BLUEROCK Value Exchange™

Understanding **Tax-Deferred Exchanges**

1031 | 1033 | DST

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What is a 1031 Exchange?

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/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/investment property, but excludes any personal use property.

Did You Know... A 1031 Exchange may afford you the opportunity to defer capital gains taxes and build wealth.

Examples of Like-Kind Properties

- 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)
- New York Cooperatives



APARTMENT



NET LEASE RETAIL



OFFICE

Potential Benefits of a 1031 Exchange

Tax Deferral	A properly executed 1031 Exchange may allow investors to defer State and Federal income taxation upon the sale of appreciated real estate, thereby preserving equity and potentially maximizing total return.
Ongoing Tax Benefits	A portion of monthly income may be offset by depreciation.
Increased Cash Flow	Investors seeking more current income can benefit from a 1031 Exchange from non-income producing or under-performing assets into one or more high-quality properties that may generate monthly income.
Capital Appreciation	Growth in the overall value of real estate holdings is necessary to overcome the effects of inflation. A 1031 Exchange may provide investors the opportunity to allocate their capital into assets that may increase the potential for appreciation.
Diversification	A 1031 Exchange can be a powerful tool to realize investment diversification, which may be achieved by: diversification in geographic region (multiple properties in multiple states); asset class (office, industrial, retail, multifamily); tenant industry and creditworthiness; capitalization structure (debt vs. equity); and/or ownership structure (fee simple vs. leasehold and severalty vs. co-ownership).
Passive Investment	One of the positive attributes of a 1031 Exchange for many investors is the ability to relinquish their ongoing property management responsibilities while still maintaining the potential for stable, monthly income from investment real estate.
Institutional Quality	Fractionalized real estate investments, structured as a Delaware Statutory Trust (DST), may offer investors the opportunity to own a partial interest in a higher quality asset than they could obtain individually. For example, investors may execute a 1031 Exchange from raw land or residential rentals into large, Class A properties with credit tenants, professional management, and better long-term appreciation potential.
Pre-Arranged Financing	With ongoing challenges in the global credit markets, individuals often find it difficult to obtain favorable financing on their own. Bluerock Value Exchange (BVEX) removes this stress by pre-arranging favorable loan terms currently available to BVEX. Investors then receive their allocated portion 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[1];
- 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 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 as 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.

[1] See definition of Exchange Period in glossary for further details

Process of a Typical 1031 Exchange

There are THREE BASIC STEPS in a Typical 1031 Exchange

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



45 DAY IDENTIFICATION PERIOD:
The taxpayer must identify potential replacement property or properties within 45 days from the date of sale.

180 DAY EXCHANGE PERIOD:
The taxpayer must acquire the replacement property or properties within 180 days from the date of sale.

*Closing on the replacement property must be the earlier of either 180 calendar days after closing on the sale of the relinquished property or the due date for filing the tax return for the year in which the relinquished property was sold; unless an automatic filing-extension has been obtained.

What is a 1033 Exchange?

Section 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 realize 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 cannot be acquired from a related party.

EVENTS THAT MAY QUALIFY FOR 1033 EXCHANGE:

- Casualty
- Condemnation
- Destruction
- Earthquake
- Eminent domain
- Fire
- Hurricane
- Seizure
- Theft

Key Comparison of 1033 vs. 1031 Exchange

1033 Exchange	**1031** Exchange
Involuntary sale	Voluntary sale
No requirement for Accommodator /QI	Requires Accommodator /QI
2 to 4 year replacement period	45-day identification and 180-day completion replacement period
Additional debt can offset equity	Additional debt cannot offset equity

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.; 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)	$43,750
Plus Federal Capital Gain Tax ($320,000-$175,000 = $145,000 x 20%)	$29,000
Plus State Capital Gain Tax (e.g. CA approx. 12.3% x $320,000 [cap. gain])	$39,360
Plus Medicare Surtax ($320,000 x 3.8%)	$12,160
= Combined Tax Due	**$124,270**

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 Loan	$375,000
Equals Minimum Down	**$225,000**

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 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.

Under the Tax Cuts and Jobs Act (TCJA), capital gains tax rates are based upon the taxable income of the taxpayer and adjusted annually. For 2025, the capital gain tax brackets are (Source: Internal Revenue Service, "Revenue Procedure 2023-34"):

Long Term Capital Gains Rate	For Unmarried Individuals, Taxable Income Over	For Married Individuals Filing Joint Returns, Taxable Income Over	For Heads of Households, Taxable Income Over
0%	$0	$0	$0
15%	$47,025	$94,050	$63,000
20%	$518,900	$583,750	$551,350

The tax information contained in this brochure is based on the current individual income tax code that is set to expire December 31, 2025 , unless extended.

