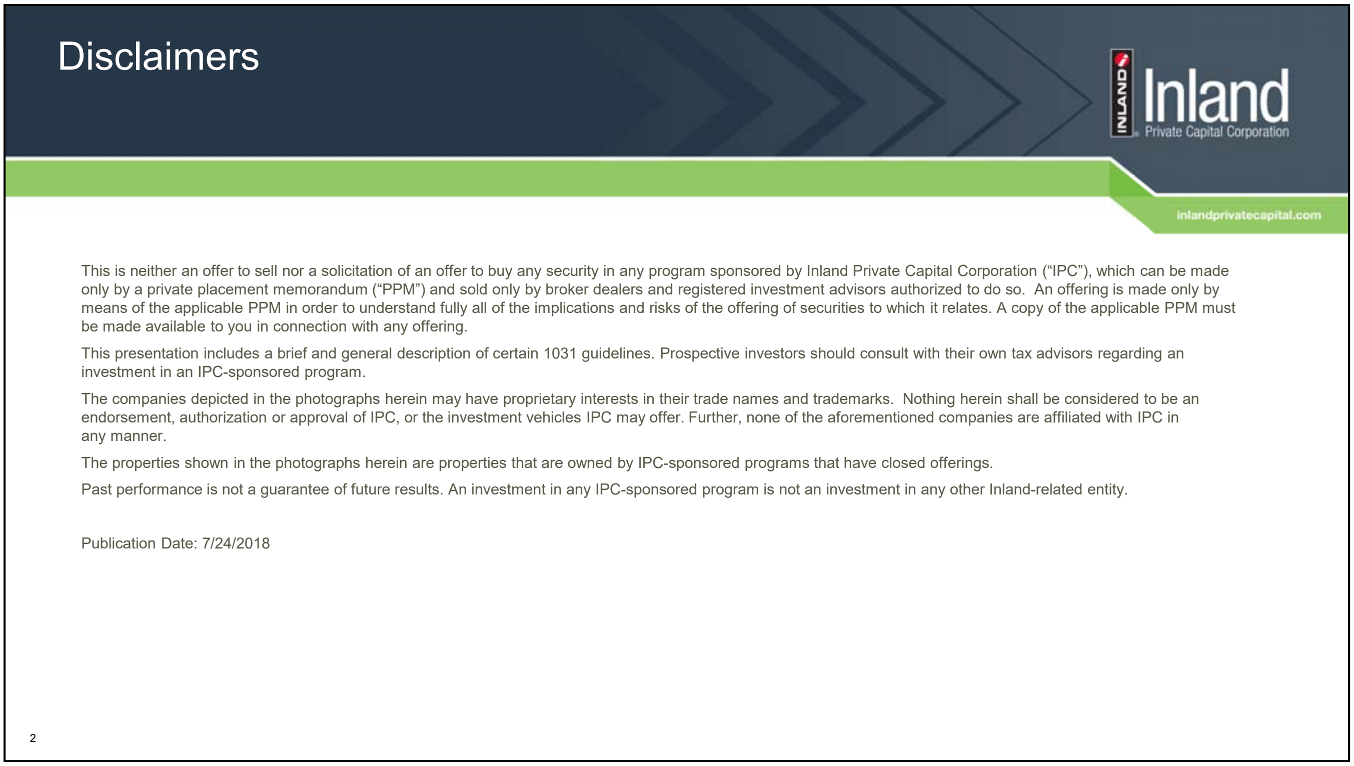
Inland Private Capital Corporation

# Diversifying Your Portfolio with Inland DSTs

Accredited Investor Use

www.inlandprivatecapital.com




It is important to be aware of the disclaimers and risk factors when talking about real estate investments. The risk factors are discussed on the following page.

