QI
- 2 QUALIFIED INTERMEDIARY TRANSFERS FUNDS for purchase of replacement property
- 3 INTERMEDIARY COMPLETES EXCHANGE by acquiring replacement property or properties



1031 Investment Process



AFTER SALE OF PROPERTY



DAY 1

Sale of relinquished property & **Identification period** starts

DAY 45

Identification periods ends THE 45-DAY RULE

- Exchanger has 45 days from sale date to identify potential replacement properties.
- After 45 days, these are the only properties that qualify to complete the Exchange.
- Identifications are completed with the Qualified Intermediary.

DAY 180

180-Day Close periods ends THE 180-DAY RULE

Replacement property must be received and Exchange completed no later than the earlier of;

- 180 days after transfer of the exchanged property, or
- The due date of the income tax return, including extensions, for the tax year in which the relinquished property was transferred.

CALCULATING DEADLINES

1031 exchange deadlines are based on calendar days; there are no exceptions for weekends or holidays. If the sale transaction on a relinquished property closes June 30th, July 1st becomes the first day in the countdown to the deadlines, August 14th becomes the deadline for the Identification Period, and December 27th becomes the Exchange Period deadline. A failure to meet either of these deadlines would result in an invalid exchange, requiring the investor to pay the taxes owed on the capital gains earned by selling a relinquished property. Prepare early and know your deadlines.

Vista Brooklyn Apartments DST

Jacksonville, FL
Capital Square

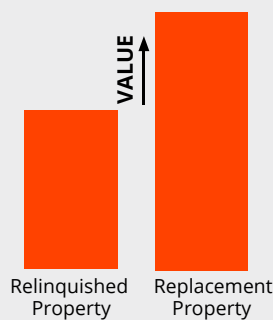


1031 EXCHANGE RULES

To successfully complete an Exchange and defer capital gains taxes, **investors need to satisfy the following requirements:**

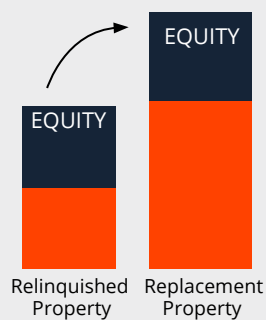
1 VALUE

Purchase a property of equal or greater value



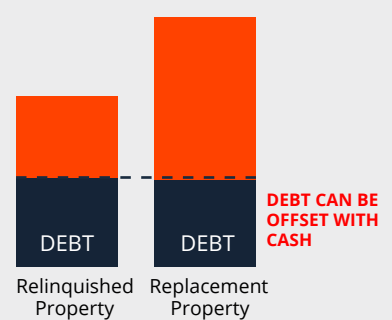
2 EQUITY

Reinvest all of the equity in a replacement property. Note: Any equity not reinvested will be subject to tax.



3 DEBT

Obtain equal or greater debt on the replacement property. Exception: A reduction in debt can be offset with additional cash from the exchanger.



1031 EXCHANGE IDENTIFICATION RULES

OPTION 1

THE THREE PROPERTY RULE

Three properties, regardless of their market value.

OPTION 2

THE 200% RULE

Any number of properties, as long as the fair market value of the replacement properties does not exceed 200% of the FMV of all the Exchanged properties.

OPTION 3

THE 95% RULE

Any number of replacement properties as long as the fair market value is at least 95% of the FMV of all the potential replacement properties identified.

THREE (3) PROPERTY RULE

The Three Property Rule is the most popular strategy used by 1031 exchangers. With this strategy, you could acquire all three of the identified like-kind replacement properties as part of your 1031 exchange.

***If you are planning to acquire four or more properties, the Three Property Rule will not suffice*

200% RULE

The 200% of Fair Market Value Rule ("200% Rule") states you can identify an unlimited number of like-kind replacement properties as long as the aggregate fair market value of all the identified replacement properties do not exceed 200% of the total net sales value of the relinquished property(s) sold. For example, a relinquished property is sold in the amount of \$1,000,000. In the 200% rule one would be able to identify as many like-kind replacement properties as long as the total fair market value of the identified replacement properties do not exceed \$2,000,000 (200% of \$1,000,000).

***For those who wish to diversify their portfolios, the 200% rule is preferred.*

95% RULE

The 95% Identification Exception ("95% Exception") states you can identify an unlimited number of potential like-kind replacement properties with an unlimited aggregate fair market value, as long as you actually acquire and close on 95% of the value identified.

This rule is good insurance when exchangers have exhausted the 200% Rule, but have exceeded the 200% allowance at the close of the identification period. Because fair market value of ID'ed properties is determined at the close of the ID period, a property's value can increase from the time identified to ID expiration. In this case, the investor could still complete their exchange if at least 95% of the fair market value of the identified properties are acquired.

***Investors may have a need to identify more than three properties and more than 200% of the sales value of the relinquished property. In this case, the 95% rule is best.*

WHY 1031 EXCHANGE?

REPOSITIONING YOUR REAL ESTATE PORTFOLIO



Exchange from one property to several



Exchange from several to one



Potentially **Increase** income



Reduce property management responsibility



Change your geographic exposure



Increase your depreciation deduction

WHAT IS A QUALIFIED INTERMEDIARY?

A Qualified Intermediary plays a pivotal role in all stages of the process, including:



QUALIFIED INTERMEDIARY

A 1031 Exchange Qualified Intermediary (also often referred to as a 1031 Exchange Accommodator) is a crucial part of the 1031 exchange process. To ensure a valid exchange, The Safe Harbor rules, as listed in IRS Section 1.103, require the exchanger to use a QI to act as an escrow holder for all funds. The primary function of the QI is to restrict investor access to the proceeds after the sale of the relinquished property is complete. To defer taxes, the exchanger must defer actual receipt and constructive receipt of that income.

PART 2

APPLYING THE 1031 EXCHANGE

UNDERSTANDING THE TAX COMPONENTS

Is Uncle Sam knocking?

