1031 EXCHANGES
AND DELAWARE STATUTORY TRUSTS

A tax-deferred approach to selling your real estate investments

This is not an offer to sell securities.

DEFER YOUR CAPITAL GAINS
WITH A 1031 EXCHANGE

Are you looking to sell real estate held for investment? The Internal Revenue Code (IRC) offers you one of the most important tax planning strategies to help preserve and grow your investment portfolio. Through a transaction called a 1031 Exchange, you can defer the capital gains taxes that arise from the sale of real estate.

WHAT IS A 1031 EXCHANGE?

Whenever you sell a business or investment property and you make a profit, you generally have to pay capital gains taxes. A 1031 Exchange allows you to sell your real estate property, reinvest the proceeds in "like-kind" real estate, and defer the payment of taxes on that sale. The Internal Revenue Service (IRS) defines like-kind as property that is similar in nature or character, regardless of differences in grade, property type or quality.

For investors, a 1031 Exchange offers a range of potential benefits:

- Tax deferral
- Diversification
- Tax-advantaged cash flow
- Wealth preservation[1]

THE RULES & TIMING OF A 1031 EXCHANGE

To successfully complete a 1031 Exchange and defer your capital gains liability, you must follow very specific requirements over a strict 180-day timeline.

DAY 1

Sell your property; proceeds are escrowed with a Qualified Intermediary (QI).[2]

DAY 45

Identify a property within 45 days.

DAY 180

Close on your new property within 180 days of the sale of the relinquished property.

In addition to the timing considerations, a qualifying exchange requires you to:

- Purchase a replacement property of equal or greater value
- Reinvest all equity
- Obtain an equal or greater amount of debt on the replacement property

Failure to satisfy these requirements will create a tax liability.

SECTION 1031 of the IRC

"No gain or loss shall be recognized on the exchange of property held for productive use in a trade or business or for investment if such property is exchanged solely for property of like-kind which is to be held either for productive use in a trade or business or for investment."

Source: IRS Tax Code.

[1] All investments involve risk and the realization of the benefits is dependent on proper structuring and the future investments selected. Not all investments will provide all of these benefits.

[2] A Qualified Intermediary (QI) is an entity that facilitates the 1031 Exchange process, largely by holding net proceeds from the sale of the relinquished property before they are re-invested in the replacement property. Only a QI may hold those funds during the exchange.

USING A DELAWARE STATUTORY TRUST
TO COMPLETE YOUR 1031 EXCHANGE

In the majority of cases, 1031 Exchanges are completed by the investment property owner with the help of a real estate broker. However, there is another alternative — a passive solution to satisfying a 1031 Exchange — and that is a Delaware Statutory Trust (DST).

DSTs that are properly structured are recognized by the IRS as qualified replacement property for real property. Investors in a DST are not direct owners of the real estate. The trust holds title to the property, for the benefit of many investors, each of whom has a "beneficial interest" and is treated as owning an undivided fractional interest in the property.

Simply put, DSTs provide a turn-key solution for investors who may not have the time, energy or real estate expertise to find and/or manage a replacement property. DSTs can be used for all or a portion of the sales proceeds. Also, be mindful that there are fees and expenses associated with a DST.

With its unique structure, a DST can offer you many benefits:

- Access to institutional-quality real estate
- Professional asset and property management
- Passive ownership
- Non-recourse institutional financing
- Lower minimum investments
- Portfolio diversification
- Ability to close quickly[3]

It is important to note that all investments in a DST involve certain risks, including the potential lack of return, loss of principal and tax consequences. The performance of a DST will depend on the tenant's ability to pay rent. Properties may be leveraged, and will be liquidated at the discretion of the DST, which may encounter difficulty in selling any or all of them. No public market exists, nor is likely to develop for the DST interests.

HOLDINGS OF IRS REVENUE RULING 2004-86

"(1) The Delaware Statutory Trust is an investment trust, under § 301.7701-4(c), that will be classified as a trust for federal tax purposes. (2) A taxpayer may exchange real property for an interest in the Delaware Statutory Trust without recognition of gain or loss under Section 1031, if the other requirements of Section 1031 are satisfied."

GUIDELINES FOR DSTs

There are certain guidelines that DSTs must follow. Specifically, a DST may not:

- Invest accrued cash, from rental income or investment proceeds, between distribution dates in anything other than short-term securities
- Accept additional capital to the DST
- Renegotiate terms of debt or enter into new financing
- Renegotiate leases
- Enter into new leases (except in certain circumstances)
- Make improvements other than minor non-structural repairs

[3]All investments involve risk and the realization of the benefits is dependent on proper structuring and the future investments selected. Not all investments will provide all of these benefits.

EVALUATING THE BENEFITS OF DEFERRED TAXATION

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. With capital gains taxes deferred, along with depreciation recapture and net investment taxes avoided, your reinvestable net proceeds may be that much greater — potentially generating a higher current yield and future gains.

This illustration, with two scenarios, assumes the seller of the property is in the highest tax bracket.

