Tax-Deferred Real Estate Investing: Section 1031 and 721 Exchanges

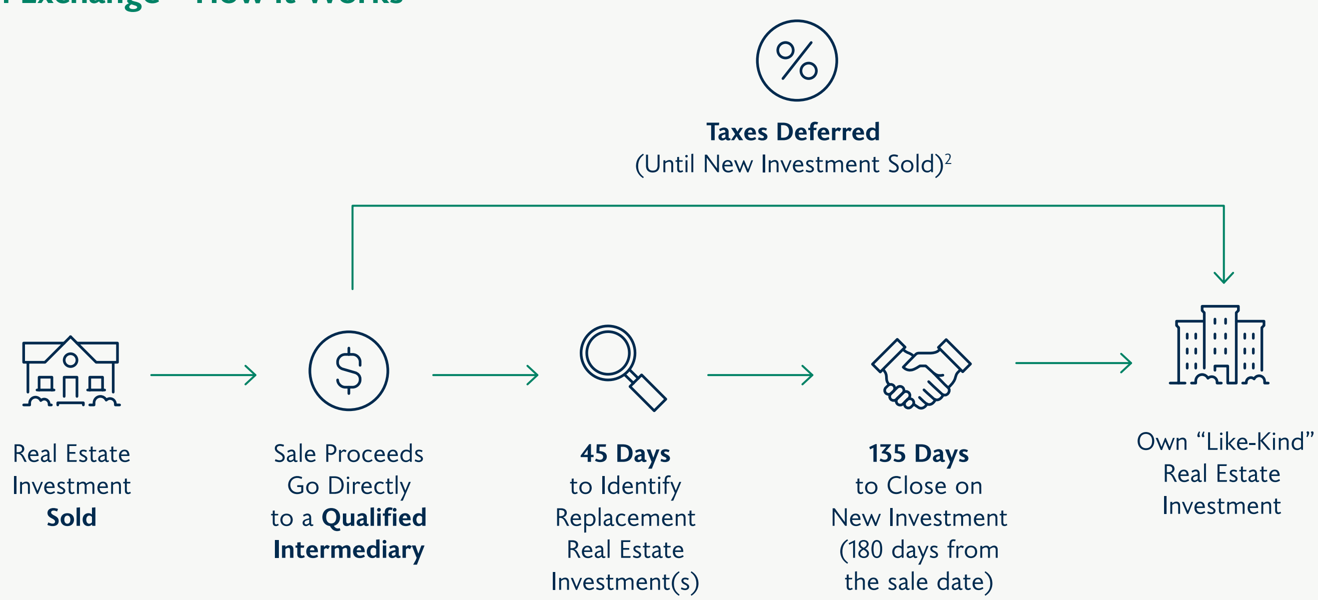
Property owners can build wealth for themselves and their heirs by using provisions in the U.S. tax code created to incentivize real estate investment:

- **Section 1031** of the U.S. tax code allows investors to defer taxes on the gain from the sale of investment property when the proceeds from such sale are directly reinvested into a "like-kind" real estate investment and certain other conditions are satisfied. A specialized escrow agent, called a Qualified Intermediary, must be engaged to facilitate the exchange of sale proceeds, before closing on the sale of the investment property.
- **Section 721** of the U.S. tax code allows investors to exchange an interest in an investment property for an interest in an operating partnership owning numerous properties without recognizing a taxable gain, if certain conditions are satisfied. A 721 exchange is often referred to as an "UPREIT".

1031 Exchange: Potential Benefits[1]

- **Defers capital gains** and other taxes, allowing for increased capital for reinvestment in replacement real estate
- **Diversification** into multiple properties **or consolidation** into one holding
- **Opportunity for income generation,** including via a 1031 exchange into real property held by a Delaware Statutory Trust ("DST")
- **Ability to build and preserve wealth** over time

1031 Exchange – How it Works



Interests in DSTs may be used as replacement property in a 1031 Exchange, a potentially attractive option for investors looking to defer taxes, estate plan and receive steady income.

Instead of purchasing a new property outright, an investor looking to effectuate a 1031 exchange can re-invest proceeds from the sale of their investment property in beneficial interests of a DST — a trust that owns institutional-quality, income-generating real estate that is professionally managed. This process potentially simplifies the challenge of identifying and purchasing a replacement property, including securing equivalent leverage on the property.

Investors in a DST own a fractional, undivided interest in the underlying real property or properties held by the DST and receive a proportional share of the income from the real estate.