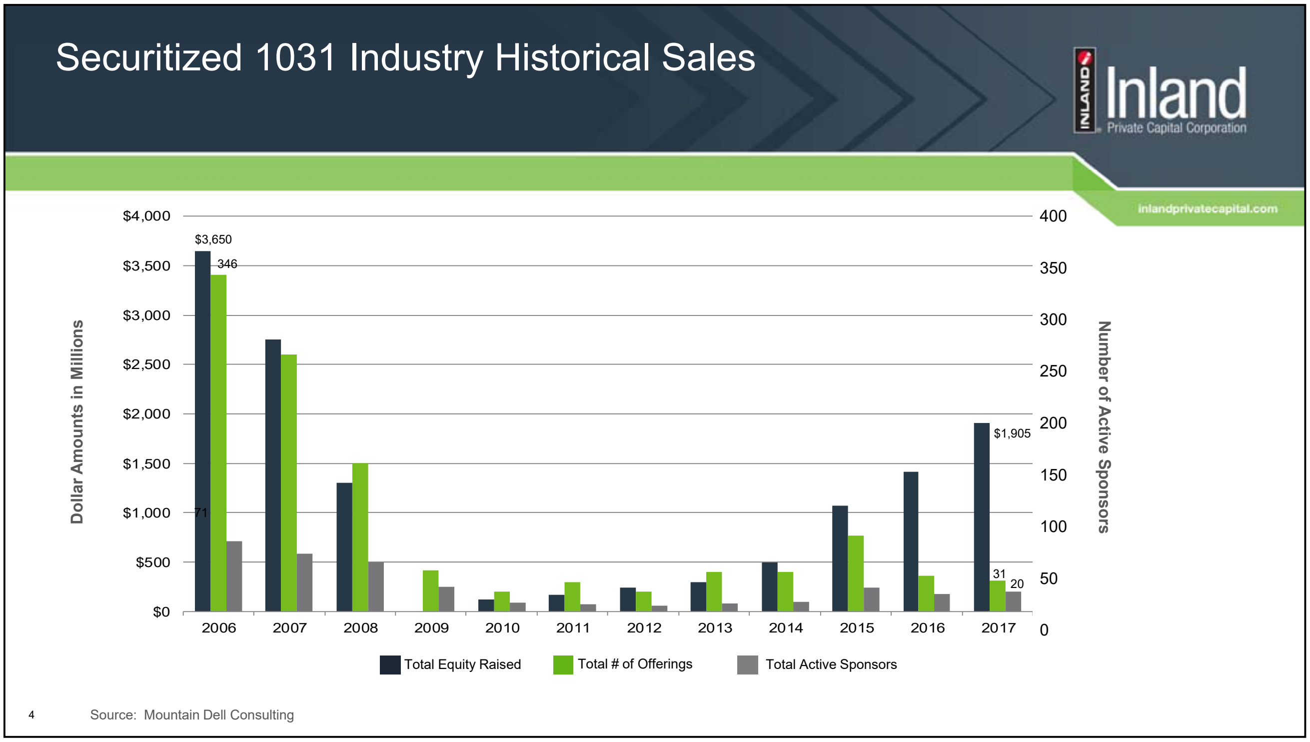
This material is neither an offer to sell, nor the solicitation of an offer to buy any security in any program sponsored by Inland Private Capital Corporation (IPC), which can be made only by a Private Placement Memorandum (PPM), and sold only by broker dealers and registered investment advisors authorized to do so. Any representation to the contrary is unlawful.

This is a brief and general description of certain 1031 guidelines. Prospective investors should consult with their own tax advisors regarding an investment in the Interests.

Incidentally, all of the pictures in this presentation are of actual properties that IPCC offered for investment. They are all fully subscribed and no longer open to new investors.


Discuss and explain the following risks:

- No public market currently exists, and one may never exist, for the interests of any IPC-sponsored program. The purchase of interests in any IPC-sponsored program is suitable only for persons who have no need for liquidity in their investment and who can afford to lose their entire investment.
- IPC-sponsored 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 IPC-sponsored program will be achieved.
- The actual amount and timing of distributions paid by IPC-sponsored programs is not guaranteed and may vary. There is no guarantee that investors will receive distributions or a return of their capital.
- 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.
- IPC-sponsored 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.
- IPC-sponsored 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 an IPC-sponsored program to secure debt financing on attractive terms and its ability to service that indebtedness.
- The prior performance of other programs sponsored by IPC should not be used to predict the results of future programs.
- The IPC-sponsored programs do not have arm's length agreements with their management entities.
- The IPC-sponsored programs pay significant commissions and fees to affiliates of IPC, which may affect the amount of income investors earn on their investment.
- Persons performing services for the managers of the IPC-sponsored programs perform services for other IPC-sponsored programs, and will face competing demands for their time and service.
- The acquisition of interests in an IPC-sponsored 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.




