

721 Investing Strategy

A 721 Exchange allows an investor to exchange Delaware Statutory Trusts (DSTs) and other real property ownership into Operating Partnership Units of a REIT on a tax-deferred basis.

The 721 strategy is often appropriate for investors who are seeking broader diversification, stable income, added liquidity options, passive management, appreciation potential, and enhanced tax and estate planning benefits.

With a 721 exchange, no gains are realized when you contribute your property or DST into a REIT, so capital gains and depreciation recapture taxes continue to be deferred.

§ 721 of the Internal Revenue Code was instituted in 1954, giving 721 exchanges a long and established history of use in business combinations and real estate transactions. § 721 provides that a transfer of property to a partnership does not result in income or loss recognition to the transferor. Therefore, when contributing real estate or DST interests to an operating partnership of a REIT, no gain is realized.



§ 721(a) | GENERAL RULE

“No gain or loss shall be recognized to a partnership or to any of its partners in the case of a contribution of property to the partnership in exchange for an interest in the partnership.”

Using a 721 exchange to contribute your property or DST interest into a REIT in exchange for units in the REIT’s operating partnership can effectively defer all capital gains and depreciation recapture taxes, preserving 100% of your capital for reinvestment into larger, diversified portfolios of institutional commercial real estate that can generate stable passive income and growth potential. Moreover, REITs are often structured with quarterly redemption programs designed to generate potential liquidity for shareholders as needed. This greatly enhances investors’ estate planning benefits, particularly when combined with the step-up-in-basis opportunity that continues for the investor after completing a 721 exchange into the REIT.

Investors may choose to utilize a 1031 exchange into a DST which intends to be acquired by a REIT with similar assets and similar property acquisition strategies.

A DST investor may utilize the 721 exchange to transition into operating partnership units of a REIT that acquires the DST's portfolio. This strategy requires investors to seek DSTs that are specifically designed to be acquired by a REIT. Timelines for transferring from DSTs to 721 REIT operating units should be discussed with the sponsor before investing.

THE 1031+721 EXCHANGE PROCESS



1 PERFORM A 1031 EXCHANGE FROM AN INVESTMENT PROPERTY INTO A DST

2 RECEIVE DISTRIBUTIONS FROM DST



3 PERFORM A 721 EXCHANGE FROM THE DST INTO A REIT

A REIT is an investment vehicle that acquires, manages, and sells real estate in order to generate passive returns on behalf of its investors. Utilizing a 721 exchange, the REIT structure enables investors to exchange capital, specific property, or DST interests for a tax-deferred investment into a large, diversified portfolio of income-producing real estate.

REIT ownership entitles each investor to their portion of the income, depreciation and tax benefits, and the performance of the underlying real estate. REITs can specialize in a specific asset class or diversify their holdings across multiple classes. While REITs can provide unique income and tax benefits, it is important to remember that the quality of the real estate portfolio and its asset management are the primary factors determining whether a REIT can protect investor capital and provide stable returns.



INCREASED DIVERSIFICATION

Contributing a DST interest or property to a REIT may allow an investor to participate in a larger portfolio of passive, income-producing real estate, potentially increasing diversification by location, tenant, industry, lease term, and debt laddering.



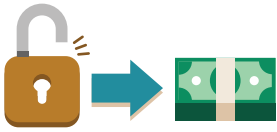
PASSIVE RETURNS

REIT sponsors are responsible for all acquisitions, dispositions, management, accounting, reporting, and investor distributions. They are structured to provide investors with passive cash flow and return potential.



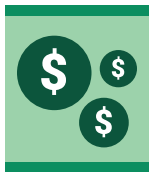
GROWTH OPPORTUNITIES

REITs are able to make property acquisitions on an ongoing basis, and execute acquisitions or mergers with other real estate businesses, allowing the 721 investors to participate in expansion and growth opportunities.



ENHANCED LIQUIDITY

Most non-traded REITs feature liquidity provisions for the 721 investor after an initial minimum hold period. Liquidity provisions allow the investor to convert all or part of their ownership units to cash, a provision that is not available inside a DST.



TAX BENEFITS

721 investors transfer their DST's tax basis to the REIT and continue to receive their depreciation benefits. The REIT may also be able to pass additional accelerated depreciation benefits to the 721 investor from new asset purchases.



RISKS AND CONSIDERATIONS

Completing a tax-deferred 721 may eliminate the ability to complete a future 1031 exchange for the exchanged capital. Operating units in a REIT carry risks associated with real estate, can be illiquid or have limited liquidity, and performance is not guaranteed. 721 investors should complete a careful analysis of the risks and benefits of any REIT before making an investment decision.