So, you owned a property for 20 years, managed it well, made improvements, dealt with toilets, tenants and trash, and now is the time to cash in on all that hard work. Due to the nature of real estate being a limited resource with dwindling

supply, your property has most likely appreciated in value significantly during this time. You sit down with your CPA and crunch the numbers just to find out you will owe the IRS hundreds of thousands of dollars the second the property is sold and transferred. This causes many investors to reevaluate their options and eventually submit to holding onto the asset indefinitely. If you sell the property now, you will benefit from higher market prices but are also giving back several years of earnings in the form of taxation.



TO APPRECIATE THE BENEFITS OF A 1031 EXCHANGE.

IT'S IMPORTANT TO UNDERSTAND THE TAX COMPONENTS

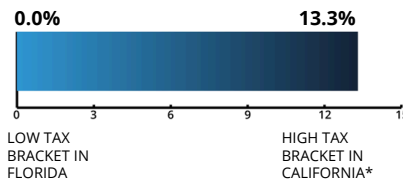
2022 FEDERAL TAXES



10%-37%
Short-term Capital Gains Tax
0%-20%
Long-term Capital Gains Tax
3.8%
Net Investment Income Tax
25%
Depreciation Recapture

STATE TAXES

STATE TAXES VARY WIDELY DEPENDING ON YOUR STATE OF RESIDENCE



Self Storage Portfolio IV DST

Various Locations
NexPoint



CAPITAL GAINS

Capital gain tax is tax on the growth in value of an investment when a sale or transfer occurs. When an asset is sold, the gain or loss is considered “realized” by the IRS thus creating a taxable or non-taxable event. Capital gains are the difference from the original cost basis and the adjusted basis after all expenses.

Sales Price - Adjusted Basis - Cost of Sale (expenses) = **Capital Gain**

SHORT-TERM CAPITAL GAIN TAX

If an asset is held (or owned) for less than one year, any profit from the sale of the asset is considered a **short-term capital gain**. Short-term capital gain tax rates are taxed as **ordinary income (10% - 37%)**.

LONG-TERM CAPITAL GAIN TAX

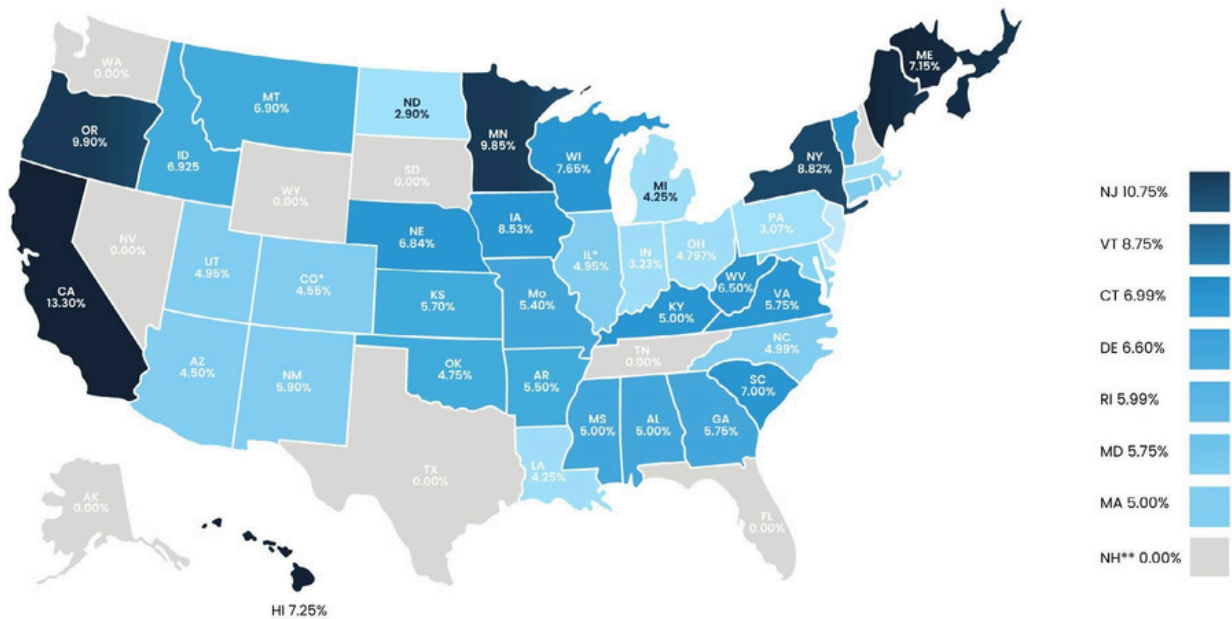
If an asset is held (or owned) for more than one year, any profit from the sale of the asset is considered a **long-term capital gain**. Long-term capital gain tax rates are **0%, 15%, or 20%** depending on your taxable income and filing status.

STATE INCOME TAX

State taxes can vary from **0%** to upwards of **13%** depending on the state the asset is held.

HOW HIGH ARE INDIVIDUAL INCOME TAX RATES IN YOUR STATE?

TOP STATE MARGINAL INDIVIDUAL INCOME TAX RATES, 2023



Note: Map shows top marginal rates: the maximum statutory rate in each state. This map does not show effective marginal tax rates, which would include the effects of phase-outs of various tax preferences. Local income taxes are not included.
 (*) State has a flat income tax.
 (**) State only taxes interest and dividends income.
 Sources: Tax Foundation; state tax statutes, forms, and instructions; Bloomberg BNA.

Top State Marginal Individual Income Tax Rates

Lower Higher

NET INVESTMENT INCOME TAX

Net Investment Income Tax is an additional tax imposed by the IRS for income earners that make over \$200,000 per year (\$250,000/joint). The NIIT applies at a rate of **3.8%**.

DEPRECIATION RECAPTURE TAX

Depreciation recapture is a tax imposed by the IRS upon the sale of real property with the intent of recapturing a portion of the depreciated income previously offset. When the sale price of an asset exceeds the tax basis or adjusted cost basis, the difference is "recaptured" by reporting it as ordinary income. Depreciation recapture tax is **25%**.

DEPRECIATION

Depreciation is an income tax deduction allowance for the wear and tear, deterioration, or obsolescence of a property which helps investors recover the cost or other basis during ownership.

