Optimizing Real Estate Dispositions Through Tax-Deferred 721 Exchanges

For property owners seeking to maximize the effectiveness of their real estate exit strategy while potentially minimizing capital gains realization, Internal Revenue Code Section 721 exchange structures utilizing Umbrella Partnership Real Estate Investment Trusts ("UPREITs") may present a compelling option. This approach parallels the tax-deferral benefits of a 1031 exchange but with distinct potential advantages in portfolio diversification, income generation, and divisibility of ownership interests for estate planning.[1]

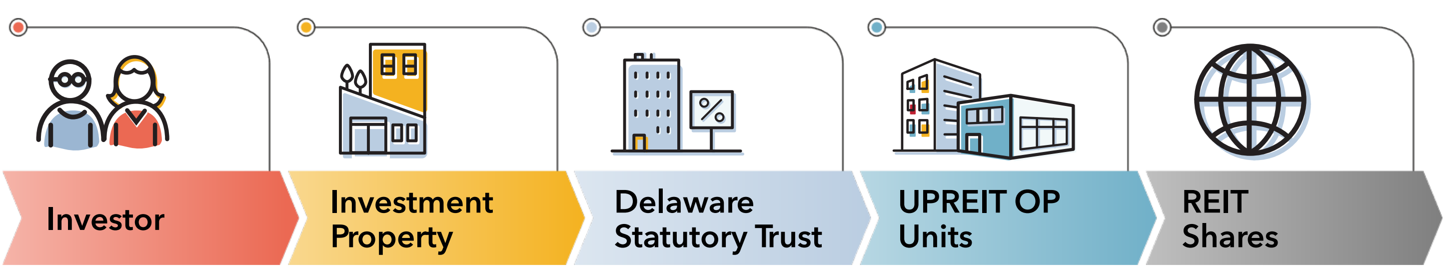
DEFERRING GAIN RECOGNITION THROUGH UPREIT CONTRIBUTION[1]

- Unlike direct sales, which may trigger immediate capital gains recognition, 721 exchange with an UPREIT allows property owners to contribute their assets or beneficial interests in a Delaware Statutory Trust in exchange for Operating Partnership Units ("OP Units") within the UPREIT structure.
- This effectively defers the seller's initial capital gains taxation associated with the original property disposition.
- The holding period for these OP Units typically spans 12 to 24 months, during which the seller may receive a portion of the UPREIT's rental income as distributions.

ENHANCED LIQUIDITY AND DIVERSIFICATION[1]

- Upon reaching the redemption date, OP Units may become exchangeable for REIT shares on a pre-determined basis.
- Provides potential liquidity and divisibility of interests through the REIT's share redemption program, enhancing the flexibility of the initial investment compared to a traditional 1031 exchange.
- For investors with a remaining cost basis, a 721 exchange may allow for investors to redeem up to their cost basis at time of redemption without triggering a taxable event.
- The UPREIT structure inherently offers potential diversification benefits, as OP Units represent ownership in a pooled portfolio of various real estate assets, helping mitigate risks associated with single-property ownership.

For property owners seeking to optimize their real estate disposition while minimizing immediate capital gains recognition, Section 721 UPREIT exchanges may offer a tax-advantaged path toward potential diversification, passive income generation, and liquidity with careful planning and professional guidance.



This is neither an offer to sell nor a solicitation of an offer to buy any security, which can be made only by an offering memorandum or prospectus that has been filed or registered with appropriate state and federal regulatory agencies and sold only by broker dealers and registered investment advisors authorized to do so. An offering is made only by means of the offering memorandum or prospectus in order to understand fully all of the implications and risks of the offering of securities to which it relates. A copy of the applicable offering memorandum or prospectus must be made available to you in connection with any offering.

1 There is no guarantee these potential benefits will be realized. Investing in real estate involves significant risks, including the possibility of losing all invested capital.

RISK CONSIDERATIONS

This communication includes a brief and general description of Section 721 and Section 1031 of the Internal Revenue Code. All investors should consult their own tax advisors regarding a Section 721 tax strategy.

IMPORTANT RISK FACTORS TO CONSIDER

Investments in real estate assets are subject to varying degrees of risk and are relatively illiquid. Several factors may adversely affect the financial condition, operating results and value of real estate assets. These factors include, but are not limited to:

- Changes in national, regional and local economic conditions, such as inflation and interest rate fluctuations;
- Local property supply and demand conditions;
- Ability to collect rent from tenants;
- Vacancies or ability to lease on favorable terms;
- Increases in operating costs, including insurance premiums, utilities and real estate taxes;
- Federal, state or local laws and regulations;
- Changing market demographics;
- Changes in availability and costs of financing;
- Acts of nature, such as hurricanes, earthquakes, tornadoes or floods; and
- Economic risks associated with a fluctuating U.S. and world economy, including those resulting from the novel coronavirus and resulting pandemic.

NOT FDIC INSURED
MAY LOSE VALUE
NO BANK GUARANTEE