Let’s take a look at the historical sales for the securitized 1031 industry. As you can see, sales peaked in 2006, and as the economy went into the recession, many owners of real estate decided to hold on to their properties as values declined. Sales and exchanges began to creep back up beginning in 2012, and have increased every year since then.

## What is a 1031 Exchange?

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> Section 1031 of the Internal Revenue Code provides an effective strategy to defer capital gains tax

- ✓Exchange real property for like-kind real estate and use all of the proceeds for the purchase of replacement property
- ✓Like-kind real estate includes business/investment real property (not primary residence)
- ✓Section 1031 does not apply to the exchange of stocks or bonds


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So what is a 1031 exchange?

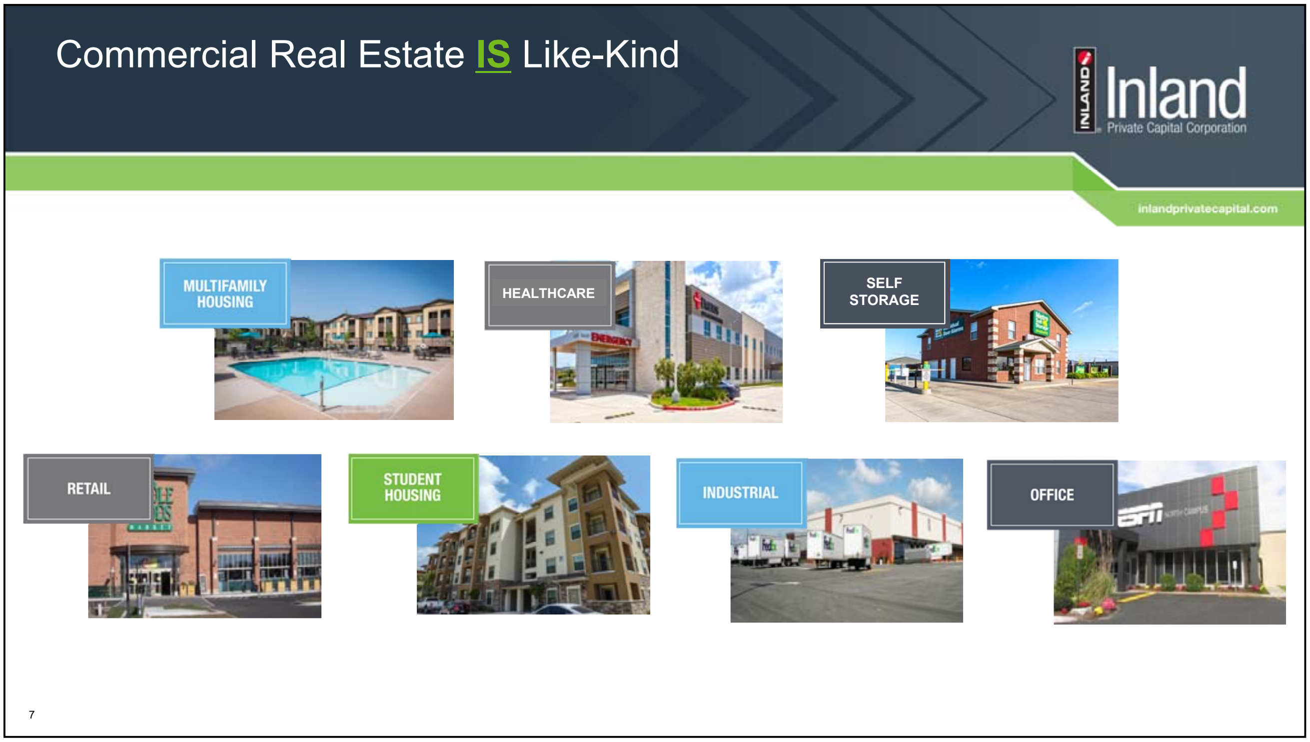
- Section 1031 of the Internal Revenue Code provides an effective and sophisticated strategy for deferring capital gains tax that may arise from a business/investment real property sale
- Real property owners may defer their tax by exchanging the real property for like-kind real estate and use all of the proceeds for the purchase of replacement property
- Like-kind real estate includes business/investment real property (not property owner’s primary residence)
- Section 1031 does not apply to the exchange of stocks or bonds


