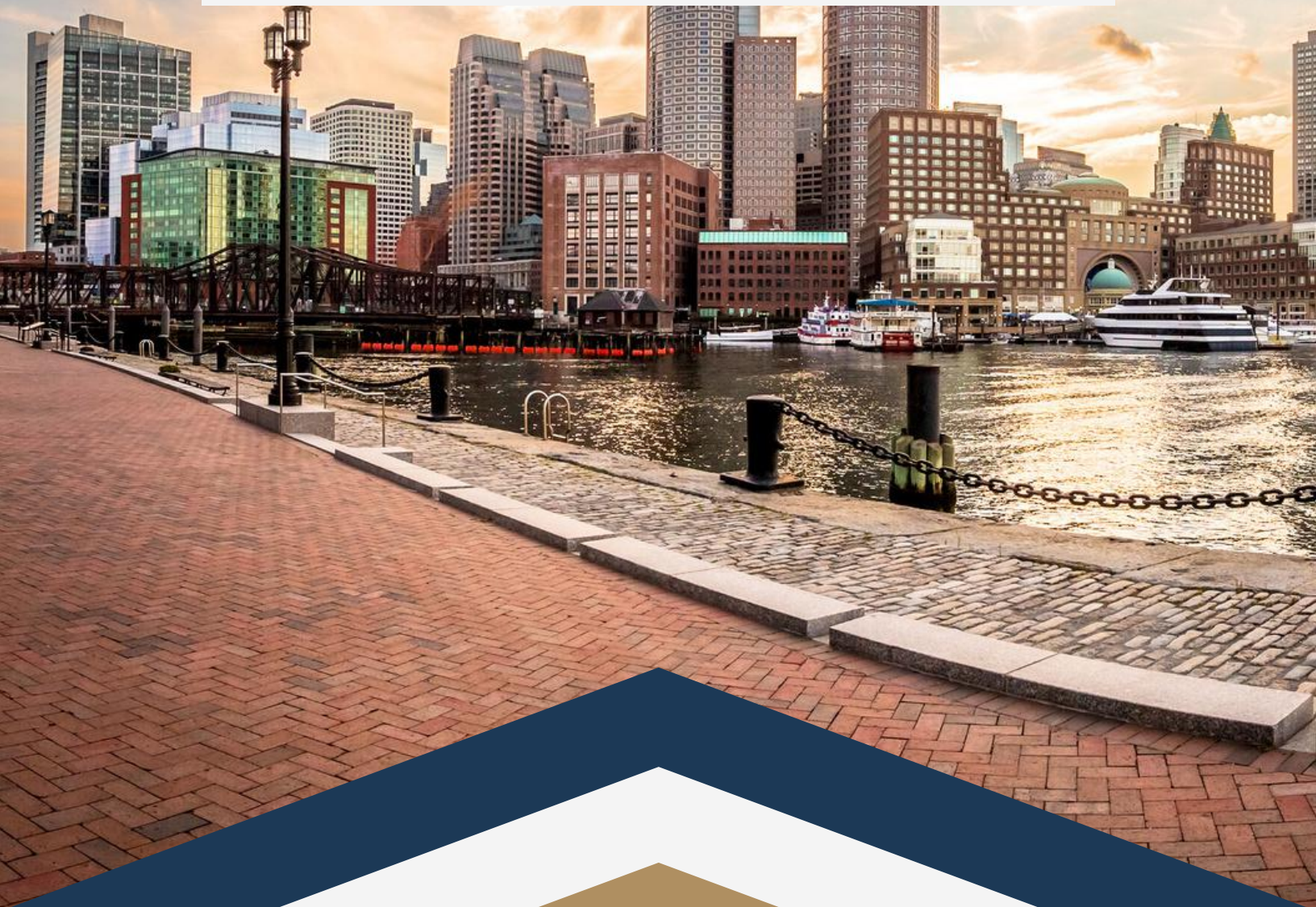


ASSET STRATEGY

Helping You Create, Manage, Protect, & Distribute Wealth®

2026

UNDERSTANDING TAX-DEFERRED EXCHANGES



Intro + Table of Contents

Considering the level of appreciation and steadily rising rental prices, owning real estate can have its benefits.

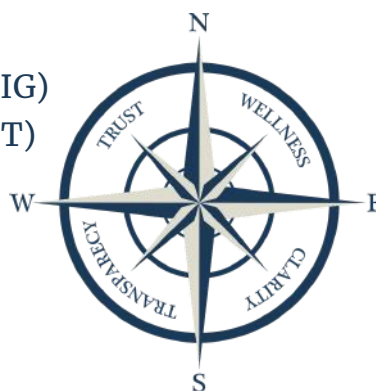
But, investing in real estate is quite different from owning or selling a first home in terms of risk, taxation, and upkeep.