In certain cases, to recognize the full benefit of a tax-deferred 1031 exchange, investors must obtain new debt in an amount equal to or greater than the debt that was repaid in connection with the sale of their investment property (if any). To satisfy this important requirement, the DST may obtain debt financing on the real estate it owns, eliminating the need for individuals to obtain new debt directly.

A 1031 Exchange Into a DST Potentially Offers Additional Benefits[1]

- **Eliminates** responsibilities of direct property ownership
- **Earns passive income** from institutionally-managed property
- **Diversifies holdings** with exposure to high-quality real estate
- **Ability to transfer wealth** on a tax-advantaged basis
- **Potential for DST financing** to satisfy the 1031 requirements without the need for independently obtaining debt

721 Exchanges: Next Step to Potential Liquidity

An additional option to defer taxable gains on the sale of real estate investments is a 721 exchange, which may allow DST investors a potential opportunity (after executing a 1031 exchange) to receive units of an operating partnership (OP Units) of a real estate investment trust (REIT) in exchange for the investor's DST interests. A 721 exchange can transform an investment in a single investment property into an interest in an operating partnership that owns a diversified portfolio of high-quality, professionally-managed properties on a tax-deferred basis.

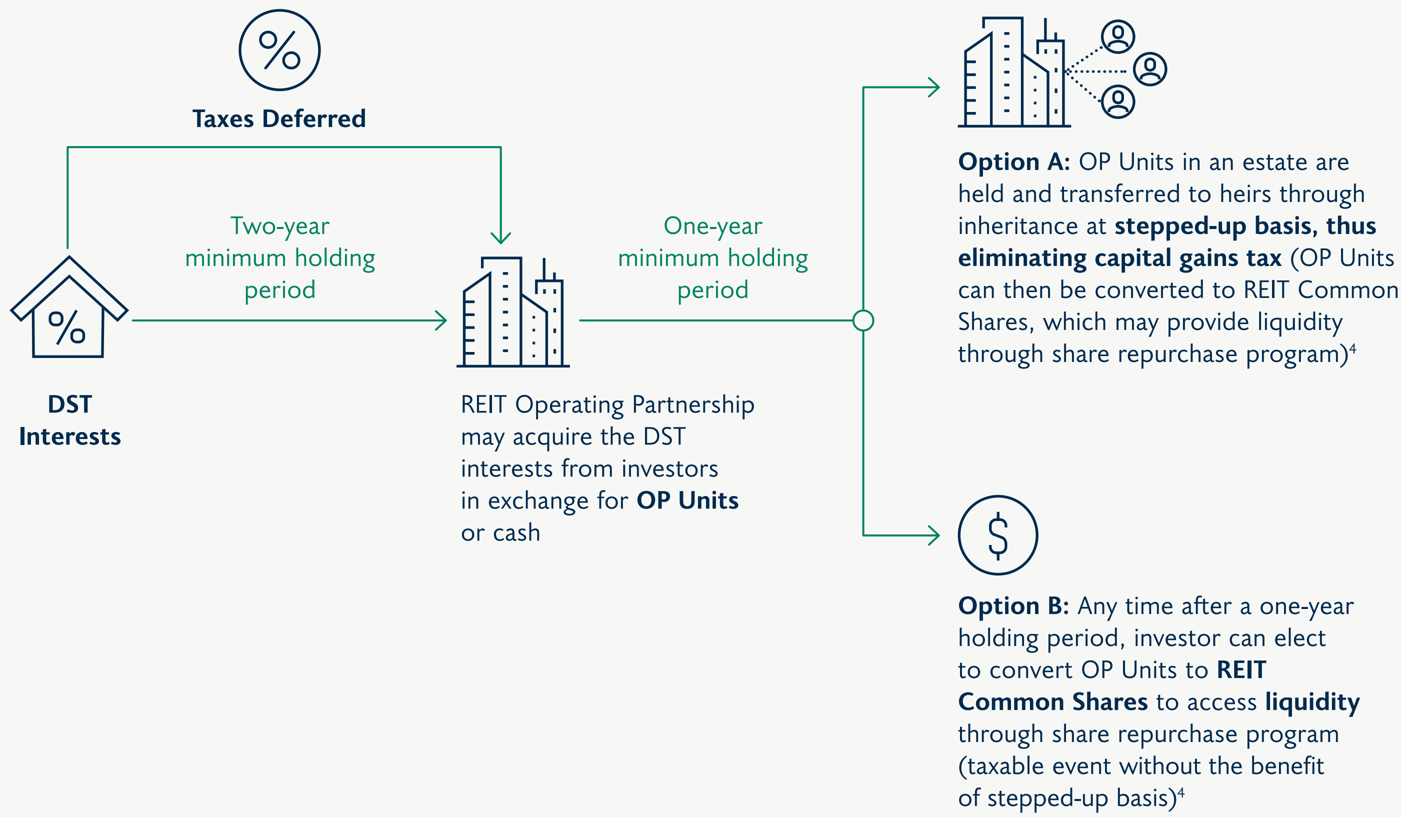
After a period of time (usually one year after becoming a holder of OP Units), an investor (or their heirs) may further exchange all or any of their OP Units for certain common shares of the REIT. This is generally a taxable event, but it offers the ability to unlock liquidity through the REIT's share repurchase program. Such a program can benefit the original property owner.