Here's how a typical 1031 exchange transaction is executed:

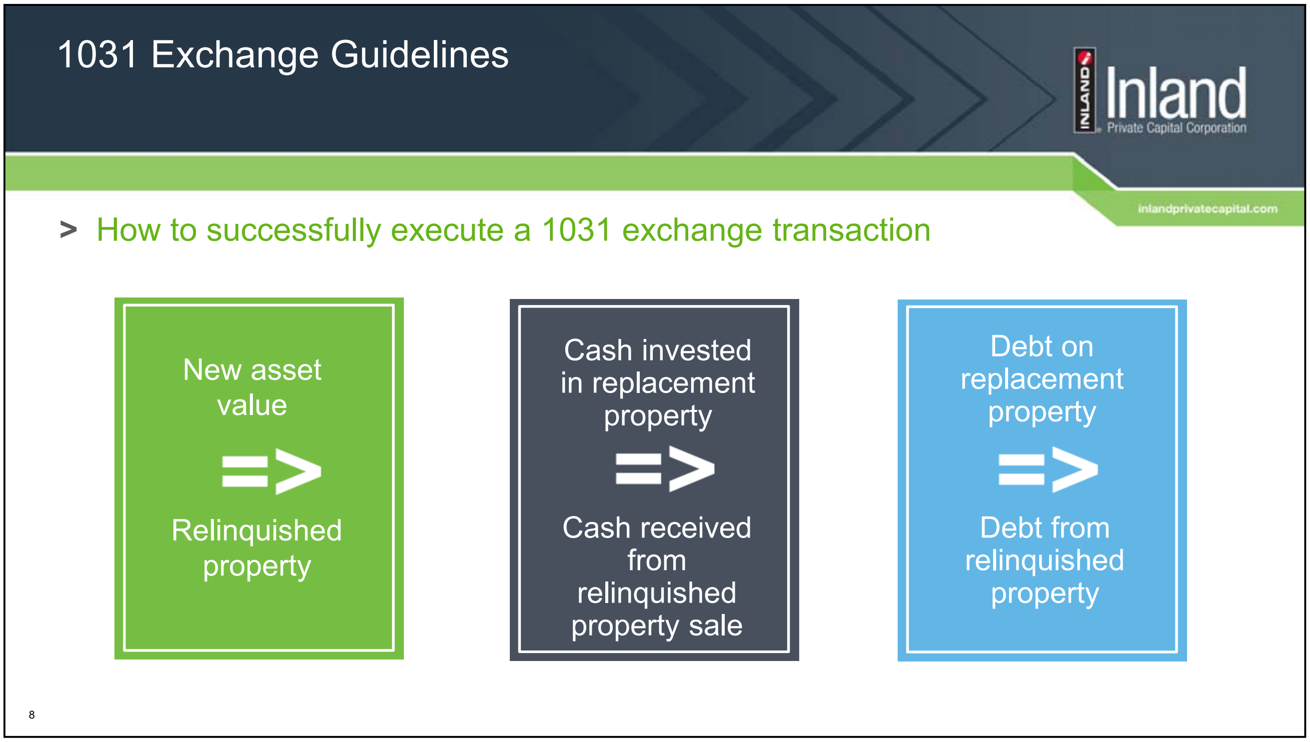
- The exchanger determines they want to sell a property, known as the relinquished property. Once a buyer of the relinquished property is identified, the exchanger goes under contract, which specifies the sale may be structured as a 1031 exchange.

- The exchanger engages a qualified intermediary, or QI, to escrow the proceeds because the exchanger cannot take receipt of any funds in order to execute a successful, tax-deferred transaction, and a replacement property is identified.

- The QI holds the funds until a like-kind replacement property is identified and uses the funds to purchase the replacement property on behalf of the exchanger.




The replacement property must be “like-kind” to the relinquished property. Some examples of like-kind properties include retail centers, office buildings, industrial warehouses, multifamily apartments and student housing. Any real estate held for productive use in a trade or business or for investment is considered like-kind. A primary residence would not fall into this category, however, vacation homes or rental properties may qualify. Consult a financial advisor to determine if a property qualifies for a 1031 exchange.




There are specific timelines and procedures that must be followed to take advantage of the benefits of this program.