If you're looking to invest in real estate or already do, you need to know the ins and outs as well as your eventual exit strategy if you don't want to be a landlord forever!

In this guide we'll look at:

- Options for real estate investments and the pros and cons of each option.
- The tax implications of owning and selling property.
- Strategies for those who no longer want to be active landlords.
- How we can help you consider your options.

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Buying a Rental Property

One option for creating passive income and investing in real estate is buying a property to rent out. A rental property can provide regular, passive income while maximizing available capital. Additionally, many expenses, including repairs, mortgage interest, and insurance, are tax-deductible. Depending on where your property is and its condition, its value could increase over time, leaving you with a more valuable property than you originally purchased.

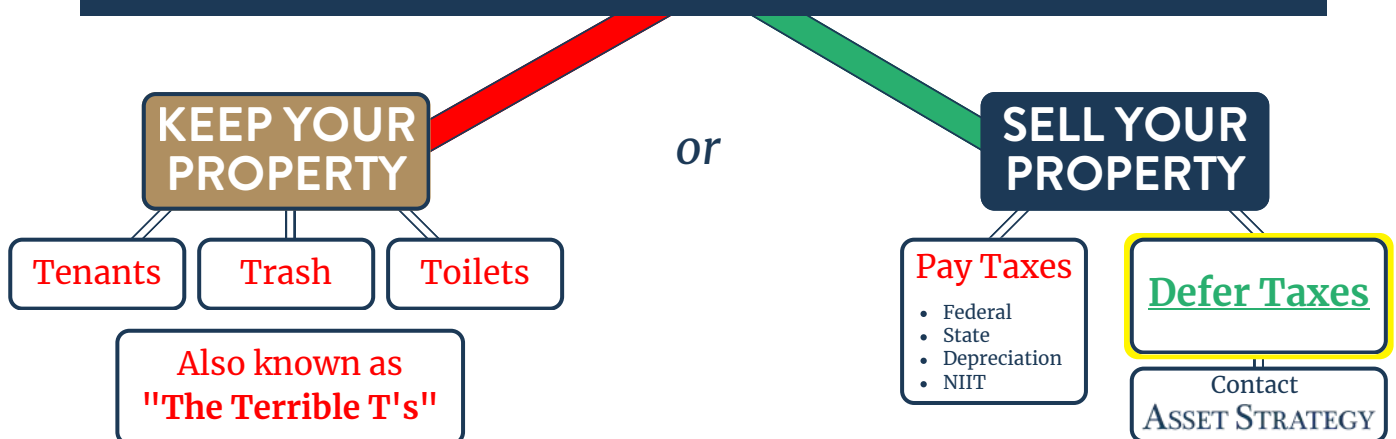
However, there are downsides to owning a rental property: If you don't hire a property manager, maintaining the property and dealing with tenants can become a time-consuming hassle. In the worst case, tenants could damage property that you will have to pay to repair. You could also fail to find a tenant for some period of time, during which you would not have rental income.

Source: <https://www.investopedia.com/articles/pf/06/rentalowner.asp> as of 1/15/2025

What to Do if You Already Own a Rental Property

If you've invested in real estate, you know about the upsides and may have benefited from them for many years. But what about when it comes time to sell? If you're ready to give up the "Terrible T's" of being a landlord (*trash, toilets, and tenants*), then you need an exit strategy. Unfortunately, simply selling a property means losing out on passive income and potentially incurring a significant tax burden. However, there are financial strategies that can help you retain the benefits of owning property without the downsides of being a landlord or selling and incurring a larger tax burden.

YOU MAY HAVE SOME DECISIONS



Selling Houses

You've probably seen reality TV shows where people sell houses and make good money doing it. But in practice, this can actually be harder than you might imagine. Home flipping, or real estate trading, requires a lot of market knowledge and a bit of luck. Due to the short time period in which home flippers actually own the property, ups and downs in the real estate market can have a significant effect. This strategy also requires a great deal of hands-on work and time investment.

If successful, home flippers can profit from undervalued properties by fixing them up and selling them in a short period of time. This means that capital spends less time tied up in the investment, and there's no need to find or deal with renters. Before pursuing this option, consider whether you're willing to put in the time and effort it takes to successfully flip a home. Also note that profits on flipped houses are generally taxed as ordinary income, not capital gains, and that you are not entitled to the same tax advantages you might if you were selling a primary residence.

Source: <https://fitsmallbusiness.com/taxes-on-flipping-houses> as of 4/23/2024



Is a Tax-Deferred Exchange Right for You?