A 721 exchange can only occur if the operating partnership exercises its fair market value option to acquire the DST interests from investors. This option is granted to the operating partnership by the DST investors at the time of their subscription for beneficial interests in the DST and there is a possibility it may not be exercised by the operating partnership.

721 Exchange: Potential Benefits[3]

- **Diversified portfolio** operated by institutional real estate managers
- **Access to Brookfield's leading operating platform** with decades of real estate experience
- **Enhance income** on a tax-advantaged basis from portfolio performance
- **Tax-efficient** opportunity for estate planning, with OP Units potentially transferred at stepped-up basis
- **Potential liquidity and capital appreciation** accessed through the REIT

721 Exchange – How it Works



The Brookfield Advantage: Leading real estate expertise built over decades

As one of the world's largest investors in real estate, we own, operate and develop iconic properties in the world's most dynamic markets. From next generation logistics facilities and state of the art office buildings, to luxury hotels and amenitized residential communities, **our global portfolio spans five continents** and is diversified across every sector of real estate.

Brookfield's global scale, local presence and distinct vantage point as an **owner-operator,** allow it to deploy capital with a long-term view. We seek to enhance value by leveraging our operating expertise and focusing on our core real estate capabilities—leasing, financing, development, design and construction, and property and facilities management.

By partnering with Brookfield, investors have the potential to build and preserve wealth with the support of a leading real estate platform and real estate expertise built over more than 100 years.

REAL ESTATE ASSETS UNDER MANAGEMENT	OPERATING EMPLOYEES	REAL ESTATE PROFESSIONALS
$268B	29,000	660+

As of June 30, 2024. Employees as of December 31, 2023.

Complex Transactions Require Experienced Advisors

1031 and 721 exchanges can be effective tools for tax management and wealth creation. However, like all financial products and transactions, they also entail risks, including a level of complexity and a relatively rigid set of requirements and deadlines. As a result, investors should work with experienced financial and tax advisors when considering a 1031 or 721 exchange.

Learn More

To invest in a tax-deferred real estate exchange, contact a financial professional. If you are a financial professional interested in offering a tax-deferred exchange to your clients, please contact us.

Brookfield Oaktree Wealth Solutions
info@brookfieldoaktree.com

ENDNOTES

[1] Disadvantages of a Section 1031 Exchange into a DST may include inability to participate in management, fees and expenses outweighing the benefits of tax deferral, and lack of access to immediate liquidity. Please see risk disclosures below for more information.

[2] Taxes are deferred until new the investment is disposed of in a future taxable sale, unless engaging in another 1031 exchange at time of disposition.

[3] Disadvantages of a Section 721 Exchange may include inability to participate in management, fees and expenses outweighing the benefits of tax deferral, and lack of access to immediate liquidity. Please see risk disclosures below for more information.

[4] The conversion of OP Units is subject to the discretion of the operating partnership.

DISCLOSURES

This summary is of a general nature and is not intended to be legal or tax advice to any particular investor in a DST. Each investor should consult its own tax advisor for information regarding the particular circumstances applicable to such investor.

All investing involves risk. Alternative investments are complex, speculative investments and are not suitable for all investors. An investment in an alternative investment entails a high degree of risk, and no assurance can be given that any alternative investment vehicle's investment objectives will be achieved or that investors will receive a return of their capital. The value of an investment will fluctuate over time, and an investor may gain or lose money, or their entire investment. Past performance is no guarantee of future results. Diversification does not guarantee returns and does not protect against loss.

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Contact Us

brookfieldoaktree.com

info@brookfieldoaktree.com

+1 212-549-8380 or +1 855-777-8001

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ID 1319

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