Most commercial real estate properties have a valuable lifespan of 39 years while residential properties are 27.5 years. Depreciation factors the cost basis of the depreciable portion of the property (excluding land value) by its valuable lifespan to determine the annual deductible amount.

Cost Basis / Valuable Lifespan = **Annual Depreciation Deduction**

Annual depreciation deductions increase the investors annual cash flow. When property is depreciated on a tax return and deductions are taken from the income realized, the investor will owe less taxes. If a property generates \$100,000 of annual pre-tax net cash flow but is depreciated by \$40,000, the depreciation deduction allowance (\$40,000) amount will reduce the total tax liability to the IRS significantly.

ADJUSTED BASIS

Your adjusted basis or cost basis is the original purchase price of the property plus any improvements and less depreciation taken during the life of the investment.

Original Purchase Price + Improvements - Depreciation = **Net Adjusted Basis**

COST OF SALE

There are several costs associated with selling a property. These costs include broker sales commissions, attorney, survey, title, inspections, deed & transfer taxes, etc. Any costs affiliated with the sale of property can be deducted from the total tax liability.

EQUITY

Equity represents the cash value (excluding debt) in a property. To determine one's equity, take the gross selling price and subtract the closing costs, then further subtract the amount of any remaining debt. The remaining amount is equity.

Selling Price - Cost of Sale - Debt = **Equity**

BENEFITS OF DEFERRED TAXATION

EXCHANGE VS. NON-EXCHANGE



Pearce at Pavilion DST
Riverview, FL
Passco

Although the benefits of conducting a 1031 Exchange will vary for each investor based on his/her own circumstances, the hypothetical example below illustrates the potential impact and advantages of utilizing this strategy. By deferring capital gains taxes, along with depreciation recapture and net investment taxes, a buyer's reinvestable net proceeds may be much greater — potentially generating a higher current yield and future gains.

The illustration below outlines two scenarios and assumes the seller of the property is in the highest tax bracket.

- A.** Sell the property and pay taxes.
- B.** Sell the property and complete a 1031 Exchange.

The property originally cost \$500,000 and was sold for \$2,000,000. During the hold period of the property, the owner claimed \$300,000 of depreciation expenses, making the adjusted cost basis of the property \$200,000.

BENEFITS OF DEFERRED TAXATION

EXCHANGE VS. NON-EXCHANGE

SCENARIO

| | A | B |
|--|-----------------------------|--|
| | Sells Property & Pays Taxes | Completes 1031 Exchange & Defers Taxes |
| Purchase Price | \$500,000 | \$500,000 |
| Depreciation** | \$300,000 | \$300,000 |
| Adjusted Cost Basis | \$200,000 | \$200,000 |
| Sale Price | \$2,000,000 | \$2,000,000 |
| Total Taxable Gain | \$1,800,000 | \$1,800,000 |
| Federal long term cap gain (20% of \$1,500,000)*** | \$300,000 | \$0 |
| State Tax: (13.3% of \$1,500,000)*** | \$199,500 | \$0 |
| Net Investment Income Tax (3.8% of \$1,800,000)*** | \$68,400 | \$0 |
| Depreciation Recapture (25% of \$300,000) | \$75,000 | \$0 |
| Total Taxes Due | \$642,900 | \$0 |
| NET PROCEEDS FOR INVESTMENT | \$1,357,100 | \$2,000,00 |

*Each investor should consider his or her current and anticipated investment horizon and income tax bracket when making an investment decision, as the illustration may not reflect these factors.

**This assumes straight-line depreciation.

***This assumes the taxpayer is in the highest applicable federal income tax brackets. If your tax rate is lower, you could have a reduced benefit.

VACATION HOMES & 1031 EXCHANGES

In March 2008, the IRS created the Safe Harbor Revenue Procedure 2008-16 rule making it possible to complete a tax-deferred 1031 exchange on vacation or second homes.



The Villages DST

The Villages, FL
NewStar

REQUIREMENTS OF REVENUE PROCEDURE 2008-16

- The subject property is owned and held by the taxpayer for at least 24 months immediately prior to the 1031 Exchange ("qualifying use period"); and
- The subject property was rented at fair market rental rates for at least 14 days (or more) during each of the prior two years; and
- The taxpayer limited his or her personal use and enjoyment of the property to not more than 14 days during each of the preceding two years, or ten percent (10%) of the number of days that the subject property was rented during each of the preceding two years.

***Discuss your specific circumstances with your legal and tax advisors to see if your vacation or second home can qualify as an eligible replacement property in a tax deferred exchange*

ESTATE PLANNING: STEP-UP IN COST BASIS

Perhaps the most powerful use of the 1031 exchange is for estate planning. An owner can defer all capital gain and depreciation taxes throughout the life of their investments (1031 exchange) while passing those assets down to heirs (or beneficiaries) and receive a step-up in cost basis.



STEP-UP BASIS

The Step-Up in Basis is the readjustment of value of an appreciated asset for tax purposes upon inheritance. When assets are transferred upon death, the heirs (or beneficiaries) receive a step-up in cost basis equal to the fair market value of the property at the time of passing. The heirs (or beneficiaries) do not inherit capital gains or depreciation recapture tax liabilities upon the transfer of the assets.

FOR EXAMPLE:

A father owned real estate in a living trust with a fair market value of \$1,000,000. The property was purchased for \$200,000 twenty years prior. Upon the father passing, the beneficiaries received the property with a step-up in cost basis equal to the fair market value at the time of death.

In this case, the beneficiaries new cost basis is \$1,000,000 (fair market value). If the beneficiaries chose to immediately sell the property for \$1,000,000, they would not have a gain on the property thus owing no capital gains taxes.

If the beneficiaries choose to hold the property and later sell for a gain, whatever appreciation exceeding the step up in basis amount of \$1,000,000 would then trigger a capital gain tax liability.

The beneficiaries could also consider utilizing a 1031 exchange to continue deferral of capital gains taxes incurred at the time of sale by replacing the inherited property for another like-kind real estate.

PART 3

WHAT IS A DELAWARE STATUTORY TRUST?