Hypothetical Example

Taxes on the disposition of real estate or other capital assets are paid on capital gain, not equity or profit. It is possible to sell property without realizing much profit and still owe substantial capital gains tax. Capital gain is simply the difference between the sales price and the adjusted basis (i.e., what you paid for the property plus amounts spent on capital improvements, less depreciation taken) less any closing costs associated with the sale. To calculate your estimated capital gain, first subtract the adjusted basis from the sales price; then subtract the costs of your transaction (commission, fees, transfer tax, etc.); and finally, multiply the capital gain by your combined tax rates (Federal and State) to determine your estimated capital gain tax.

1. Calculate Net Adjusted Basis (example)

Original Purchase Price	\$400,000
Plus Capital Improvements	\$25,000
Minus Depreciation Taken	(\$175,000)
Equals Adjusted Basis	\$250,000

2. Calculate Capital Gain (example)

Current Sales Price	\$600,000
Minus Exchange Expenses	(\$30,000)
Minus Adjusted Basis	(\$250,000)
Equals Capital Gain	\$320,000

3. Calculate Capital Gain Tax (example)

Gain Attributable to Depreciation (\$175,000 x 25% = depreciation recapture tax)	\$43,750
Plus Federal Capital Gain Tax (\$320,000-\$175,000 = \$145,000 x 23.8%)	\$34,510
Plus State Capital Gain Tax (e.g. CA approx. 12.3% x \$320,000 [cap. gain])	\$ 39,360
= Combined Tax Due	\$117,620

Under the Tax Cuts and Jobs Act (TCJA), capital gains tax rates are based upon the taxable income of the taxpayer and adjusted annually. The 2026 capital gain tax brackets are:

Long Term Capital Gains Rate	Single Taxpayers	Married Filing Joint	Head of Household	Married Filing Separately
0%	Up to \$49,450	Up to \$98,900	Up to \$66,200	Up to \$49,450
15%	\$49,451 to 545,500	\$98,901 to 613,700	\$66,201 to 579,600	\$49,451 to 306,850
20%	\$545,501 or more	\$613,701 or more	\$579,601 or more	\$306,851 or more

The tax information contained in this brochure is based on current federal individual income tax law as in effect for the 2026 tax year. Capital gain tax rates are determined by a taxpayer's taxable income and are subject to legislative change. In addition, a 3.8% Net Investment Income Tax (NIIT) may apply under IRC §1411. This surtax is imposed on the lesser of a taxpayer's net investment income or the amount by which Adjusted Gross Income (AGI) exceeds the applicable threshold. For 2026, the NIIT generally applies to single taxpayers with AGI over \$200,000 and married taxpayers filing jointly with AGI over \$250,000, in addition to the applicable 15% or 20% long-term capital gains tax rate.

Source: <https://www.kiplinger.com/taxes/irs-updates-capital-gains-tax-thresholds> as of 11.6.2025

Maximum Deferral

To maximize the deferral of state and federal capital gain taxes, the Exchanger must reinvest all exchange proceeds and either acquire property with equal or greater debt or reinvest additional cash equal to the debt relief. The following worksheet is a useful tool for determining the amount of cash and debt that should go into the replacement property.

Relinquished Property (example)

Sale Price:	\$400,000
Minus Existing Loans:	\$150,000
Minus Sale Expenses:	\$25,000
Equals Net Proceeds:	\$225,000

Replacement Property

Example to Maximize Deferred Taxes

Provides for a 50% increase in real estate purchasing power with an increase of leverage and no additional proceeds from Exchanger.

Purchase Price:	\$600,000
Minus New Loans:	\$375,000
Equals Minimum Down:	\$225,000

The hypothetical example is for illustration purposes only. Individual results may vary.

Note: Your minimum down payment for the replacement property should be equal to or greater than the net proceeds from the sale of your relinquished property. Otherwise, you may have "boot" in the form of cash.

The formula set forth above is provided to help you determine your approximate gain and the sums that you may wish to defer through your exchange transaction. Consult with your tax advisor to determine the correct values and whether an exchange is appropriate for your circumstances.

Note: Failure to reinvest all your net proceeds and/or replace all your existing debt may result in a taxable "boot". Additional equity (not derived from the replacement property) and/or additional debt can be used to offset debt, but debt cannot be used to offset equity. This is an illustration; individual situations vary. This material is not to be interpreted as tax or legal advice. Please speak with your own tax and legal advisors for advice and guidance regarding your particular situation.

1031 Exchanges

For investors, a 1031 Exchange may provide an effective tax strategy for tax deferral as part of succession and estate planning. Internal Revenue Code Section 1031 provides that “No gain or loss shall be recognized on the exchange of real property held for productive use in a trade or business or for investment if such real property is exchanged solely for real property of like kind which is to be held either for productive use in a trade or business or for investment.”

