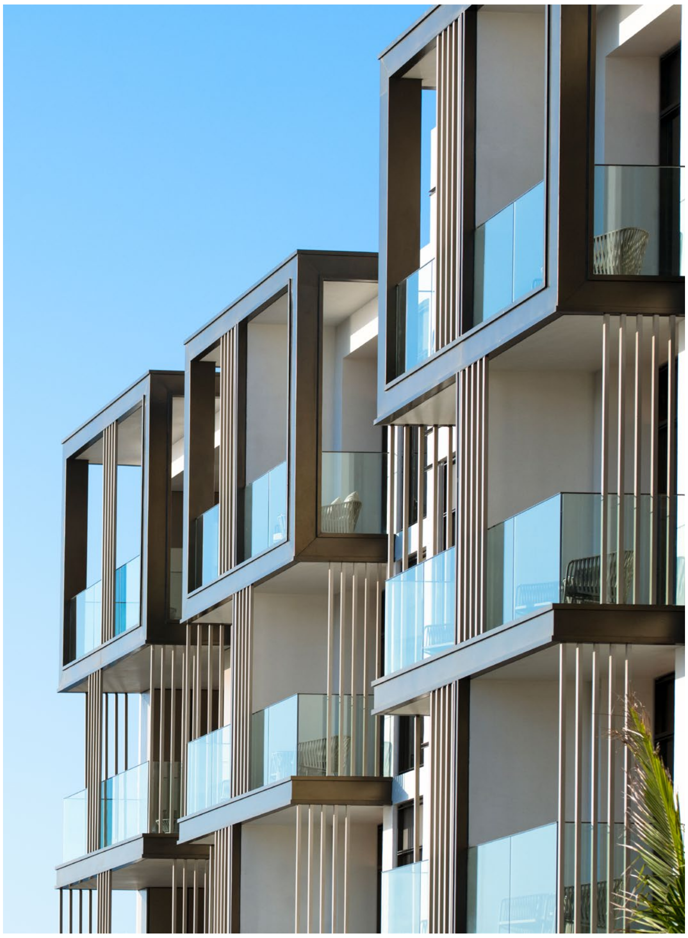
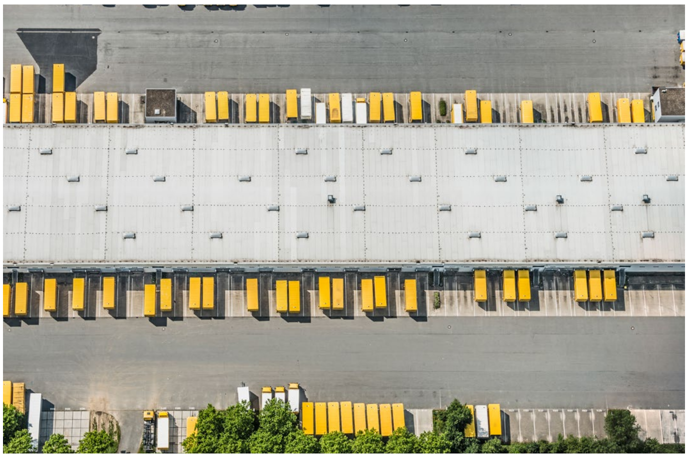
Hines

Your Guide to Tax-Deferred Exchanges





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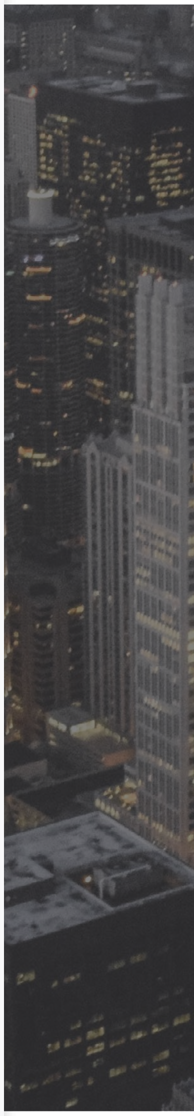
TAX DEFERRED EXCHANGES



What is a 1031 Exchange?

Internal Revenue Code Section 1031 can provide an immediate taxation exception and allow an exchanger to postpone paying tax on the gain from the sale of real property held for productive use or as an investment if the proceeds are reinvested in other real property as part of a qualifying “like-kind” exchange. Most real properties held for productive use or as an investment are considered of like-kind with the sold real estate even if they differ in grade, quality, or asset class. However, equity interests in partnerships, multi-member limited liability companies, corporations and real estate investment trusts (REITs) are not treated as “like-kind”, even if the sole assets of such entities are real properties.