## Guidelines for 1031 Exchanges

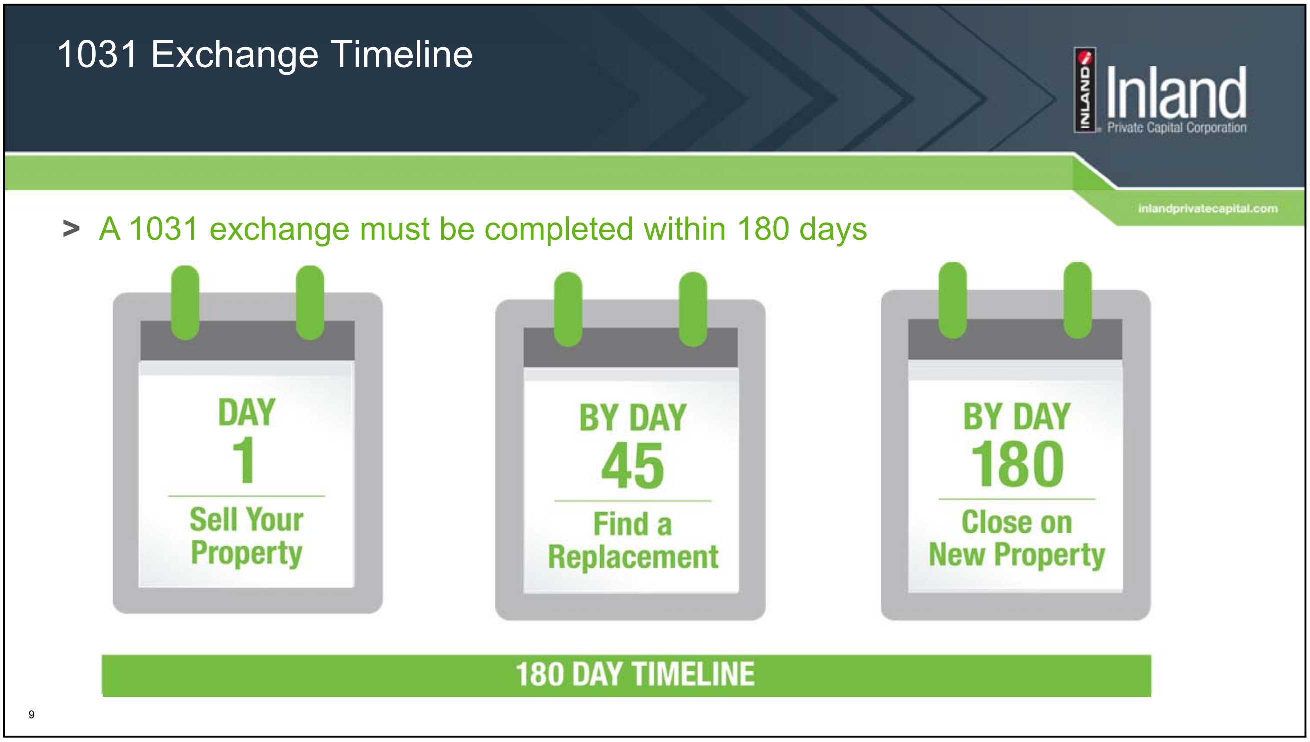
The price of like-kind properties are not always the same, so, in general, to execute a successful 1031 exchange transaction, investors should:

- Invest in assets with value equal to or greater than the relinquished property
- Invest cash in the replacement property that is equal to or greater than the cash received from the sale of the relinquished property
- The sum of the cash invested and the debt placed on the replacement property must be equal to or greater than the sum of the cash invested and debt placed on the relinquished property. In other words, additional cash can make up for a shortfall in debt placed on replacement property, but additional debt cannot make up for a shortfall in cash invested in a replacement property.
- to or greater than the debt relieved with regard to the relinquished property

Additional guidelines include:

- Seller should have the contract specify that the sale may be structured as a 1031 exchange.
- Seller cannot receive or control the net sale proceeds – the proceeds must be deposited in a qualified escrow account.
- Replacement property must be like-kind to the relinquished property.
- In a reverse exchange the taxpayer acquires the replacement property prior to disposing of the relinquished

property.




1. Upon the sale of the relinquished property the replacement property must be identified in writing with a qualified intermediary within 45 days.