Defer Capital Gains!

- Section 1031 of the Internal Revenue Code provides an effective strategy for deferring the capital gains tax that may arise from the sale of your business or investment property.
- By exchanging the property for like-kind real estate, property owners may defer their tax and use all of the sale proceeds for the purchase of replacement property.
- **Like-kind** real estate includes business and investment property but excludes personal use property.
- **Did You Know?** A 1031 Exchange may afford you the opportunity to defer capital gains taxes and build wealth.

Examples Include

- Office Buildings
- Retail Centers
- Warehouses
- Vacant Land
- Duplexes And Triplexes
- Single-Family Rentals
- Apartment Buildings
- Condominiums
- Industrial Property
- Rental Resort Property
- Hotels and Motels
- Mineral Rights
- Water Rights
- Air Rights
- Development Rights
- Easements
- Tenancy-In-Common (TIC) Interests
- Delaware Statutory Trust (DST) Interests
- Leasehold Interests (30 Years Remaining On Lease)
- Certain New York cooperative apartment interests



Potential Benefits of a 1031 Exchange

Tax Deferral	A properly executed Section 1031 exchange may allow investors to defer federal and applicable state income taxes on the sale of appreciated real estate, thereby preserving equity and potentially enhancing total return.
Ongoing Tax Benefits	A portion of ongoing rental income may be offset by depreciation and other allowable deductions, which can reduce current taxable income.
Increased Cash Flow	Investors seeking greater current income may use a 1031 exchange to transition from non-income-producing or under-performing assets into one or more properties that may generate more consistent cash flow.
Capital Appreciation	Long-term growth in real estate values can help offset the effects of inflation. A 1031 exchange may allow investors to reallocate capital into properties or markets with greater potential for appreciation, subject to market conditions.
Diversification	A 1031 exchange can be an effective tool for portfolio diversification, which may include diversification by geographic region, asset class such as office, industrial, retail, or multifamily, tenant industry and credit quality, capitalization structure such as debt versus equity, and ownership structure including fee simple, leasehold, sole ownership, or co-ownership.
Passive Investment	For some investors, a 1031 exchange may provide an opportunity to reduce or eliminate day-to-day property management responsibilities while maintaining exposure to income-producing real estate.
Institutional Quality	Fractionalized real estate investments structured as Delaware Statutory Trusts may allow investors to acquire an interest in larger, institutional-quality properties, such as Class A assets with professional management and creditworthy tenants, that may otherwise be inaccessible on an individual basis.
Pre-Arranged Financing	In certain exchange structures, financing may be pre-arranged at the property level, which can reduce execution risk for individual investors. Investors typically receive their proportionate allocation of any such financing.

Basic Requirements

For complete tax deferral, investors must

- Reinvest 100% of net sales proceeds into the replacement property.
- Acquire an equal or greater amount of debt on the replacement property.
- Identify potential replacement property within 45 days from the date of sale.
- Close on the replacement property within 180 days from the date of sale.
- Use a Qualified Intermediary (QI).



Identification Rules

- **Three Property Rule**
 - The taxpayer may identify up to three properties of any fair market value and purchase any (or all) of them, regardless of their total value. This is the most commonly used identification rule.
- **200% Rule**
 - The taxpayer may identify an unlimited number of properties, provided the total fair market value of all properties identified does not exceed 200% of the fair market value of the relinquished property, and may purchase any (or all) of the identified properties.
- **95% Rule**
 - If the taxpayer identifies properties in excess of both of the above rules, then the taxpayer must acquire 95% of the value of all properties identified.

Process of a Typical 1031 Exchange

There are three basic steps in a Typical 1031 Exchange, investors must:

1. **EXCHANGER SELLS PROPERTY** and proceeds are escrowed with a QI.
 2. **QUALIFIED INTERMEDIARY TRANSFERS FUNDS** for purchase of replacement property.
 3. **INTERMEDIARY COMPLETES EXCHANGE** by acquiring replacement property or properties.
- Your paragraph text



- **45 Day Identification Period**
 - Taxpayer must identify potential replacement property or properties within 45 days from the date of sale.
- **180 Day Exchange Period**
 - Taxpayer must acquire the replacement property or properties within 180 days from the date of sale.

1033 Exchanges

Internal Revenue Code Section 1033 governs the tax consequences when a property is compulsorily or involuntarily converted in whole or in part into cash or other property. This is commonly referred to as an "involuntary conversion" since the loss of property is beyond the control of the taxpayer and the taxpayer realizes a gain because the insurance or condemnation proceeds exceed the owner's tax basis in the property. Section 1033 does not require a QI.

