

# 1031+UPREIT STRATEGY

## Combining a 1031 DST and a §721 transfer into a REIT may provide exposure to a diversified portfolio

Internal Revenue Code §1031 allows investors to defer the payment of capital gains taxes when selling investment property and exchanging into other qualified investment property. Similarly, §721 allows investors to transfer their interests in a property to an “UPREIT”, ultimately in exchange for redeemable or traded shares. Some sponsors of 1031 DST programs have combined these tax advantages into one strategy as follows:

### 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 1**  
1031  
Exchange  
into a DST

### PHASE TWO: §721 TRANSFER → UPREIT OPERATING PARTNERSHIP

- UPREIT stands for “Umbrella Partnership” Real Estate Investment Trust
- 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
- Investor may hold OP units indefinitely

**PHASE 2**  
Transfer DST  
interests for  
UPREIT OP  
units

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

- When investor is ready to liquidate, 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

**PHASE 3**  
Convert OP  
Units to REIT  
shares and  
liquidate.

### **Consult with your tax or legal 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 protect against a loss in a declining market. It is a method used to help manage investment risk.

A REIT is a security that sells like a stock on the major exchanges and invests in real estate directly, either through properties or mortgages. 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.