Securitized 1031 Exchanges (Delaware Statutory Trusts)

Delaware statutory trusts (“DSTs”) are business trusts created under Delaware law that may offer beneficial interest to investors and may own income-producing, professionally managed real estate. IRS Revenue Ruling 2004-86 allows an investor’s beneficial interest to be treated as replacement property for a 1031 exchange providing tax deferral treatment on gains from the sale.

Potential Benefits of a 1031/DST Like-Kind Exchange[1]

- **Defer** capital gains and other taxes.
- **Build** and preserve wealth.
- **Own** institutional-grade real estate managed by professional real estate operator.
- **Diversify** or consolidate real estate portfolio.
- **Increase** potential tax-advantaged passive income based on property’s performance.
- **Plan** for the future with the opportunity to transfer wealth to heirs in tax-efficient manner.

Disclaimer: This is not tax advice and investors must obtain tax advice specific to their own circumstances from their tax advisors.

[1]There is no guarantee these potential benefits will be realized. Investing in real estate involves significant risks, including the possibility of losing all invested capital.

THE EXCHANGE PROCESS

Steps to Successfully Complete 1031 Exchange and Defer Capital Gains Taxes

Day 1: Sale of Your Property

- Exchanger must hire a Qualified Intermediary before closing on the sale of real estate.
- Proceeds from the sale are escrowed with a Qualified Intermediary to facilitate exchange.

Day 45: Identification Window Closes

- Must identify replacement property within 45 days of selling property (or actually acquire replacement property during such period, in which case identification is not required).
- Note: an exchanger can identify either (1) up to three potential replacement properties with unlimited values, or (2) utilize the 200% rule to potentially identify more than three replacement properties, so long as in the aggregate, the value of the identified properties is no greater than 200% of the value of the relinquished property. If the investor identifies more than 3 properties with an aggregate value greater than 200% of the relinquished property, the investor can still complete a 1031 exchange , provided the exchanger acquires 95% of the aggregate identified value within the exchange period (the "95% Rule") .

Day 180: Exchange Period Closes

- Exchanger closes on the acquisition of at least one of the identified properties (or, in the case of the 95% Rule, acquire at least 95% of the aggregated identified value).

Day 1: Selling your property

Day 45: Identification Window Closes

Day 180: Exchange Period Closes

BENEFITS OF DEFERRED TAXATION

Put Your Money To Work

The hypothetical illustration below shows the potential impact and benefits of utilizing a 1031 Exchange, although each investor has different circumstances and unique situations. By deferring capital gains taxes and other taxes associated with the sale of real estate, an investor may have more net proceeds available for reinvestment, potentially allowing for higher yields and future gains.

The table on the page to the right assumes, in each scenario, the seller of the property is in the highest tax bracket.

In the example in the first column, the investor sells the property and pays taxes.

In the example in the second column, the investor sells the property and completes a 1031 Exchange.

The owner's original cost basis is $750,000 and the property was later sold for $1,750,000.

While owning the property, the owner claimed $500,000 of depreciation expenses, making their adjusted cost basis in the property $250,000.

	Sell Property & Pay Taxes	Sell Property, Complete 1031 Exchange & Defer Taxes
Purchase Price	$750,000	$750,000
Depreciation	$500,000	$500,000
Adjusted Cost Basis	$250,000	$250,000
Sale Price	$1,750,000	$1,750,000
Total Taxable Gain	$1,500,000	$1,500,000
Depreciation Recapture Tax (25% of Depreciation)	$125,000	0
Federal Long-term Capital Gain Liability (20% of Total Taxable Gain less Depreciation)	$200,000	0
State Tax* (Assumed 13.3% highest state tax rate)	$199,500	0
Net Investment Income Tax (3.8% of Total Taxable Gain)	$57,000	0
Total Taxes Due	$581,500	0
Net Proceeds for Investment	**≤ $1,168,500**	**$1,750,000**

RESULT: The investor who exchanges can defer associated taxes and purchase a replacement property worth at least $581,500 (~50%) more than the investor who sells and reinvests with after-tax dollars.

State tax rate may not apply to all investors. Highest 2022 state income tax rate assumed for illustrative purposes only. Respect of the 1031 exchange for state tax purposes is also assumed.

What is a 721 Transaction?

As an alternative, or complementary, solution to a 1031 Exchange (for which partnership interests cannot be received as replacement property), Internal Revenue Code Section 721 allows an investor to contribute property to a partnership in exchange for interests in such partnership. In a typical structure, an investor contributes property to an Operating Partnership (the “OP”) under a REIT (known as an “UPREIT” structure) in exchange for units in the OP (“OP Units”). At a later date (typically after a minimum one year hold period), the investor may sell its units to the REIT, or exchange its units for shares of the REIT, which it can then sell to a third party.

