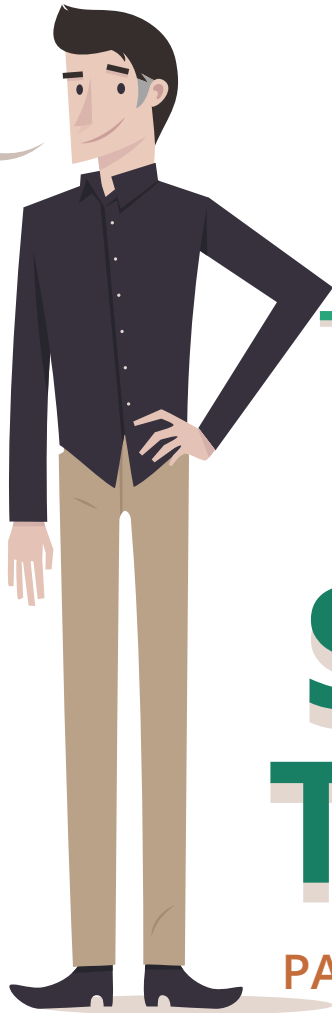
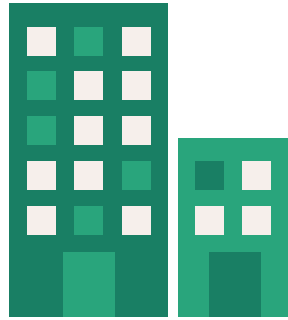


EXCHANGE  RIGHT

Secure Capital. Stable Income. Strategic Exits.



THE 1031 INVESTOR'S GUIDE DELAWARE STATUTORY TRUSTS (DST)

PASSIVE INCOME. DIVERSIFICATION POTENTIAL.
ELIGIBLE FOR 1031 EXCHANGE.

Hi! I'm an investor like you, thinking about how to reinvest the proceeds from the sale of an investment property. I'm performing a 1031 exchange to defer my capital gains taxes and I want to be free from the burden of management so I can spend more time with my family. That's why I need to identify investment property that qualifies for use in a 1031 exchange and also provides me with stable, passive income. I was happy to learn there's a popular investment structure that can meet both needs. It's called the 'Delaware Statutory Trust', or 'DST'.

1031 EXCHANGE TO DST OVERVIEW



STEP 1. DECIDE TO EXCHANGE

My investment property is about to sell, but I don't want to pay the capital gains taxes, so I am going to complete a 1031 exchange.



STEP 2. SELL PROPERTY

When I relinquish my property, I can't take receipt of the proceeds, so I will have the funds held by a Qualified Intermediary.



STEP 3. IDENTIFY PROPERTY

Once the Qualified Intermediary ("QI") holds the proceeds from the sale, I'll work with my broker or investment advisor to identify suitable replacement properties.



STEP 4. BUY DST INTEREST

A DST investment can significantly increase my diversification and income potential. Once I identify the right DST investment(s) for me, my QI will forward the funds for the closing.



1031 EXCHANGE ELIGIBILITY CHECKLIST

A DST is a vehicle that makes it possible to own a fraction of a diversified portfolio of passive income-producing real estate. The DST itself can hold title to real estate, borrow money from a bank, and shield its owners from personal liability. Investors like us can purchase a share in a DST and benefit from our portion of the rental income, tax deductions, and any long-term gains achieved by the underlying real estate. The ownership of the real estate “passes through” the DST to its owners. That’s why acquiring an interest in a DST can satisfy the IRS requirements for a 1031 exchange.