A Delaware Statutory Trust (DST) is a distinct legal entity created under Delaware law that permits fractional ownership of real estate assets that may be used in a 1031 Exchange. However, to use a DST in a 1031 Exchange syndication program, it must comply with the requirements of IRS Revenue Ruling 2004-36 so that a beneficial interest in the trust is treated as an undivided fractional interest in real estate for federal income tax purposes (as opposed to a security or other prohibited interest that would not be treated as real property under Section 1031). An Exchanger can choose to defer taxes by investing in a DST rather than in a traditional fee-simple property.



GENERAL GUIDELINES

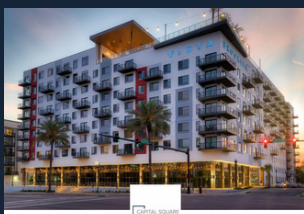
- Access to more investors than allowed by other legal structures (Maximum 1,999 investors)
- Lower minimum investment amount
- Simple and efficient investment process
- Lender only needs to make one loan because the DST is the sole borrower and owns 100% of the real estate (for non-tax purposes)
- Loan carve-outs apply to sponsors, not investors
- Lender does not underwrite each investor
- Sponsor makes decisions on behalf of the investors
- Investors cannot cause a default on the entire loan
- Investors do not need separate special purpose entities (SPEs)

DST LIMITATIONS

The DST must adhere to the following prohibitions, which are commonly referred to as the Seven Deadly Sins (See IRS Revenue Ruling 2004-86):

- Once the offering is closed, there can be no further capital contributions to the DST by either existing or new investors
- The DST cannot renegotiate existing loans or borrow more funds (except in the case of a tenant's bankruptcy or insolvency)
- The DST cannot reinvest proceeds from the sale of its real estate
- The DST is limited to making minor, nonstructural capital improvements, in addition to those required by law
- Any reserves or cash held between distribution dates can only be invested in short-term debt obligations
- All cash, other than necessary reserves, must be paid out to investors
- The DST cannot renegotiate existing leases or enter into new leases (except in the case of a tenant's bankruptcy or insolvency)

SAMPLE DST OFFERINGS



Vista Brooklyn DST

📍 Jacksonville, FL

Located on Riverside Avenue, Vista Brooklyn Apartments is a newly constructed apartment complex...

| Asset Class | Multifamily |
|----------------------------|--------------|
| Syndicated Purchase Price | \$67,520,000 |
| Year Built | 2020 |
| LTV | 55.65% |
| Targeted Investment Period | 7 - 10 years |
| Targeted Year 1 Cash Flow | See PPM |
| Minimum Investment | \$100,000 |



Net Lease Portfolio II DST

📍 Various

Net Lease Portfolio II DST is a single tenant, net lease retail portfolio consisting of eight properties in seven states...

| Asset Class | Retail |
|----------------------------|--------------|
| Syndicated Purchase Price | \$36,650,000 |
| Year Built | Various |
| LTV | 45.85% |
| Targeted Investment Period | 5 - 7 years |
| Targeted Year 1 Cash Flow | See PPM |
| Minimum Investment | \$25,000 |

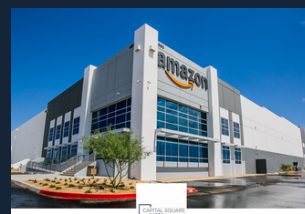


Self Storage Portfolio IV DST

📍 Various

Self Storage Portfolio IV DST is a portfolio of (3) newly built self storage facilities managed by ExtraSpace Storage

| Asset Class | Self Storage |
|----------------------------|--------------|
| Syndicated Purchase Price | \$70,344,106 |
| Year Built | Various |
| LTV | 0.00% |
| Targeted Investment Period | 7 - 10 years |
| Targeted Year 1 Cash Flow | See PPM |
| Minimum Investment | \$100,000 |



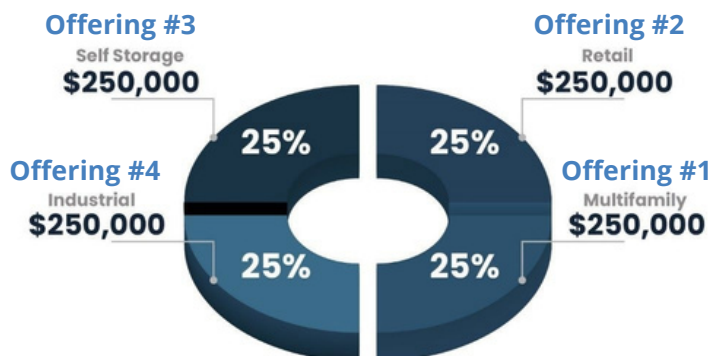
Amazon Distribution DST

📍 Bondurant, IA

Amazon Distribution DST is a newly constructed, built-to-suit distribution facility leased to Amazon.com...

| Asset Class | Multifamily |
|----------------------------|---------------|
| Syndicated Purchase Price | \$145,000,000 |
| Year Built | 2020 |
| LTV | 70.45% |
| Targeted Investment Period | 7 - 10 years |
| Targeted Year 1 Cash Flow | See PPM |
| Minimum Investment | \$100,000 |

SAMPLE DST PORTFOLIO



| DST Offering | Investment Sponsor | Asset Class | Location | Equity Investment | Debt | Loan-to-Value (LTV) | Total Purchase Price | Targeted Year 1 Cash Flow |
|--------------|--------------------|--------------|------------------|-------------------|-------------|---------------------|----------------------|---------------------------|
| Offering #1 | Sponsor #1 | Multifamily | Jacksonville, FL | \$250,000 | \$313,700 | 55.65% | \$563,700 | X.XX |
| Offering #2 | Sponsor #2 | Retail | Various | \$250,000 | \$211,700 | 45.85% | \$461,700 | X.XX |
| Offering #3 | Sponsor #3 | Self Storage | Various | \$250,000 | \$0.00 | 0.00% | \$250,000 | X.XX |
| Offering #4 | Sponsor #4 | Industrial | Bondurant, IA | \$250,000 | \$596,000 | 70.45% | \$846,000 | X.XX |
| | | | | \$1,000,000 | \$1,121,400 | 52.86% | \$2,121,400 | X.XX |