BENEFITTING YOUR HEIRS WITH A STEP-UP IN BASIS

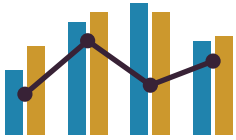
721 REIT operating units, similar to DSTs or other real property assets, receive a step-up in tax basis to current market value upon the death of the owner. Heirs inheriting the REIT units may sell them utilizing their stepped-up tax basis, often either minimizing or eliminating any capital gains. However, if units in the REIT are sold before a step-up in basis, any potential capital gains accumulated up to that point will be realized and subject to potential taxes.

SALE PRICE

DATE OF INHERITANCE

NEW BASIS





ADJUSTED FUNDS FROM OPERATIONS (AFFO)

What is the REIT's current AFFO, and what has it been historically? Has it provided consistent dividend coverage? If the REIT's dividend coverage ratio is not adequate, its managers may be diluting the REIT's value by using investor capital or debt to fund investor distributions, which may result in a future disruption to dividends and/or a loss of investor principal.



ALIGNMENT OF INTERESTS

Make sure that REIT managers' personal interests are aligned with investors' interests. How much are the managers co-invested in the REIT? Is the managers' fee structure designed to incentivize growing the value of the REIT over time and making acquisitions that benefit investors?



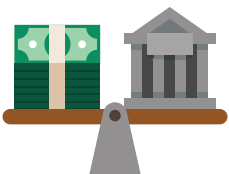
BALANCE SHEET STRENGTH

An acquiring REIT with a strong Debt Service Coverage Ratio and a balance sheet with plenty of liquid assets can flexibly access additional sources of capital, increase diversification through acquisitions, and meet investor redemption expectations.



MACROECONOMIC POSITIONING

To take full advantage of the stability of commercial real estate, make sure the acquiring REIT has diversified assets that are designed to bridge cycles, weather different macroeconomic climates, and minimize the effects of market volatility. A REIT's managers should have a clear macroeconomic perspective and should carefully design their REIT with that in mind.



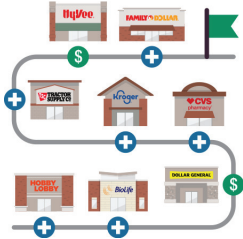
MODERATE LEVERAGE

Make sure the acquiring REIT is not significantly increasing your leverage. Using high leverage can put pressure on a REIT to refinance in the future, leaves little margin of safety, and risks cash flow swings or reduction in available liquidity. A 721 investor may find that the acquiring REIT utilizes slightly lower leverage than their DST, possibly reducing their risk.



SIMPLIFIED TAX REPORTING

The REIT simplifies and reduces the tax reporting process for 721 investors by annually computing and tracking 721 investor depreciation and by filing composite state tax returns, which reduce 721 investors' need for separately filing in multiple states.



ACQUISITION PRINCIPLES

The acquiring REIT should have a disciplined acquisition strategy, ideally with a long pipeline of acquisitions pre-arranged for strategic growth. If a REIT is raising money too quickly without an existing pipeline of identified acquisitions, they may be motivated or forced to make poor acquisitions to place equity.



WALT AND WADT

The length and laddering of lease and debt terms are often overlooked aspects of portfolio construction. If a REIT's lease or debt maturities are concentrated in a given year, long-term success may overly depend on the economic climate within one particular time window. The acquiring REIT should have laddered lease and debt terms, as well as a high Weighted Average Lease Term ("WALT") and a high Weighted Average Debt Term ("WADT") to bridge economic cycles.



ASSET/LIABILITY COORDINATION

If a REIT is too reliant on variable-rate debt or has mismatched timing for debt maturity and lease expirations, it can be sensitive to interest rate risks, where the cost of its debt increases while its revenue stays fixed. The REIT should have well-coordinated lease and debt rollovers so that its assets and liabilities stay aligned in the long-term.



ALIGNMENT OF GOALS

Confirm that there is an alignment of goals between you and the REIT's acquisition strategy. If your goal is consistent passive income, determine that the REIT is designed to minimize risk and provide steady distributions instead of focusing primarily on speculative assets that may be more sensitive to economic cycles.



It's our passion to empower people to be secure, free, and generous.

This information is intended to highlight the typical objectives, benefits, and characteristics found in REIT structures and may vary for individual REITs. This is not a recommendation of any specific REIT or investment offering. Potential benefits do not guarantee performance. Investors should read any REIT offering in its entirety and consult their tax and/or legal counsel before considering an investment.



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