The IRS ruled that a DST meeting the following conditions is eligible for 1031 exchange (Rev. Rul. 2004-86):*

- ✓ The DST actually operates as a trust, rather than a de facto partnership
- ✓ The DST only spends money on repairs, maintenance, minor improvements, and legal obligations
- ✓ The DST distributes all of its available cash to investors on at least a quarterly basis (most DSTs pay monthly distributions)
- ✓ The DST, if it sells any of its assets, must either distribute the proceeds to investors or reinvest them in short-term debt instruments on behalf of investors
- ✓ The DST cannot receive any additional investment capital after closing
- ✓ The DST cannot refinance its loan from the bank or borrow any additional funds after closing
- ✓ The DST cannot renegotiate any leases or enter into any new lease agreements unless a tenant defaults. A *master lease*, however, can address this limitation by allowing the sponsor of an offering to provide cash flow to investors and renegotiate its subleases to the tenants. The master lease structure must meet certain criteria, however, to maintain 1031 eligibility.

*Published in Internal Revenue Bulletin: 2004-33.

SOLE OWNERSHIP

V



Total Ownership of Just One Property



All the Burdens of Management



Investment Amount Must Cover Entire Purchase Price



Hard to Find, Inspect, and Close Within Identification Deadline



Additional Liability and Lender Recourse



Options Often Limited by Location or Asset Class



Limited To One Individual's Investment Capital



S. DST OWNERSHIP

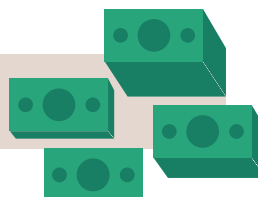
Fractional Ownership of A Portfolio of Properties



None of the Burdens of Management



Investment Amount May Be Customized



Investors Close Escrow Independently in As Little As 1-3 Days



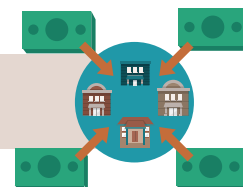
Limited Liability and Non-Recourse Financing



Diversified Across the Nation and by Asset Class



Combines Investment Capital of Multiple Investors

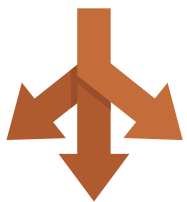


A DST CAN PROVIDE YOU WITH PASSIVE IN



CASH FLOW

Net cash-on-cash returns typically start around 5–7% per year and are paid on a monthly basis.



DIVERSIFICATION POTENTIAL

Acquiring a share in a DST or even multiple DSTs with a well-diversified portfolio of assets may protect my capital from being overly dependent on any one property, location, asset class, tenant, or industry.



DUE DILIGENCE

DST sponsors are required to provide investors like me with access to appraisals, property condition reports, environmental reports, loan documents, and all market and property underwriting data.



PASSIVITY

The sponsor is responsible for all of the management, accounting, reporting, and investor services.



TIMING

I can close escrow on my share of the DST independently, making it possible to close in as few as 1–3 days to successfully complete my 1031 exchange on time.



INCOME WHILE PROTECTING YOUR ASSETS



TAX DEDUCTIONS

A DST's tax benefits pass through to me as an owner during the hold period, including deductions for interest and depreciation. After the hold period I may choose to defer any taxes that might otherwise be due on the capital gain by performing another 1031 exchange.



NON-RECOURSE FINANCING

DST investment offerings can be pre-packaged with long-term, non-recourse financing at 35-75% Loan-to-Value, so I can replace my equity and debt to satisfy my 1031 exchange requirements. The DST itself is the borrower, rather than me, and I don't have to sign for the loan. So I'll get the benefit of leveraging the loan to achieve a higher yield without risking my personal assets or having to go through the hassle of the underwriting process. Some DSTs have no debt, in case that's what I need or prefer.



LIMITED LIABILITY

A DST provides the same limited liability protection as an LLC, shielding my personal assets from liability in case anything goes wrong.



BANKRUPTCY REMOTENESS

A DST is "bankruptcy remote", which means my investment is safe from any potential creditors, bankruptcies, liens, or judgments that any of the other investors may encounter personally.





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ExchangeRight is committed to providing 1031-exchangeable DST offerings of net-leased portfolios and value-added multifamily properties. In addition to intentionally structuring offerings with an alignment of interest with investors, the principals of the company have taken a personal investment position in each DST offering brought to market. Each of our DST offerings provides both 1031 and cash investors with pass-through tax deferral advantages.