**The illustration above represents a \$1,000,000 cash investment.

**The illustration above is for educational purposes only.



Moody Village Towers DST

Houston, TX

Moody National Companies

POTENTIAL DST ADVANTAGES

- 1 Access to institutional-quality real estate
- 2 Professional asset & property management
- 3 Turnkey/Passive ownership
- 4 Diversification (Geographic, asset type, allocation, debt structure, tenants)
- 5 Ability to close quickly
- 6 Non-recourse debt
- 7 Lower minimum investments
- 8 1031 identification & boot backup
- 9 Estate planning flexibility
- 10 Simple tax reporting

DST DISADVANTAGES

- 1 DSTs are illiquid
- 2 No public secondary market exists for DST interests, and it is highly unlikely that any such market will develop
- 3 Most DSTs target a 5-7 year time frame
- 4 Investors have no control or involvement in property management
- 5 The decision of when to sell the DST is determined by the Sponsor, based on market conditions and other variables affecting the property's selling price
- 6 When a DST is sold, the investor can: rollover assets into another DST, exchange into new property or cash out and pay taxes
- 7 Higher fees may apply

IDENTIFICATION BACKUP

The 1031 exchange can be an amazing tool to grow long term generational wealth through the deferral of taxation on real estate. The most common struggle investors face with 1031 exchanges are timeline rules. In a standard exchange, the exchanger has 45 days to identify an exchange (upleg) property and 180 days to close on escrow. These stringent timelines put in place by the IRS can often make satisfying a successful 1031 exchange exceedingly difficult. Using a Delaware Statutory Trust as a “Backup” on the identification can significantly reduce any margin for error and ensure a successful exchange.



Example:

The scenario below is an illustration of mathematical principals only. There is no guarantee that any investment will achieve its objective.

An investor recently sold a property and has a capital gain liability of \$500,000. The investor has 45 calendar days to identify the next replacement property to satisfy the exchange. The investor uses the “3 Property Rule” allowing 3 properties to be identified. The first property is a 1960's built 20 unit multifamily in a suburb of Charlotte, North Carolina. The second is a 20-year-old self-storage facility located 45 minutes outside of Atlanta, Georgia. The third is a Delaware Statutory Trust interest in a 300 unit, mixed use new construction multifamily complex with retail on the ground floor in downtown Miami, Florida.

During due diligence, the investor discovers that the multifamily property in North Carolina has extensive deferred maintenance and would cost over \$300,000 in capital expenditures to rehabilitate. On the self-storage property, the inspection report revealed that the adjoining land the investor planned to build extra units on would not qualify for building permits due to environmental complications. The third property (DST) located in downtown Miami however, is already pre-financed and pre-closed alleviating the need for due diligence, inspections, permits, construction, leasing, etc. The property is fully stabilized at 97% occupancy and cash flowing.

Having a highly skilled property management company in place and a team of asset managers handling operations, the investor feels confident in using the Delaware Statutory Trust for his 1031 exchange. The investor now proceeds confidently and closes escrow within days, making the process extremely quick and efficient while successfully deferring the original \$500,000 tax liability. Best of all, the investor has alleviated all management responsibilities and can now focus on his daily life. The investor trusts in the management and understands the potential for a well-managed property will appreciate over time.

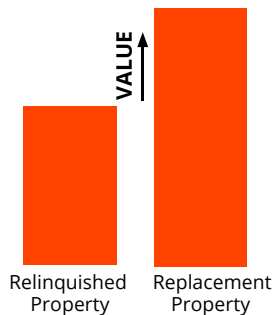
BOOT BACKUP

To fulfill a successful exchange, every dollar from the sale of the relinquished property must satisfy the exchange property. When a replacement property is of lesser value than the relinquished property, the excess dollars must be taxed. This leftover capital is known as excess “boot”. Boot can come in the form of Equity or Debt.

To successful complete exchange and defer capital gains taxes, *investors need to satisfy the following requirements:*

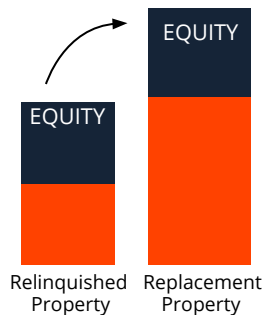
1 VALUE

Purchase a property of equal or greater value



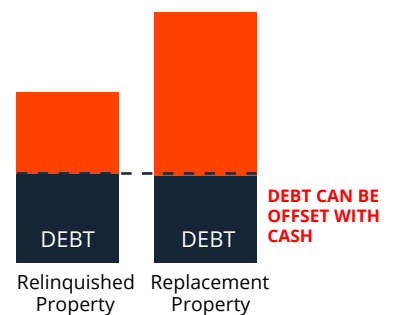
2 EQUITY

Reinvest all of the equity in a replacement property. Note: Any equity not reinvested will be subject to tax.



