1031 Capital Solutions
Tax-efficient strategies for affluent investors

POSSIBLE DST EXIT OUTCOMES

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Clients of 1031 Capital Solutions will be asked to acknowledge receipt and understanding of this document.

Initial ____________

Initial ____________

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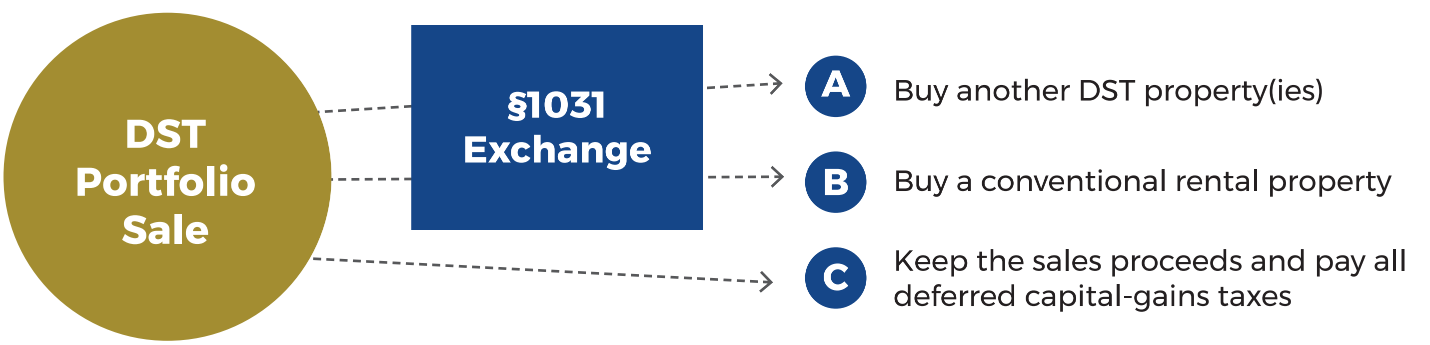
1 Exit Outcome # 1 - Portfolio Liquidation (no UPREIT)

Under IRS Revenue Ruling 2004-86, a DST property qualifies as "like-kind" real estate on both sides of a §1031 exchange—buying AND selling. Upon the sale of a DST property or portfolio, investors have the same three options as available with any rental property sale:



- DST investors should expect a hold period of 7-10 years before the property is sold.
- Like any §1031 exchange, upon sale it is possible to keep some "boot", and pay tax only on funds received in the transaction.
- Some DSTs may be unable to sell ALL of the properties in their portfolio in a single transaction. Separate sales of DST properties may trigger multiple, separate §1031 exchanges for investors.
- To complete a fully tax-deferred exchange without requiring additional cash from outside escrow, DST owners will need to invest in a property whose leverage ratio is at least as high as the relinquished DST property.
- If a DST with debt fails to sell its property before the loan term expires (almost always 10 years), a refinancing will violate IRS rules for 1031 DSTs and trigger a "springing LLC". Conversion of the DST to an LLC likely would produce negative tax consequences.

2 Exit Outcome # 2 – Very Limited Resale Opportunity

DST interests are illiquid securities, and investors should not subscribe if they anticipate needing access to their invested capital in less than 10 years:

- Illiquid, long-term securities
- No secondary market
- Possibly sell shares to other DST investors at a significant discount

- Once closed, the offering phase for a DST cannot be reopened, and no additional capital can be requested from investors.
- There is no secondary market for DST interests.
- SEC regulations restrict the resale of private placement securities, particularly in the first year after investment.
- It is possible for other investors in the same DST to acquire another owner's shares, but such infrequent transactions typically involve a significant discount to then-current asset value.
- Sale of DST interests in the absence of a §1031 exchange will trigger capital-gains taxes.

3 Exit Outcome # 3 – UPREIT Conversion and/or Fair Market Value ("FMV") Option

UPREIT stands for "Umbrella Partnership" Real Estate Investment Trust.

All DST trustees have discretion and authority to transfer a DST property to a REIT in exchange for operating partnership units. For some DST programs, this is the anticipated outcome from the outset. For other DSTs, the UPREIT strategy may be a remote possibility. There is no guarantee that a DST will or will not conduct an UPREIT conversion transaction.