Plus, the 3.8% medicare surtax as follows: If your Adjusted Gross Income (AGI) is above the threshold amounts specified in IRC §1411, you will pay 3.8% surtax on either your net investment income or your excess AGI over the specified threshold – whichever is less.

Single taxpayers with AGI over $200,000 and married taxpayers with AGI over $250,000 will be subject to the 3.8% surtax in addition to paying either 15% or 20% capital gains tax.

What is a **Delaware Statutory Trust?**



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.

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 do not need separate special purpose entities (SPEs)

Why Invest Cash into DSTs?

The potential benefits of a DST program are not restricted to 1031 Exchange funds. Investors may also choose to invest directly into a DST, which may provide the following potential benefits:

- Tax-deferral strategy
- Rental income paid monthly
- 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

Why Consider a DST?

- Potential to own institutional quality real estate
- Ability to diversify by property type and location
- Turnkey solution: Sponsor is responsible for sourcing, due diligence, structuring and financing of debt, property and program management
- Fast and efficient closing process to meet timing requirements
- Certainty of closing on acquisition of replacement property
- Elimination of property management responsibilities
- Potential for monthly income
- Long-term, non-recourse financing in place

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):

- Once the offering is closed, there can be no further capital contributions to the DST by either existing or new investors
- The DST cannot renegotiate existing loans or borrow more funds (except in the case of a tenant's bankruptcy or insolvency)
- The DST cannot reinvest proceeds from the sale of its real estate
- 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, other than necessary reserves, must be paid out to investors
- The DST cannot renegotiate existing leases or enter into new leases (except in the case of a tenant's bankruptcy or insolvency)

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 (i) have a minimum net worth exceeding $1,000,000 for individuals, including spouse or spousal equivalent (excluding the value of your primary residence), (ii) a minimum annual income requirement for the past two years of $200,000 per year for an individual; or $300,000 per year, including spouse or spousal equivalent and a reasonable expectation of the same income level in the current year, (iii) an individual who is licensed and in good standing as a (a) General Securities Representative (Series 7), (b) Licensed Investment Adviser Representative (Series 65), or (c) Licensed Private Securities Offerings Representative (Series 82), or (iv) a "knowledgeable employee" as defined under the Investment Company Act of 1940, of the Trust or the Trustee or an affiliated management person of the Trust, such as the Sponsor.

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.

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 deferment 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.



Bluerock Value Exchange, is a national sponsor of syndicated 1031-exchange offerings with a focus on Premier Exchange Properties™ that seek to deliver stable cash flows and potential for value creation. Bluerock has structured 1031 exchanges of more than $2.8 billion in total property value and nearly 15 million square feet of 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.

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.

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.

NO GUARANTEE OF PERFORMANCE

Bluerock Real Estate does not guarantee ongoing distributions or overall investment performance.

SPONSOR-RELATED FEES

Bluerock Real Estate and its affiliates will collect significant fees related to the acquisition, syndication, ongoing management, and eventual disposition of any real estate offerings. These fees could materially impact the performance of an investment and should be carefully considered prior to any such investment.

LEVERAGE-RELATED VOLATILITY

The use of leverage in real estate investments may increase volatility and the overall risk of loss.

Note: The properties in this brochure are currently owned, or previously owned by Bluerock or its affiliates, and are included as examples of the types of properties acquired by Bluerock funds.

DISCLAIMER

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Do not construe the contents and discussion herein as legal, tax or accounting advice. The information contained herein is believed to be accurate, however, no such warranties, representations, or guarantees are provided to that effect, either expressly or implicitly. Further, the information contained herein is intended only to provide a high level overview and not an exhaustive explanation of the rules, regulations, exceptions, etc. generally applicable to a like-kind exchange pursuant to Internal Revenue Code Section 1031. The discussions and examples contained herein are based on law presently in effect and certain proposed Treasury Regulations. Nonetheless, readers should be aware that new administrative, legislative or judicial action could significantly change the information contained herein. Transactions involving Internal Revenue Code Section 1031 are highly complex, and it is strongly recommended that investors seek competent, independent tax and legal counsel prior to initiating, and while performing, such a tax deferred exchange.

Securities, such as the DSTs mentioned herein, have not been and will not be registered under the Securities Act of 1933 or applicable state securities laws, nor has the Securities and Exchange Commission or any state regulatory authority passed upon or endorsed the merits of the disclosure herein. In making a decision investors must rely on their own examination of the transaction and its terms, including the merits and risks involved. There can be no guarantee that the methods described herein will suit your individual needs or that the rules governing such methods will not change over time.

For more information, please contact your financial advisor or Bluerock Capital Markets, LLC at

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