3 DEBT

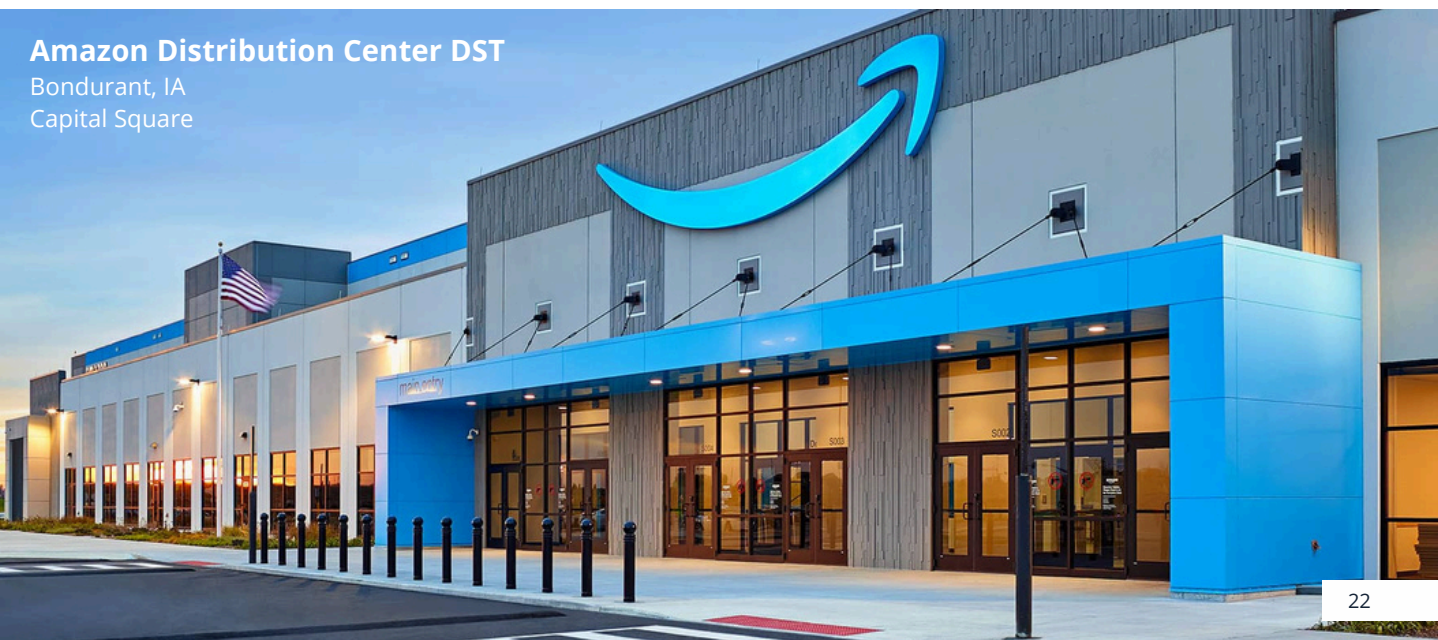
Obtain equal or greater debt on the replacement property. Exception: A reduction in debt can be offset with additional cash from the exchanger.



****Remember: Replacement property must be of equal or greater value & equity. Debt can be offset with cash.**

Amazon Distribution Center DST

Bondurant, IA
Capital Square



TYPES OF BOOT

Equity (Cash) Boot

When cash (or equity) from the sale of the relinquished property is greater than the cash used to purchase the replacement property, excess “boot” is created. All income is taxable.

Other income which creates “Boot” include:

- Repairs paid by the seller (exchange property)
- Interest on a promissory note (relinquished property)



Debt (Mortgage) Boot

When the debt amount on the replacement property is less than the debt amount owed on the relinquished property at the time of sale, excess “boot” is created.

Reducing debt is considered income because it is cash that you once owed. All income is taxable.

Sale Proceeds

Excess proceeds used to service costs at closing, are considered excess “boot”.

Taxpayers are encouraged to bring cash to the closing of their relinquished property to pay for the following non-transaction costs:

- Closing Costs
- Rent Prorations
- Utility Escrow Charges
- Tenant damage deposits transferred to the buyer
- Property tax prorations
- Other charges unrelated to the closing

Personal Residence Boot

When an exchanger uses part of the replacement property as a personal residence, the section being personally used is not considered investment property and is therefore taxable.

Example:

A 4 unit multifamily which the exchanger plans on residing in one of the four units. In this scenario, the exchanger will be taxed on the value of the portion of the property used to reside.

BOOT RUN THE NUMBER

The Taxpayer acquired property of a lower value, keeps \$100,000 of the net proceeds and acquired a replacement property with \$40,000 less debt.

| | Relinquished | Replacement | Boot |
|--------------|--------------|-------------|-----------|
| Value | \$1,000,000 | \$800,000 | |
| Debt | \$300,000 | \$260,000 | \$40,000 |
| Cost of sale | \$60,000 | | — |
| Net Proceeds | \$640,000 | \$540,000 | \$100,000 |
| Total Boot | | | \$140,000 |

ANALYSIS:

This result is a total of \$140,000 in boot.

(\$40,000 mortgage boot and \$100,000 in cash boot = **\$140,000**)

DELAWARE STATUTORY TRUSTS (DSTS) FOR ESTATE PLANNING

As previously discussed, one of the most powerful aspects of estate planning is the tax deferral and step-up in basis through a 1031 exchange. When investing in a DST, investors purchase units of beneficial interest and become beneficiaries of the trust's operations. Owning Delaware Statutory Trust interests can give beneficiaries several advantages including:

- Distributions based on pro-rata interests in the trust.
- No property management. (DSTs are operated and managed by experienced asset managers)
- No property liability. (DSTs are owned by the General Partner (Sponsor) therefore leaving the Limited Partners (Investors) not liable for the property).

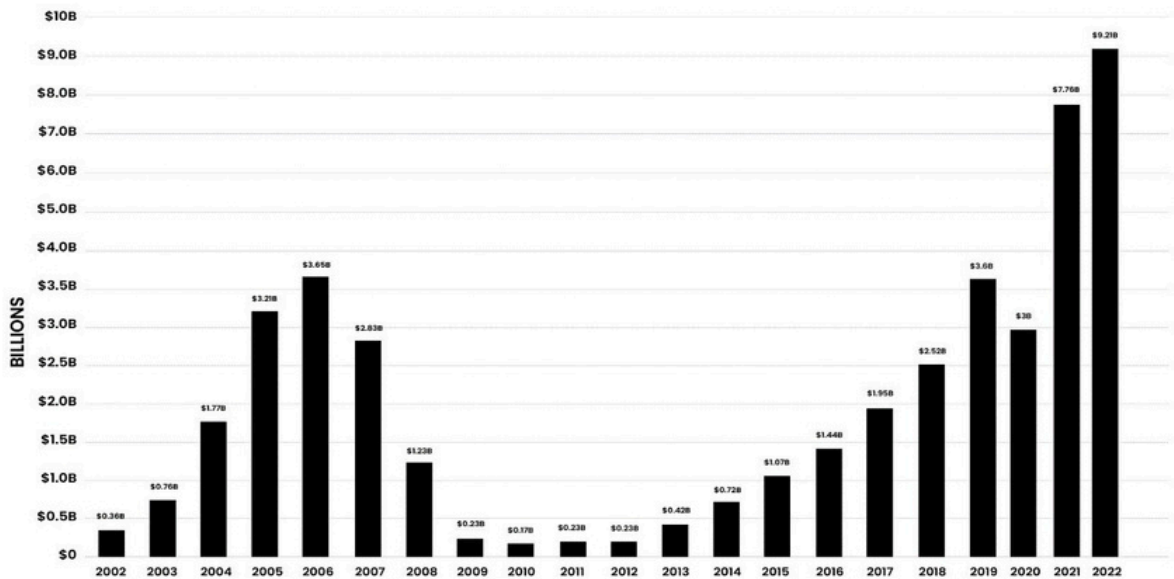
- Tax responsibility. (DSTs are not considered a taxable entity. All profits, losses, etc. are passed through directly to the beneficiaries).