SPECTRUM OF UPREIT CONVERSION OPTIONALITY

Full FMV Repurchase Option ← – – **Limited Pool for FMV Repurchases** – – → **Mandatory Conversion for All Investors**

An "FMV option" allows a DST investor to sell some or all of her DST interests to the REIT in lieu of receiving OP units, based on an estimated FMV of the property. The FMV of a DST property only two years after investment likely will NOT be greater than the original offering price.

PHASE 1
1031 Exchange Into a DST

PHASE ONE: §1031 EXCHANGE → 1031 DST

- Investor sells a rental property and exchanges it for interests in a 1031 DST.
- The 1031 DST sponsor is affiliated with a public REIT; property often is already part of the REIT portfolio.
- The investment period in the 1031 DST is typically two years.
- Some programs have an optional §721 transfer into an UPREIT; others are mandatory.

PHASE 2
Transfer DST Interests for UPREIT OP Units

PHASE TWO: §721 TRANSFER → UPREIT OPERATING PARTNERSHIP

- Under §721, DST shares are exchanged for units in the operating partnership ("OP") of the REIT.
- Transfer is designed to defer capital gains taxes, similar to a §1031 exchange.
- Investor may be required to execute a debt guaranty agreement to avoid recognized gain.
- OP distributions mirror REIT distributions; investor receives a Schedule K-1. Investors may be required to file returns in multiple states.
- Some time after the UPREIT conversion, it may be possible to redeem/sell an amount equal or less than the cost basis without federal tax consequences—consult with a tax professional.
- Investor may hold OP units indefinitely.

PHASE 3
Redeem or Sell REIT Interests

PHASE THREE: UPREIT OP UNITS → REDEEMABLE/TRADED REIT SHARES

- Subject to any applicable holding periods, when investor is ready to liquidate, OP units are either redeemed directly or OP units are converted to REIT shares.
- This is a taxable event.
- Depending on the REIT, shares may be redeemed by the REIT or sold on an exchange.
- Alternatively, investors may hold their OP units until death and benefit from a step-up in basis.

UPREITs may impose one or more of the following fees on DST investors:

- ✓ Conversion fee
- ✓ Ongoing asset management fees
- ✓ Liquidation fee

Consult with your legal or tax professional before investing.

This is for informational purposes only, does not constitute as individual investment advice, and should not be relied upon as tax or legal advice. Please consult the appropriate professional regarding your individual circumstance.

There are material risks associated with investing in DST properties and real estate securities including liquidity, tenant vacancies, general market conditions and competition, lack of operating history, interest rate risks, the risk of new supply coming to market and softening rental rates, general risks of owning/operating commercial and multifamily properties, short term leases associated with multi-family properties, financing risks, potential adverse tax consequences, general economic risks, development risks, long hold periods, and potential loss of the entire investment principal.

Potential cash flows/returns/appreciation are not guaranteed and could be lower than anticipated. Diversification does not guarantee a profit or protectagainst a loss in a declining market. It is a method used to help manage investment risk.

A listed REIT is a security that sells like a stock on the major exchanges and invests in real estate directly, either through properties or mortgages. Non-listed REITs also invest in real estate directly, but their shares are not listed on an exchange; redemptions are limited and may be suspended. REITs receive special tax considerations and typically offer investors high yields, as well as a highly liquid method of investing in real estate. There are risks associated with these types of investments and include but are not limited to the following: Typically no secondary market exists for the security listed above. Potential difficulty discerning between routine interest payments and principal repayment. Redemption price of a REIT may be worth more or less than the original price paid. Value of the shares in the trust will fluctuate with the portfolio of underlying real estate. Involves risks such as refinancing in the real estate industry, interest rates, availability of mortgage funds, operating expenses, cost of insurance, lease terminations, potential economic and regulatory changes. This is neither an offer to sell nor a solicitation or an offer to buy the securities described herein. The offering is made only by the Prospectus.

Securities offered through Concorde Investment Services, LLC (CIS), Member FINRA/SIPC. Advisory Services offered through Concorde Asset Management, LLC (CAM), an SEC-registered Investment Adviser. 1031 Capital Solutions is independent of CIS and CAM.

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