Favorable Tax Treatment for REITs

Good News for Investors

There's good news for individual real estate investment trust (REIT) investors in the Tax Cuts and Jobs Act (TCJA) signed into law in December 2017. The TCJA introduced many new provisions to and revised other provisions in the tax law, including some which are described below that apply to taxable years beginning after December 31, 2017, and before January 1, 2026. These changes may make REITs more compelling to investors.[1]

Before & After: Effective Tax Rate Changes

A game-changer for investors is the effective tax rate reductions for dividend distributions by REITs. Here's a quick overview of the bill's impact:

Under Prior Tax Law	Under New Tax Law
▪ Dividend distributions by REITs are generally taxed as ordinary income, with a top federal rate on individuals of 39.6%.	▪ A new 20% deduction available to non-corporate taxpayers, regardless of itemization or Adjusted Gross Income, on certain pass-through business income including most REIT dividends. ▪ Individual tax rates are reduced for most brackets. New top individual rate of 37% (prior to the 20% deduction).
▪ REITs not taxed at the corporate level provided that all taxable income passed through to investors as dividends.	▪ The pass-through treatment (i.e. no REIT-level income tax to the extent that taxable income is distributed) remains intact.
▪ Distributions in excess of REIT's earnings and profits are not taxable dividends. They are returns of capital (ROC) and reduce the shareholder's tax basis; any excess above basis is capital gain.[2]	▪ No change from previous law.

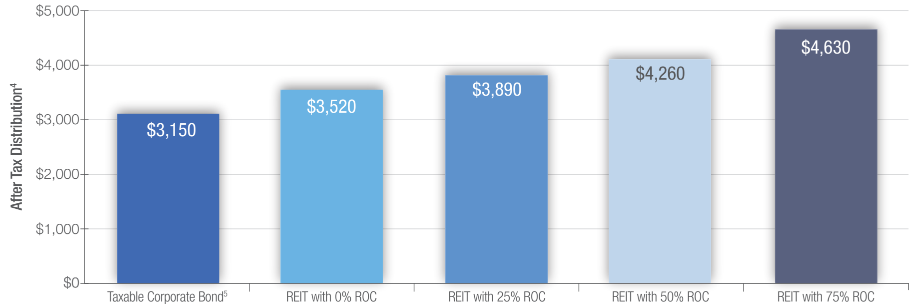
The ROC portion of a distribution provides a tax deferral to investors because it is not taxed currently. ROC distributions may result from depreciation and amortization, which may decrease the taxable portion of REIT income in the current year. The depreciation and amortization may later be recaptured upon sale of the shares as capital gain, which is taxed at a lower rate than ordinary income. However, if the shares are sold before the REIT sells the underlying depreciated property, the investor's lowered basis may give rise to greater taxable gain upon the sale of shares. ROC distributions in the early stages of a REIT may be because the REIT has not yet acquired many income-producing assets and is paying distributions that exceed operating cash flows.[2]

Example of Tax Benefit Under the under TCJA

$100,000 investment; 5% annualized rate of return (pre-tax); highest tax bracket of 37%

	Distribution	Taxable Portion	Tax Payable[4]	After Tax Distribution	Effective Tax Rate	After Tax Distribution Rate	Tax Equivalent Distribution Rate
Taxable Corporate Bond[5]	$5,000	$5,000	$1,850	$3,150	37.0%	3.2%	5.0%
REIT with 0% ROC	$5,000	$5,000	$1,480	$3,520	29.6%	3.5%	5.6%
REIT with 25% ROC[3]	$5,000	$3,750	$1,110	$3,890	22.2%	3.9%	6.2%
REIT with 50% ROC	$5,000	$2,500	$740	$4,260	14.8%	4.3%	6.8%
REIT with 75% ROC	$5,000	$1,250	$370	$4,630	7.4%	4.6%	7.3%

After Tax Distributions based on a $100,000 Investment



This information is not intended as tax or financial advice. You should consult your tax and/or financial about your specific tax situation and regarding whether or not an investment in REITs would be right for you.

1 Enacted on December 22, 2017, generally effective for tax years beginning after December 31, 2017, but will cease to apply to tax years beginning after December 31, 2025 absent intervening legislation.

2 A REIT that pays distributions in excess of cash flow will have less funds available for the acquisition of properties which may reduce an investor's overall return.

3 Tax benefits of ROC distributions are temporary and could potentially give rise to greater taxable gain upon disposition of shares.

4 Assumes all distributions are ordinary distributions and not capital gain distributions.

5 Taxable corporate bonds are debt instruments issued by corporations that pay a fixed amount of interest. Bonds are subject to interest rate risk which refers to the risk that bond prices generally fall when interest rates rise and vice versa. Bonds are easily traded and provide ready liquidity. An investment in a traded REIT would provide ready liquidity, while an investment in a non-traded REIT would not. An investment in debt instruments, such as corporate bonds, may be secured by collateral and are repaid first should a company be liquidated, while an investment in a REIT is an investment in equity which will not be secured by collateral and the interest of shareholders of a non-traded REIT are subordinate to the REIT's lenders should a REIT be liquidated. Investments in non-traded REITs may be subject to more expenses than a direct investment in bonds, including management fees and entity-level expenses.

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Important Risk Considerations

An investment in REITs, particularly non-traded REITs, involves a high degree of risk. You should purchase these securities only if you can afford the complete loss of your investment. Risks will vary by investment. A more detailed description of the risks associated with a specific non-traded REIT are included in a prospectus for that investment, which you should read carefully before you invest. In general risks include, but are not limited to:

- The REITs may have a limited operating history;
- The prior performance of other REITs offered by the sponsor does not guarantee any REIT's comparable future results;
- There can be no assurance that any REIT will achieve its investment objectives;
- There is not a public market for shares of non-traded REITs so it will be difficult for you to sell your shares and, if you are able to sell your shares, you will likely sell them at a substantial discount;
- These offerings may be conducted on a "best efforts" basis and as such, there is a risk that the program will not be able to accomplish its business objectives if substantial funds are not raised in the offering;
- The availability and timing of distributions is uncertain and cannot be assured.
- Distributions may be paid from sources such as proceeds from debt financings, proceeds from the offering, cash advances by the advisor, cash resulting from a waiver or deferral of fees and/or proceeds from the sale of assets; distributions may exceed earnings; If distributions are paid from sources other than cash flow from operations, there will be less funds available for investment, and your overall return may be reduced;
- Non-traded REITs may offer share redemption programs; however there are significant restrictions and limitations on your ability to have all or any portion of your shares redeemed under such programs; if redemptions occur, they may be at a price that is less than the price you paid for the shares and/or the then-current market value of the shares;
- Non-traded REITs may invest outside of the U.S. or in specific sectors which increases risk; in particular, international investment risks, include the burden of complying with a wide variety of foreign laws and the uncertainty of such laws, the tax treatment of transaction structures, political and economic instability, foreign currency fluctuations, and inflation and governmental measures to curb inflation;
- A non-traded REIT may rely on affiliates of its advisor or sponsor for day-to-day operations and the selection of real estate investments. As such it may pay substantial fees to these affiliates for these services. These affiliates are subject to conflicts of interest as a result of this and other relationships they have with the particular non-traded REIT and other investment vehicles offered by its sponsor.

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HGIT-TAX 07/18