In a Section 1033 Exchange, the taxpayer can receive the sales proceeds and hold them until the replacement property is purchased. If not all the proceeds are used towards acquiring the replacement property, the taxpayer is taxed on the difference. In addition, replacement property may be subject to related-party restrictions depending on the taxpayer and facts; taxpayers should confirm eligibility with their tax advisor.

Examples Include

- *Casualty*
- *Condemnation*
- *Destruction*
- *Earthquake*
- *Fire*
- *Hurricane*
- *Seizure*
- *Theft*

Real Estate Investment Groups (REIG)

Real Estate Investment Groups are like small mutual funds that invest in rental properties. Typically, a company builds or buys apartment blocks or condos and then allows investors to purchase them through the company. One investor can own one of multiple units, and the company operating the investment group operates all of the units. This means that the company takes care of maintenance, advertising vacancies, and interviewing tenants in exchange for a percentage of the monthly rent.

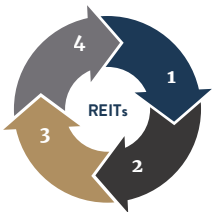
This more hands-off approach eliminates many of the responsibilities of being a landlord while still providing potential income and appreciation. The biggest downside is that vacancy risk can be spread out across the group or be owner-specific.

Real Estate Investment Trusts (REIT)

A REIT can be a good investment option for people who want to get into real estate without the hands-on work of being a landlord or taking on the risk of actually owning a single property. A corporation creates a REIT when it uses investors money to purchase income properties.

A REIT invests directly in real estate that produces income and is traded like a stock. They can offer dividends to investors who want regular income. Unlike REIGs, which can provide value through appreciation, REITs can provide value by paying out dividends.

Potential returns or appreciation are not guaranteed and could be lower than anticipated.



1	Individual invests in REIT shares
2	Funds are invested in acquisitions & capital investments
3	Produces rental income or interest
4	Individual receives distributions

One downside is that because REITs are essentially stocks, they don't necessarily offer the same leverage as traditional real estate or the potential for capital appreciation. REITs generally must distribute at least 90% of their taxable income, leaving only 10% of it to be reinvested to buy new holdings. Contrast this to owning a rental property, which can pay out regular income in the form of rent and can also appreciate in value before being sold at a later date. Also, REIT distributions are often taxed at ordinary income rates, but portions may be treated as capital gain distributions or return of capital depending on the REIT's tax reporting.

Tenant in Common (TIC)

A Tenants-in-Common (TIC) arrangement involves shared ownership of a property, where each investor holds a fractional interest that may vary in size. This structure allows investors to diversify or gain access to higher-quality assets, such as multifamily or office properties. However, while a TIC owner holds a percentage interest in the property, they do not control or lease a specific portion independently. As a result, a TIC owner generally cannot rent or lease their individual interest in the property.

Beneficial Ownership vs. Physical Possession

In a TIC structure, investors hold a beneficial interest, not direct ownership of a specific portion of the property. You typically own an undivided fractional interest in the real estate itself (a co-ownership interest), rather than a separate entity interest. Income generated by the property is distributed proportionally based on ownership percentage. While you may receive, for example, 25% of the cash flow if you own 25% of the TIC, you cannot lease or control that portion separately or retain 100% of the income from it.

Group Approval

Many major decisions may require unanimous consent or other supermajority thresholds, depending on the co-ownership agreement. As a result, an individual TIC owner cannot independently lease their fractional interest without approval from the other owners. Decisions requiring group approval typically include:

- Employing a property manager
- Property disposal or sale
- Making or modifying a blanket lien
- Entering into brokerage contracts

In general, any action related to managing, improving, leasing, or selling the property requires agreement from all TIC owners. Voting rights and approval thresholds are set by the co-ownership agreement and may be proportional to ownership percentage or structured differently by contract, making it important for investors to understand both the benefits and limitations of TIC ownership.

Benefits of Beneficial Ownership

While you may benefit from a fractional ownership arrangement, leasing out your specific share is not one of them, owing to the nature of how a TIC is constructed. If you wish to own in order to rent space directly to a tenant, a TIC is probably not the best investment for you.

Even if you're excited about the prospect of participation in a TIC arrangement, be sure that the terms and conditions of ownership are clearly stated and agreed upon before signing anything.



Delaware Statutory Trusts (DST)

A Delaware Statutory Trust (DST) allows rental property owners to sell real estate and potentially defer capital gains tax.* A DST allows real estate owners to retain the benefits of owning property without the hassle of being a landlord. A DST can be structured so that it qualifies as a property replacement vehicle for a 1031 Exchange, which allows real estate investors to defer capital gains tax on the sale of investment property by reinvesting the proceeds into a similar qualifying property. A sponsoring real estate investment firm acquires property under a DST and opens a trust for original property owners and new investors to purchase a beneficial interest. Properties are professionally managed so that investors do not have to act as landlords.