To summarize, in a 1031 exchange capital gains and depreciation taxes are deferred. This makes the 1031 exchange potentially the single most important tax strategy for preserving and growing the value of your real estate investment.

With that said, the IRS has set in place very strict timelines often “forcing” an investor to take action very quickly. Since Delaware Statutory Trust interests can be closed quickly and for lower amounts, the DST can offer insurance against a failed exchange through identification and boot backup (as long as the DST is open). This strategy is a viable option for maximizing every dollar invested and deferring all capital gains tax.

DSTs Have Grown in Popularity

SECURITIZED FUNDRAISING (TIC AND DST)



There is no guarantee of success. Investors could incur a loss off all or a portion of their investment.

Since inception in 2004, Delaware Statutory Trusts (DSTs) have proven to be a viable alternative to traditional fee simple property ownership. The country's leading alternative & direct investment association, ADISA, has grown from a few dozen members back in 2002, to over 2000+ members today. Broker dealers, sponsors, investment advisors, real estate brokers, Qualified Intermediaries (QI), lenders, law firms, accountants, investors and many more are taking recognition to this ever-growing industry. The industry as a whole is projected to reach over \$15 billion a year by 2030, up from over \$9 billion in 2022.



Net Lease Portfolio II DST
Various Locations
KNPRE 1031

PART 4

WHO WE ARE

Exchange-X is a leading 1031 exchange real estate investment firm for Delaware Statutory Trust (DST) properties. Exchange-X offers access to leading DST sponsors and dozens of active offerings.

With over \$1 billion in transactions and 20 years of experience, Exchange-X continues to be the gold standard for Delaware Statutory Trust (DST) properties.



\$1 Billion+
Transactions



700+ Deals
Funded



70+ DST
Sponsors



20+ Years
Experience

OUR PARTNERS



And many more...

PROPERTY TYPES



Multifamily



Net Lease



Retail



Office



Self Storage



Industrial



Medical Office

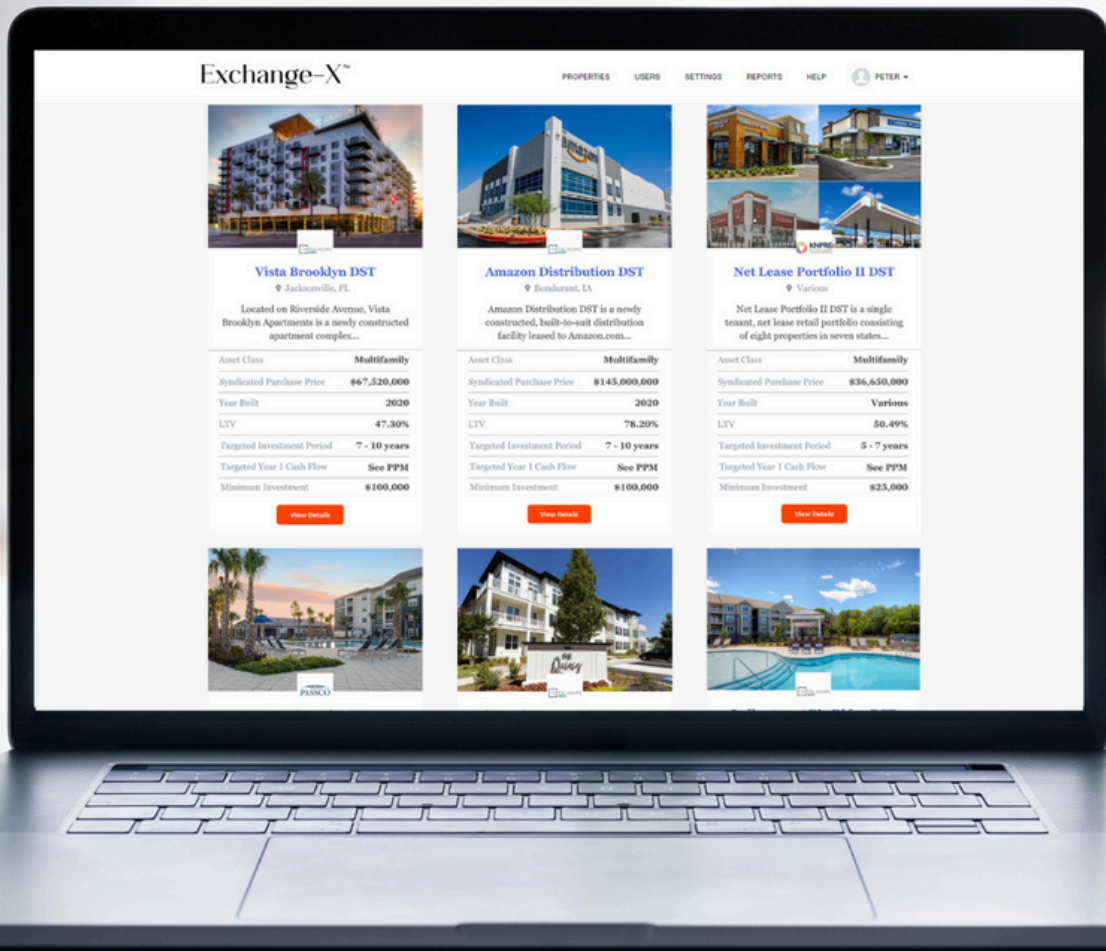


Assisted Living Facility



Manufactured Housing

EXPERIENCE THE FUTURE OF 1031 EXCHANGES



Sign up today for exclusive access to our DST offerings at
www.Exchange-X.com

PART 5

GLOSSARY OF COMMON TERMS

Accredited investor: Defined in Rule 501 of Regulation D to refer to investors who are financially sophisticated and have a reduced need for the protection provided by the certain government filings. While each state may have additional accreditation requirements, individuals are generally considered to be accredited if they possess a net worth exceeding \$1,000,000 (excluding the value of your primary residence), or if they have income exceeding \$200,000 (two most recent years) or a joint income with a spouse exceeding \$300,000 for those years and a reasonable expectation of the same income level in the current year.