2. 45 days after the closing of the relinquished property (identification expiration), the investors must close on their identified replacement property within an additional 135 days.

3. The entire 1031 exchange timeline can take no longer than a total of 180 days (45 day identification period + 135 closing period).

# Hypothetical Property Sale

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| | No Exchange (Cash) | With Exchange |
|---|---|---|
| Sales proceeds | $1,000,000 | $1,000,000 |
| Mortgage balance | ($0) | ($0) |
| **Net Sales Proceeds** | **$1,000,000** | **$1,000,000** |
| Original cost | $100,000 | $100,000 |
| Adjusted cost | $0 | $0 |
| Capital gain | $1,000,000 | $1,000,000 |
| Depreciation recapture ($100,000 x 25%) | ($25,000) | ($0) |
| Fed tax on gain ($900,000 x 20%) | ($180,000) | ($0) |
| State tax on gain ($1,000,000 x 6.1%)* | ($61,000) | ($0) |
| Medicare tax ($1,000,000 x 3.8%) | ($38,000) | ($0) |
| **Funds Available for Reinvestment** | **$696,000** | **$1,000,000** |

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What is the reason to consider a 1031 exchange?

Here's a very simple hypothetical example of a sale of a commercial real property with no subsequent 1031 exchange.  Our investor will pay capital gains tax on the gain he received from the sale. As you may know, the capital gains rate increased, effective January 1, 2013, from 15% to 20%.

Also,  an additional tax, known as depreciation recapture, must be taken on the amount the property was depreciated over its lifetime. Recapture is taxed at 25%.

Please note that the numbers in parentheses are being subtracted in this example.


- No Management Responsibilities – The DST is the single owner and agile decision maker on behalf of investors.
- Access to Institutional-Quality Property – Most real estate investors can't afford to own multi-million dollar properties. DSTs allow investors to acquire partial ownership in properties that otherwise would be out-of-reach.
- Limited Personal Liability – Loans are nonrecourse to the investor. The DST is the sole borrower.
- Lower Minimum Investments – DSTs can accommodate much lower minimum investments, whereas 1031 exchange minimums often are $100,000
- Diversification – Investors can divide their investment among multiple DSTs, which may provide for a more diversified real estate portfolio across geography and property types.
- Estate Planning – All 1031 exchange investments receive a step-up in cost basis so your heirs will not inherit capital gain liabilities, and provides them with professional real estate management versus the burden of hands-on management.
- Insurance Policy – If for some reason the investor can't acquire the original property they identified, a secondary DST option allows them to meet the exchange deadlines and defer the capital gains tax.
- Eliminate Boot – Any remaining profit on the sale of your relinquished property is considered "boot." This remaining money becomes taxable unless you eliminate it. The excess cash (boot) can be invested in a DST to avoid incurring tax.

- Swap Until You Drop – The DST structure allows the investor to continue to exchange real properties over and over again until the investor’s death

TAX BENEFITS

- Potential tax advantages through depreciation and other tax deductions may provide attractive taxable equivalent yields
- The income that an exchanger receives from the DST may qualify for the new 20% pass-through deduction. As a result, the exchanger may receive a deduction of up to 20% of the income he or she receives from the DST. Please note that certain elements of calculating the eligibility for the pass-through deduction, including amounts treated as "unamortized basis" in depreciable real estate if an exchanger acquires a DST interest in a Section 1031 exchange, remain subject to clarification from the IRS.
- In the event of a profitable sale, owners may explore the possibility of deferring the tax on their capital gain through an IRS section 1031 exchange.

## Cash Investments: Potential Advantages of Owning Commercial Real Estate through Fractional Ownership

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- ✓ Portfolio diversification
- ✓ Value tied to bricks and mortar
- ✓ Potential inflation hedge
- ✓ Income generated, if any, may be considered passive income
- ✓ Capital appreciation possible on sale
- ✓ Potential tax advantages through depreciation and other tax deductions may provide attractive taxable equivalent yields
- ✓ The income that an exchanger receives from the DST may qualify for the new 20% pass-through deduction. Please note that certain elements of calculating the eligibility for the pass-through deduction, including amounts treated as "unamortized basis" in depreciable real estate if an exchanger acquires a DST interest in a Section 1031 exchange, remain subject to clarification from the IRS.
- ✓ In the event of a profitable sale, owners may defer their capital gain tax through an IRS section 1031 exchange.