A Delaware Statutory Trust (DST) is a distinct legal entity created under Delaware law that permits fractional ownership of real estate assets that may be used in a 1031 Exchange. However, to use a DST in a 1031 Exchange syndication program, it must comply with the requirements of IRS Revenue Ruling 2004-86, so that a beneficial interest in the trust is treated as an undivided fractional interest in real estate for federal income tax purposes (as opposed to a security or other prohibited interest that would not be treated as real property under Section 1031). An Exchanger can defer taxes by investing in a DST rather than in a whole property.

A DST can also preserve the ability for a step-up in basis and may support tax deferral and estate planning; any reduction or elimination of capital gains and depreciation recapture generally depends on the investor's circumstances (including whether the interest is held until death under then-current tax law). It can also be easily divided amongst multiple beneficiaries in a will or trust.

*DST investments are only available to accredited investors and are offered solely through the issuers offering documents. The DST sponsor determines whether to accept any individual's subscription documents.

Potential returns or appreciation are not guaranteed and could be lower than anticipated.

Hypothetical Delaware Statutory Trust Example*

Mary purchased 4 rental houses 30 years ago for \$75k each that now net \$250k each. If these were sold, Mary would pay \$200k in taxes on the gains. From there, she could invest the remaining \$800k in proceeds in a 1% CD earning \$8k per year. Alternatively, she could invest the full \$1 million in a DST using a 1031 exchange, which could potentially produce cash flow.

* This hypothetical example is shown for illustrative purposes only and is not guaranteed. The characters in this example are fictional only. Your actual experience will vary.

Potential returns or appreciation are not guaranteed and could be lower than anticipated.

General Guidelines

- Access to more investors than allowed by other legal structures (Maximum 1,999 investors).
- Lower minimum investment amount.
- Simple and efficient investment process.
- Lender only needs to make one loan because the DST is the sole borrower and owns 100% of the real estate (for non-tax purposes).
- Loan carve-outs apply to sponsors, not investors.
- Lender does not underwrite each investor.
- Sponsor makes decisions on behalf of the investors.
- Investors cannot cause a default on the entire loan.
- Investors don't need separate special purpose entities.

Why Consider a DST?

- Potential to own institutional-quality real estate.
- Ability to diversify by property type and location.
- Turnkey solution: The sponsor is responsible for sourcing, due diligence, structuring, and financing debt and property, as well as program management.
- The process of closing may be more streamlined and can help support meeting exchange deadlines.
- May reduce execution risk versus sourcing and closing on a whole property, but closing is not guaranteed.
- Elimination of property management responsibilities.
- Potential for monthly income.
- Long-term, non-recourse financing is in place.

Why Invest Cash in DSTs?

A DST program's potential benefits extend beyond 1031 Exchange funds. Investors may also choose to invest directly in DST, which may provide the following potential benefits:

- Tax-deferral strategy.
- Potential for monthly distributions (if declared)
- Ownership in institutional-quality real estate.
- No management responsibilities/passive ownership.
- Build your own diversified real estate portfolio.
- Depreciation of real estate can help to offset taxable income.

Limitations on a DST

The DST must adhere to the following prohibitions, which are commonly referred to as the Seven Deadly Sins. (*See IRS Revenue Ruling 2004-86*)

- As soon as the offering is closed, existing or new investors will be unable to contribute further capital.
- Generally, the DST cannot renegotiate existing loans or borrow additional funds, subject to the DST's governing documents and applicable exceptions (for example, certain tenant bankruptcy/insolvency scenarios).
- Upon the sale of its real estate, the DST is not permitted to reinvest the proceeds.
- The DST is limited to making minor, nonstructural capital improvements, in addition to those required by law.
- Any reserves or cash held between distribution dates can only be invested in short-term debt obligations.
- All cash must be paid to investors (except for necessary reserves).
- The DST can't renegotiate existing leases or enter into new leases (except in a tenant's bankruptcy or insolvency).



Opportunity Zones (O-Zones)

The Opportunity Zone program was created by the 2017 Tax Cuts and Jobs Act to encourage investment in areas of high poverty and unemployment. It offers beneficial tax advantages to investors who do not need access to their capital for several years. Any capital gains dollars can be rolled into a Qualified Opportunity Fund (QOF), generally within 180 days of the sale or exchange, to qualify for the tax break. Unlike similar real estate investment programs, only the capital gain itself can be invested, not the original basis.

To learn about Opportunity Zones and capital tax, do your own research and consult a financial advisor. There is also no guarantee that investment in Opportunity Zones will be successful. Thorough and ongoing research into the specific area of investment can be needed.