A. She sells the property and pays taxes.
B. She sells the property and completes a 1031 Exchange.

The property originally cost $550,000 and was sold for $1,500,000. During the hold period of the property, the owner claimed $400,000 of depreciation expenses, making the adjusted cost basis of the property $150,000.

SCENARIO

	A Sells Property & Pays Taxes	B Completes 1031 Exchange & Defers Taxes[5]
Purchase Price	$550,000	$550,000
Depreciation[6]	$400,000	$400,000
Adjusted Cost Basis	$150,000	$150,000
Sale Price	$1,500,000	$1,500,000
Total Taxable Gain	$1,350,000	$1,350,000
Federal Long-term Capital Gain Liability (20% of $950,000)[7]	$190,000	$0
State Tax*	—	—
Net Investment Income Tax (3.8% of $1,350,000)[7]	$51,300	$0
Depreciation Recapture Tax (25% of $400,000 Depreciation)[7]	$100,000	$0
Total Taxes Due	$341,300	$0
NET PROCEEDS FOR INVESTMENT	$1,158,700	$1,500,000

[5] 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.

[6] This assumes straight-line depreciation.

[7] 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.

Tax considerations associated with selling an investment property:

Federal Taxes: Long-term Capital Gains Tax 0%-20% (based on taxable income)
Net Investment Income Tax 3.8%
Depreciation Recapture Tax 25%

*This illustration does not consider the potential benefits from deferring state capital gains taxes. This will vary by state.

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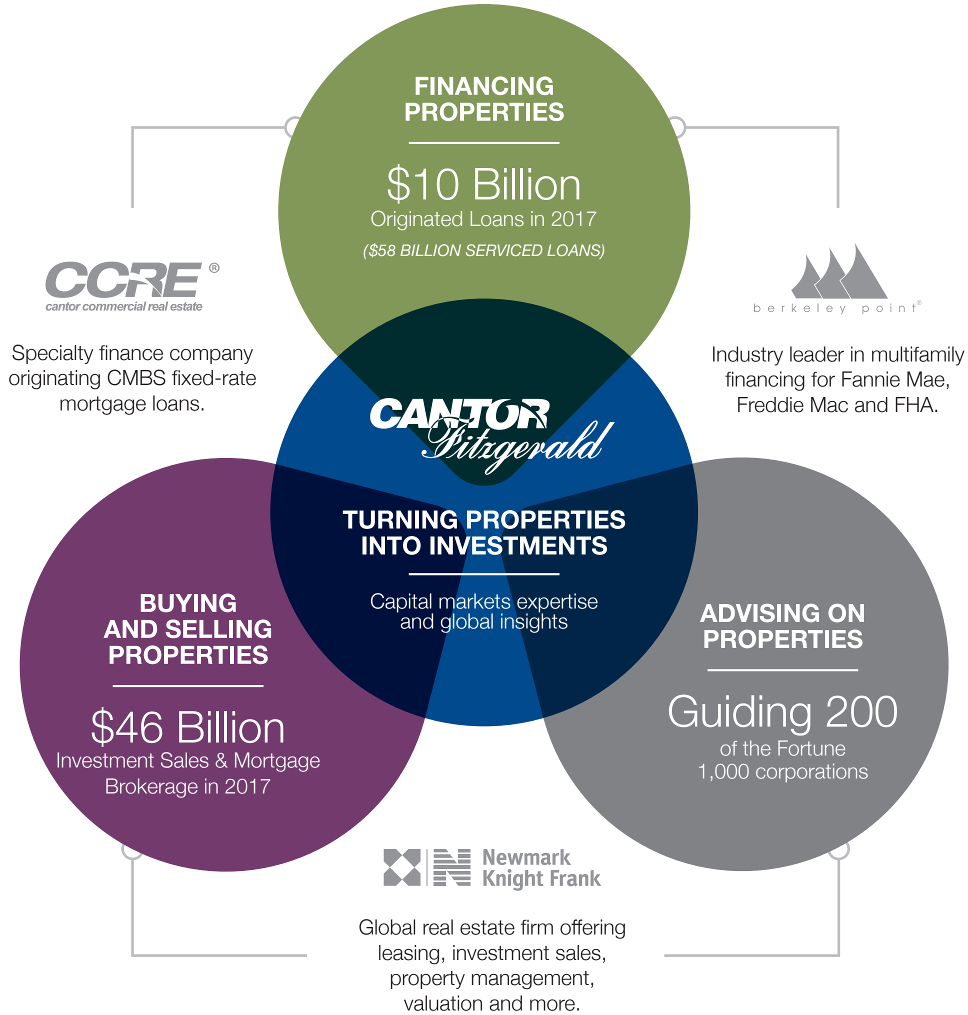

WANT TO LEARN MORE
ABOUT 1031 EXCHANGES AND DSTs?

INVESTORS:
Contact your financial advisor to discuss how this strategy aligns with your financial goals and your situation.

FINANCIAL ADVISORS:
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