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While our main focus has been to educate attendees on the 1031 exchange, I'd also like to remind everyone that there you may wish to consider a fractional interest ownership cash investment in commercial real estate, even if there is no property to exchange. Potential advantages may include:

- Portfolio diversification
- Value tied to bricks and mortar
- Potential inflation hedge
- May generate passive income
- Capital appreciation possible on sale
- Potential tax advantages through depreciation and other tax deductions may provide attractive taxable equivalent yields
- The income that an exchanger receives from the DST may qualify for the new 20% pass-through deduction. As a result, the exchanger may receive a deduction of up to 20% of the income he or she receives from the DST. Please note that certain elements of calculating the eligibility for the pass-through deduction, including amounts treated as "unamortized basis" in depreciable real estate if an exchanger acquires a DST interest in a Section 1031 exchange, remain subject to clarification from the IRS.
- In the event of a profitable sale, owners may explore the possibility of

deferring the tax on their capital gain through an IRS section 1031 exchange.

## IPC Investment Product Track Record

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> Inland Private Capital Corporation (IPC): The industry leader in securitized 1031 exchanges

Sponsored **217** Private Placement Programs

**589** Properties in 43 States

Offered More Than **$3.7** Billion in Equity

More Than **$7.1 Billion** of Assets Based on Offering Price

More Than **38.8** Million Square Feet of Gross Leasable Area

**$1.9 Billion** Cumulative Distributions to Investors

**80** Assets Sold

13 Inception through 12/31/17. Past performance is not a guarantee of future results.

As of December 31, 2017, IPC had sponsored 217 private placement programs. The 217 private placement programs include 589 properties, comprised of over 38.80 million square feet of gross leasable area, for an aggregate offering price of more than $7.1 billion. Past performance is not a guarantee of future results.


- Investors can choose how to diversify their 1031 positions by asset class, level of debt, geographical location, & income expectations.
- Inland Private Capital offers real estate in various sectors including multifamily, self-storage, medical office, office, retail, industrial and student housing.

## IPC Investment Product Performance

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> IPC completed 56 program dispositions (inception through 12/31/17) producing weighted average total returns of more than 121% for each asset class

| | RETAIL | OFFICE | MULTIFAMILY | INDUSTRIAL |
|---|---|---|---|---|
| Cumulative Sales Price | $529,713,911 | $233,509,165 | $185,766,108 | $118,170,041 |
| Weighted Avg. Total Return* | 133.06% | 121.34% | 136.90% | 133.38% |
| Weighted Avg. ARR** | 7.53% | 4.13% | 13.11% | 5.96% |
| Number of Programs | 37 | 8 | 4 | 7 |

***Weighted Average Total Return** is calculated by dividing the sum of amounts distributed to investors over the hold period of the investment plus the sale proceeds returned to the investors, by such investors' capital invested in the program inclusive of all fees and expenses. To determine the weighted average, the total return for each program is multiplied by the capital invested in that program, divided by total capital invested in all programs represented in the analysis.

****Weighted Average Annualized Rate of Return (ARR)** is calculated as the sum of total cash flows distributed during the term of the investment plus any profit or loss on the initial offering price, divided by the investment period. To determine the weighted average, the ARR for each program is multiplied by the capital invested in that program, divided by the total capital invested in all programs represented in this analysis.

The Weighted Average Total Return and Weighted Average ARR metrics presented above apply to those programs in which the property owned by such program was sold. Please note that this analysis does not include programs in which the subject property was in foreclosure. In such situations, IPC has negotiated with the applicable lender and advanced funds to the investors to allow the investors to exchange their beneficial interests in the original program for a proportional beneficial interest in a new program, in order to continue their Section 1031 exchanges and avoid potential capital gains and/or forgiveness of debt tax liabilities.

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### Explanation of Calculations

**Weighted Average Total Return** is calculated by dividing the sum of amounts distributed to investors over the hold period of the investment plus the sale proceeds returned to the investors, by such investors' capital invested in the program inclusive of all fees and expenses. To determine the weighted average, the total return for each program is multiplied by the capital invested in that program, divided by total capital invested in all programs represented in the analysis.