Source: <https://www.irs.gov/credits-deductions/businesses/opportunity-zones> as of 10/8/2024
This hypothetical example is shown for illustrative purposes only and is not guaranteed. The characters in this example are fictional only. Your actual experience will vary. Potential returns or appreciation are not guaranteed and could be lower than anticipated.\

QOFs

A QOF is an investment vehicle organized as either a partnership or corporation that holds at least 90% of its assets in QOZ property. QOFs can make investments in a wide variety of real estate and new or existing businesses, including commercial real estate, housing, infrastructure, and start-up businesses. QOFs can hold single or multiple assets. QOZ property includes interests held by the QOF in a Qualified Opportunity Zone Business (“QOZB”).

Potential Tax Benefits of Investing in a Qualified Opportunity Zone

Potential tax benefits associated with the QOZ Program fall into two main categories.

Deferral	Elimination
<ul style="list-style-type: none"> If a taxpayer invests an eligible capital gain into a QOF within 180 days of recognizing the gain, taxes on such proceeds may be deferred until the earlier of December 31, 2026 or the disposition of the QOF interest. 	<ul style="list-style-type: none"> Investors who hold their investment for at least ten years receive a step-up in basis, which means they pay no tax on the appreciation of their QOF Investment upon disposition of such QOF Investment, regardless of the size of the potential profit. In addition, the step-up in basis can reduce or eliminate taxable gain on appreciation when the QOF interest is sold or exchanged, if all program requirements are met. All investments involve risk, and the realization of the benefits is dependent on proper structuring and the structure and performance of the future investments selected. Not all investments will provide all of these benefits.

Glossary of Common Terms

Accredited Investor: Defined in Rule 501 of Regulation D to refer to investors who are financially sophisticated and have a reduced need for the protection provided by certain government filings. While each state may have additional accreditation requirements, individuals are generally considered to be accredited if they have a net worth exceeding \$1,000,000 (excluding the value of your primary residence), or if they have income exceeding \$200,000 in each of the two most recent years or a joint income with a spouse exceeding \$300,000 for those years and a reasonable expectation of the same income level in the current year.

Boot: Any consideration other than “like-kind” property received by the investor. Boot is subject to taxation to the extent there is capital gain. Boot can accumulate over each exchange and is retroactive back to the original relinquished property. Boot can refer to cash boot, mortgage boot and personal property.

Cash Boot: Any funds received by the Exchanger—either actually or constructively—from the sale of the relinquished property.

Constructive Receipt: Exercising control over your exchange funds or other property including having money or property from the exchange credited to your bank account or property or funds reserved for you. Being in constructive receipt of exchange funds or property may result in the disallowance of the tax-deferred, like-kind exchange transaction thereby creating a taxable sale. An example of constructive receipt would be the investor selling his relinquished property and having a closing officer hold the proceeds in an escrow or trust account on his behalf.

Direct Deeding: Either the relinquished property or the replacement property can be deeded directly from seller to buyer without deeding the property to the Qualified Intermediary. Direct deeding may eliminate paying transfer taxes twice on the sale of the relinquished property and purchase of the replacement property.

Exchange Agreement: The written agreement defining the transfer of the relinquished property, the subsequent receipt of the replacement property and the restrictions on the exchange proceeds during the exchange period. The exchange agreement specifies all the terms of the relationship between the investor and the qualified intermediary.

Exchange Period: The period of time during which an investor must complete the acquisition of the replacement property in a like-kind exchange transaction. The exchange period is 180 calendar days from the transfer of the investor’s relinquished property, or the due date (including extensions) of the investor’s income tax return for the year in which the tax-deferred, like-kind exchange transaction took place (whichever is earlier), and is not extended due to holidays or weekends.

Exchanger: An individual, married couple or any other entity such as a corporation, limited liability company, partnership or trust. An investor has property and would like to exchange it for new property.

General Real Estate Risk: All forms of real estate investing are speculative and involve a high degree of risk. Investors should be able to bear the complete loss of an investment. All real estate is generally subject to the risks of increased and ongoing vacancy, problematic tenants, economic downturns, physical damage or loss, unexpected repairs and maintenance, eminent domain, negative rezoning, blight, environmental damage and liability, and overall valuation fluctuations that may be outside of the owner’s control.

Illiquidity: There is no significantly established secondary market for syndicated, fractionalized TIC and DST ownership interests. The transfer of these interests may also be legally restricted. Investors should carefully consider both their ongoing liquidity needs and estate planning goals prior to investing in such an interest.

Limited Diversification: Most offerings are for ownership interests in a single property, and any desired diversification must be achieved with other real estate investments.