Boot: Any consideration other than “like-kind” property received by the investor. Boot is subjected to taxation to the extent there is capital gain. Boot can accumulate over each exchange and is retroactive back to the original relinquished property. Boot can refer to cash boot, mortgage boot and personal property.

Cash Boot: Any funds received by the Exchange either actually or constructively from the sale of the relinquished property.

Constructive Receipt: Exercising control over your exchange funds or other property including having capital or property from the exchange credited to your bank account or property or funds reserved for you. Being in constructive receipt of exchange funds or property may result in the disallowance of the tax-deferred, like-kind exchange transaction thereby creating a taxable sale. An example of constructive receipt would be the investor selling the relinquished property and having a closing officer hold the proceeds in an escrow or trust account on his behalf.

Direct Deeding: Either the relinquished property or the replacement property can be deeded directly from seller to buyer without deeding the property to the Qualified intermediary. Direct deeding may eliminate paying transfer taxes twice on the sale of the relinquished property and purchase of the replacement property.

Exchange Agreement: The written agreement defining the transfer of the relinquished property, the subsequent receipt of the replacement property and the restriction on the exchange proceeds during the exchange period. The exchange agreement specifies all the terms of the relationship between the investor and the qualified intermediary (QI).

Exchange Period: The period of time during which an investor must complete the acquisition of the replacement property in a like-kind exchange transaction. The exchange period is 180 calendar days from the transfer of the investor’s relinquished property, or the due date (including extensions) of the investor’s income tax return for the year in which the tax-deferred, like-kind exchange transaction took place (whichever is earlier). There is no extension for holidays or weekends.

Exchanger: An individual, married couple or any other entity such as a corporation, limited liability company, partnership or trust.

Identification Period: The period of time an investor must identify potential replacement properties for a tax-deferred, like-kind exchange. The period is 45 calendar days from the transfer of investor's relinquished property. There is no extension for holidays or weekends.

Like-kind Property: Any two assets or properties considered the same under federal income tax law, allowing for a tax deferred exchange. Like-kind real estate property is real estate not held for personal use, including a second home which is held for investment purposes. Following the Tax Cut and Jobs Act of 2017, like-kind property is limited to real property.

Mortgage Boot: Mortgage Boot occurs when the exchanger does not acquire debt that is equal to or greater than the debt that was satisfied (paid off), and is therefore 'relieved' of debt, which is perceived as taking a monetary benefit out of the exchange. Therefore, the debt relief portion is taxable, unless offset by adding equivalent cash to the transaction.

Private Placement Memorandum ("PPM"): legal document outlining the objectives, risk and terms of investment involved with a private placement. This may include items such as the financial statements, operations, management biographies, detailed description of the business, etc. A PPM serves to provide information on the offering and to protect the sponsor from liability associated with selling unregistered securities.

Qualified Intermediary (Q.I.): Also called: Intermediary, QI, accommodator, facilitator, or qualified escrow holder. The QI is a third party that holds exchange funds and helps facilitate the exchange.

Regulation D Offering: An exemption from registration of securities offerings under U.S. Securities laws often used for Delaware Statutory Trust (DST) and TIC ownership investments where, among other factors, investors generally must be accredited investors.

Relinquished Property: The original property given by the investor and sold by the qualified intermediary (QI). (Also referred to as a "downleg").

Replacement Property: The like-kind property to be acquired or received by the investor from a qualified intermediary's purchase from the seller in a tax- deferred exchange. (Also referred to as an "upleg").

Reverse Exchange: when the replacement property is purchased before the relinquished property is sold. A Reverse 1031 Exchange is often more complex than a traditional forward 1031 Exchange and requires careful planning.

Sponsor: The party offering a commercial property asset available for sale to investors. The sponsor purchases the property, arranges the financing (if any), sells the fractionalized interests to individual investors, and typically handles accounting and property management after closing.

CONSIDER ADDITIONAL RISK FACTORS

- There is no guarantee of success. Investors could incur a loss of all or a portion of their investment.
- No public market exists for the DST Interests, and it is highly unlikely that any such market will develop.
- There are substantial restrictions on the transfer of DST Interests.
- There is no specified time that the properties will be liquidated and the DST may not be able to sell any or all of the properties at a price equal to or greater than the purchase price paid for the DST Interests.
- Delaware statutory trusts are a relatively new vehicle for real estate investment and are inflexible vehicles to own real property.
- If a property is transferred (or the DST is converted) to the Springing LLC, investors will likely lose their ability to participate in a future Code Section 1031 Exchange with respect to the transferred property or properties.
- Investors will have no voting rights and will have no control over management of the DST or the properties.
- There is no guarantee that investors will receive any return.
- The performance of the DST will depend on tenants' ability to pay rent.
- The properties will be subject to the risks generally associated with the acquisition, ownership and operation of real estate including, without limitation, environmental concerns, competition, occupancy, easements and restrictions and other real estate related risks.
- The DST will only own buildings leased to the tenant and will not be diversified with respect to the assets it owns.
- The properties may be leveraged.
- The manager and its affiliates will receive substantial compensation in connection with the offering and in connection with the ongoing management and operation of the properties.
- The manager and its affiliates are newly formed entities with limited history of operations, limited experience managing or operating Delaware statutory trusts and have limited capital.
- An investment in the DST Interests involves certain tax risks.



Exchange-X™

Exchange with Confidence

(888) 775-1031

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