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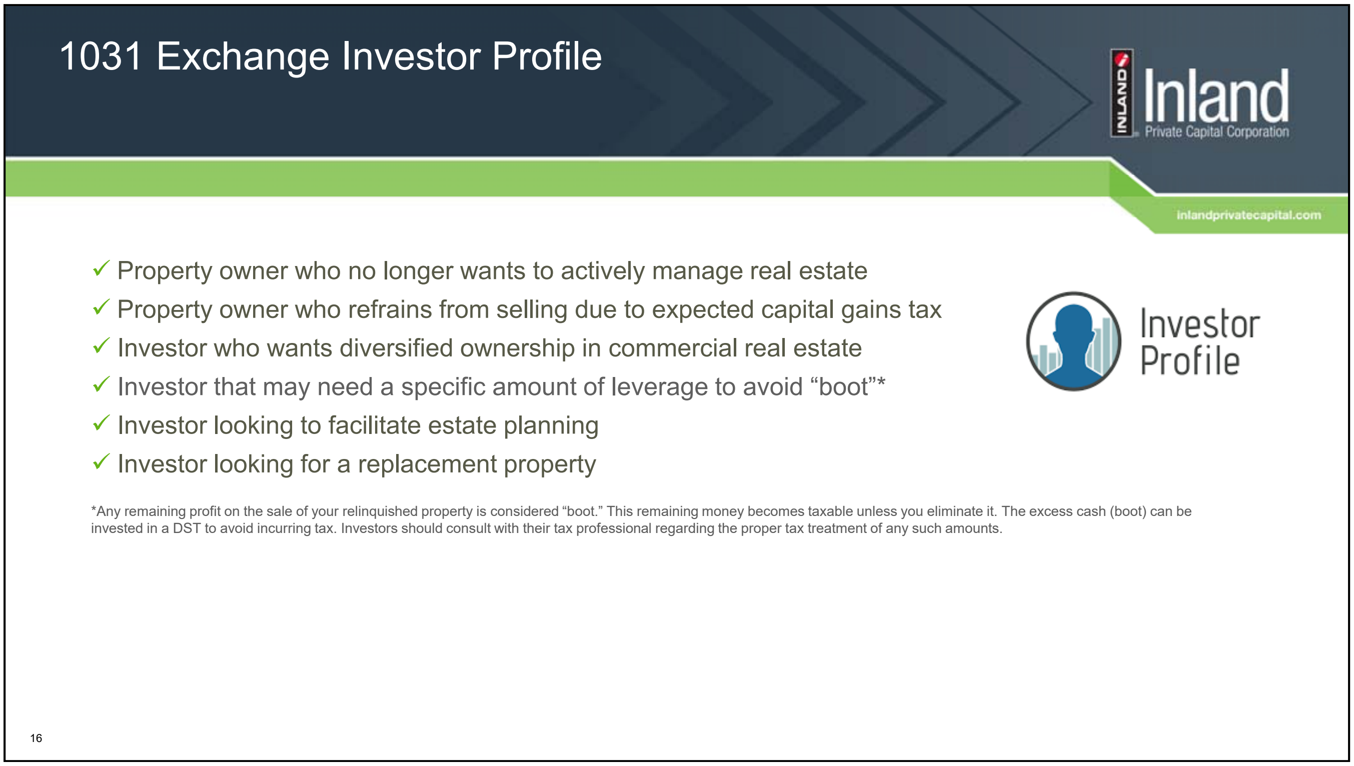


Are you:

- Property owner who no longer wants to actively manage real estate
- Property owner who refrains from selling due to expected capital gains tax
- Investor who wants diversified ownership in commercial real estate
- Investor that may need a specific amount of leverage to avoid "boot"*
- Investor looking to facilitate estate planning
- Investor looking for a replacement property

*Any remaining profit on the sale of your relinquished property is considered "boot." This remaining money becomes taxable unless you eliminate it. The excess cash (boot) can be invested in a DST to avoid incurring tax. Investors should consult with their tax professional regarding the proper tax treatment of any such amounts.

# Partner with Inland

> Dedicated team of private placement experts

Each Inland team has a dedicated private capital consultant available to ensure that advisors and financial planners have effective tools to grow their business and achieve results for their clients.

## Questions?

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INLAND 50 YEARS

INTEGRITY
EXPERTISE
INNOVATION

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Thank you for your attention. We will now open it up for questions.