Sponsor-Related Fees: There are significant fees related to the acquisition, syndication, ongoing management, and eventual disposition of any DST real estate offerings. These fees could materially impact the performance of an investment and should be carefully considered prior to any such investment. Fees and expenses are outlined and disclosed in the private placement offering memorandum that is required to be presented prior to any offer of securities.

Leverage-Related Volatility: The use of leverage in real estate investments may increase volatility and the overall risk of loss.

Identification Period: The period of time during which an investor must identify potential replacement properties for a tax-deferred, like-kind exchange. The period is 45 calendar days from the transfer of the investor’s relinquished property and is not extended due to holidays or weekends.

Like-Kind Property: Any two assets or properties that are considered to be the same type under federal income tax law, making an exchange between them tax deferred. Like-kind real estate property is basically any real estate that is not held for personal use, including a second home which is held for investment purposes. Following the Tax Cut and Jobs Act of 2017, like-kind property is limited to real property.

Mortgage Boot: Mortgage Boot occurs when the Exchanger does not acquire debt that is equal to or greater than the debt that was paid off, and is therefore ‘relieved’ of debt, which is perceived as taking a monetary benefit out of the exchange. Therefore, the debt relief portion is taxable, unless offset by adding equivalent cash to the transaction.

Private Placement Memorandum (“PPM”): A legal document stating the objectives, risks and terms of investment involved with a private placement. This may include items such as the financial statements, management biographies, detailed description of the business, etc. A PPM serves to provide buyers with information on the offering and to protect the sponsor from the liability associated with selling unregistered securities.

Qualified Intermediary: Also called: intermediary, QI, accommodator, facilitator, or qualified escrow holder. The QI is a third party that holds exchange funds and helps to facilitate the exchange.

Regulation D Offering: An exemption from registration of securities offerings under U.S. Securities laws often used for TIC and DST ownership investments where, among other factors, investors generally must be qualified as accredited investors.

Relinquished Property: The original property given up by the investor which is sold by the qualified intermediary. This property is sometimes also referred to as the sale, “downleg” or “Phase I” property.

Replacement Property: The like-kind property to be acquired or received by the investor from qualified intermediary’s purchase from the seller in a tax-deferred exchange transaction. This property is sometimes also referred to as the purchase, “upleg” or “Phase II” property.

Reverse Exchange: A reverse 1031 Exchange represents a tax deferral strategy when for a variety of reasons, the replacement property must be purchased before the relinquished or old property is sold. It is more complex than a forward 1031 Exchange and requires careful planning.

Sponsor: The party offering a commercial property asset available for sale to investors. The sponsor purchases the property, arranges the financing (if any), sells the fractionalized interests to individual investors, and typically handles accounting and property management after closing

Specific 1031 Exchange Risks: 1031 Exchanges are highly complex and failure to comply with the stringent requirements may result in a complete loss of the desired tax deferral. Investors should carefully consult with independent tax and legal counsel prior to initiating, and while performing, a tax-deferred exchange. There are numerous section 1031 rules and requirements including, but not limited to: seller cannot receive or control the net sales proceeds, replacement property must be like-kind to the relinquished property, the original replacement property must be identified within 45 days from the sale of the property, the replacement property must be acquired within 180 days from the sale of the original property, and the debt placed or assumed on the replacement property must be equal or greater than the debt encumbering the relinquished property.



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There are material risks associated with investing in private placements, Delaware Statutory Trusts ("DSTs") 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.

Institutional-grade properties generally refer to a property of sufficient size and stature to merit attention from large national or international investors, and typically have the characteristic of high-quality assets in major markets and at price points beyond the reach of individual investors and smaller partnerships.

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To be an accredited investor, an individual must have had earned income that exceeded \$200,000 (or \$300,000 together with a spouse) in each of the prior two years and "reasonably expects the same for the current year", according to the SEC. Or, the individual must have a net worth of more than \$1 million, either alone or together with a spouse. With the passage of the Dodd-Frank Act, this now excludes a primary residence as being an eligible part of an investors net worth (investors who had existing accredited investments but who now fail the net-worth test without their residence being valued were grandfathered.)

The rules and regulations of the QOZ Program are complex, and compliance with the QOZ Program comes with significant challenges such as appreciation unpredictability, certain neighborhoods may be less accommodating to development, illiquidity for up to ten or more years, availability and cost of construction and development financing uncertainty, development and redevelopment real estate risks, as well as a number of Jobs Act interpretation uncertainty which may impact future risks, if any.

A Real Estate Investment Trust (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.

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If you have any questions about Tax-Deferred Exchanges,
feel free to reach out to our team.

Set up a 15-Minute Discovery Call at:

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