It is important to understand that at the time an investor converts his, her or its OP Units for shares in the REIT to get liquidity, a taxable event likely occurs and there is no longer an opportunity to defer taxes. However, this conversion will normally take place at the investor or estate’s discretion and may often occur after a step-up in cost basis in the event of the investor’s death.

Because interests in a DST (“DST Interests”) are treated as investment property for US tax purposes, a REIT that wants to acquire a property held by a DST can cause its OP to acquire all the DST Interests from their holders in exchange for OP Units. A transaction under Code Section 721 should generally not occur less than two years after the initial acquisition of the DST Interests by their holders, nor can there be any promise or guarantee, at the time of such initial acquisition, that such a transaction will occur.

Potential Benefits of a 721Transaction[1]

- **Defer** capital gains and other taxes.
- **Increase potential** tax-advantaged income based on portfolio’s performance.
- **Diversify** your portfolio with exposure to a professionally managed institutional grade real estate portfolio invested across an array of assets and geographies”.
- **Increase liquidity** with access to proceeds through investment vehicle’s share redemption program.
- **Plan** for the future with the opportunity to transfer wealth to heirs in a in a tax-efficient manner and allow for individual flexibility when liquidating.

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[1]There is no guarantee these potential benefits will be realized. Investing in real estate involves significant risks, including the possibility of losing all invested capital.

DISCLAIMER

Investment in real estate involves a high degree of risk and may be speculative. Some of the risks involved with an investment in real estate through a Delaware Statutory Trust (a "DST") include, but are not limited to, the risks listed below. The PPM for any particular investment opportunity will contain more complete information regarding the property or properties and the investment opportunity, including all of the material risk factors that a prospective investor should carefully consider before investing. An offer or solicitation can be made only through a PPM, which is always controlling and supersedes the information contained herein in its entirety. Prospective investors must read an applicable PPM in its entirety prior to investing in any offering.

- No public market currently exists, and one may never exist, for the interests of any Hines-sponsored DST program. The purchase of interests in any Hines-sponsored DST program is suitable only for persons who have no need for liquidity in their investment and who can afford to lose their entire investment.
- Hines-sponsored DST programs offer and sell interests pursuant to exemptions from the registration provisions of federal and state law and, accordingly, those interests are subject to restrictions on transfer.
- There is no guarantee that the investment objectives of any particular Hines-Sponsored DST program will be achieved.
- The actual amount and timing of distributions paid by Hines-sponsored DST programs is not guaranteed, may vary and could be zero. There is no guarantee that investors will receive any distributions or a return of their capital in whole or in in part.
- Investments in real estate are subject to varying degrees of risk, including, among other things, local conditions such as an oversupply of space or reduced demand for properties, an inability to collect rent, vacancies, inflation and other increases in operating costs, adverse changes in laws and regulations applicable to owners of real estate and changing market demographics.
- If a DST property is transferred (or the DST is converted) to the Springing LLC, investors will likely lose their ability to participate in a future Section 1031 exchange with respect to the transferred property.
- Investors will have no voting rights and will have no control over management of the DST or its property.
- Hines-sponsored DST programs depend on tenants for their revenue, and may suffer adverse consequences as a result of any financial difficulties, bankruptcy or insolvency of their tenants.
- Hines-sponsored DST programs may own single-tenant properties, which may be difficult to re-lease upon tenant defaults or early lease terminations.
- Continued disruptions in the financial markets and challenging economic conditions could adversely affect the ability of any Hines-sponsored DST program to secure debt financing on attractive terms and its ability to service that indebtedness.
- The prior performance of other programs sponsored by Hines should not be used to predict the results of future programs.
- The Hines-sponsored DST programs do not have arm's length agreements with their management entities.
- The Hines-sponsored DST programs pay significant commissions and fees to affiliates of Hines, which may affect the amount of income investors earn on their investment.
- Persons performing services for the managers of the Hines-sponsored programs perform services for other Hines-sponsored programs, and will face competing demands for their time and service.
- The acquisition of interests in an Hines-sponsored DST program may not qualify under Section 1031 of the Internal Revenue Code of 1986, as amended (the "Code") for tax-deferred exchange treatment.
- Changes in tax laws may occur, and may adversely affect an investor's ability to defer capital gains tax and may result in immediate penalties.
- The DST structure is inflexible and, in certain events, may be converted to a LLC structure, which would have a tax impact on investors.
- The DST is not providing any prospective investor with separate legal, accounting or business advice or representation.

Hines

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