INVESTOR EDUCATION SERIES

Advanced 1031 Exchange Strategies

DSTs, 721 UPREITs, oil & gas mineral rights, bonus depreciation funds, and Opportunity Zones 2.0

Ryan Finch, CFP®

Tangible Wealth Solutions | www.yourtws.com

1031 Exchange
defer the tax

DSTs
passive, fractional ownership

721 UPREIT
diversification + liquidity

Mineral Rights
real estate below the ground

Bonus Depreciation
first-year tax deductions

Opportunity Zones 2.0
defer and eliminate gains tax

TODAY'S DISCUSSION

What we'll cover

01 The 1031 exchange
Requirements, identification rules, and like-kind property.

02 Delaware Statutory Trusts
How DSTs work and the challenges they may solve.

03 DST strategies
UPREITs, cash-out options, and zero-coupon DSTs.

04 Oil & gas mineral rights
Below-ground real estate as a 1031 replacement option.

05 Bonus depreciation funds
Targeted first-year deductions that can exceed the amount invested.

06 Opportunity Zones 2.0
How rural OZ funds defer, reduce, and eliminate capital gains tax.

Requirements of a 1031 exchange

Reinvest 100%

Reinvest all net sale proceeds. Partial deferral is possible if less is used.

Replace the debt

Replace an equal or greater amount of debt on the replacement property.

Identify by day 45

Identify potential replacement property within 45 days of the sale.

Close by day 180

Close on the replacement property by the 180th day after the sale.

Use a QI

A qualified intermediary holds the sale proceeds. You can’t take receipt of the funds.

Same taxpayer

Hold the replacement in the same name and tax ID as the property sold.

Identification rules

3

Three-property rule

Identify up to three properties of any value and buy any or all of them.

Most commonly used

200%

200% rule

Identify any number of properties, as long as their total value is no more than 200% of the property sold.

95%

95% rule

If you go beyond both rules, you must acquire at least 95% of the total value of everything identified.

Any **real property held for investment or for productive use in a trade or business**. The type of real estate doesn't have to match.

?

Qualifies

- Rental homes
- Commercial property
- Vacant land
- Farms and ranches
- TIC interests
- DSTs
- Oil & gas mineral rights

Doesn't qualify

- Vacation or second homes*
- Fix-and-flip properties
- REIT shares
- Partnership interests

*Can qualify if rented and personal use is limited.

SECTIONS 02 & 03

02

Delaware Statutory Trusts

Passive, fractional ownership of institutional real estate, and the strategies built on it.

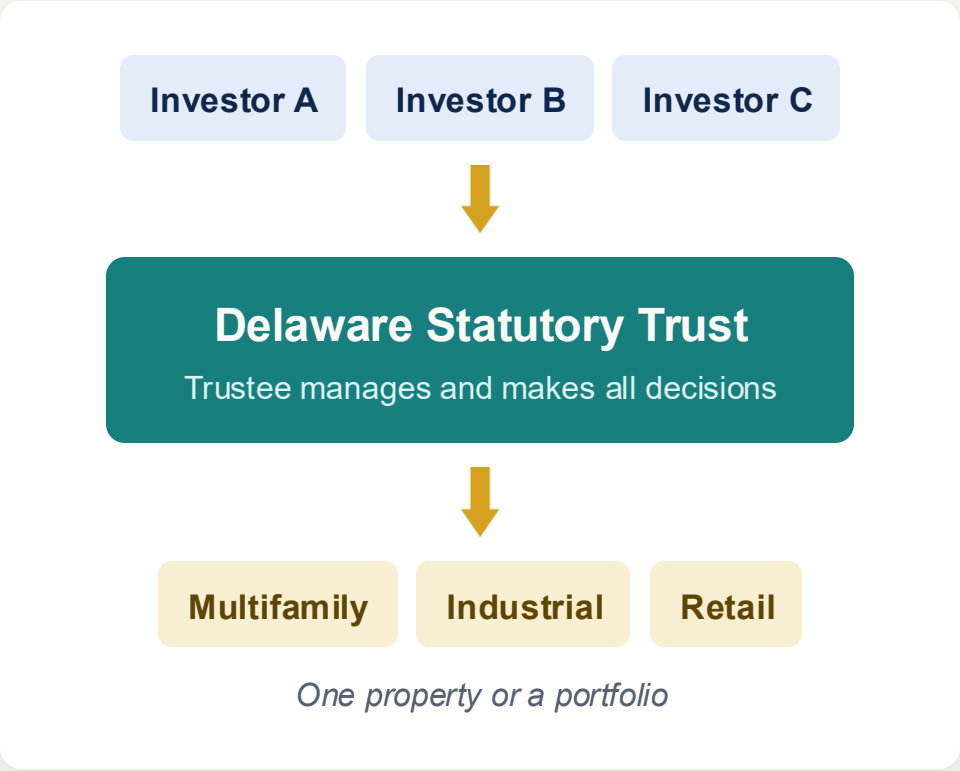
What is a Delaware Statutory Trust?

Fractional ownership
Multiple investors share ownership of one property or a portfolio of properties.

Qualifies for a 1031
A DST interest is eligible replacement property in a 1031 exchange.

Completely passive
An experienced sponsor-affiliated trustee makes all decisions, not the investor.

Already operating
Properties are typically purchased and operating when you evaluate the DST.



DELAWARE STATUTORY TRUSTS

Client challenges DSTs may solve

Ready to be passive

Highly appreciated real estate, done managing, and doesn't want a tax bill.

Property rich, cash poor

Significant real estate holdings but minimal liquidity.

Wants to diversify

Spread across properties and markets without paying tax to do it.

Equity, little income

Lots of equity built up, but relatively low cash flow.

Estate planning

Heirs or charities don't want to manage the property they receive.

Partners splitting up

Partners want to go separate ways. A drop and swap may help.

DST STRATEGY 1

The 721 UPREIT

DST
Hold about 2 years

↓

§721 contribution
Planned, never guaranteed

↓

REIT OP units
Liquidity typically after 1 year

- After about 2 years in the DST, properties are **planned** to be contributed to the REIT for OP units
- **Creates liquidity:** OP units are typically redeemable after 1 year, subject to program limits
- Redeem units **over time** to spread out the tax impact
- A portion of each redemption may be a **return of basis** rather than gain
- **Estate planning:** heirs or charities can sell units easily instead of a building
- ⚠ **Trade-off:** once in the REIT, you can no longer 1031 exchange

DST STRATEGY 2

UPREIT with a cash-out refinance option

1. Exchange into an **unlevered** (all-cash) DST.
2. The REIT the DST is planned to go into carries leverage, for example a **targeted 40%**.
3. At contribution in 2–3 years, about **60%** of your equity goes into the REIT and about **40%** comes back to you as cash through a cash-out refinance.

Why investors consider it

- Liquidity without a tax consequence
- Debt sits inside the REIT, not with you
- Basis carries over into the REIT
- No more management problems
- Cash can be reinvested without 1031 rules

$600,000 → REIT position (OP units) | **$400,000 → cash to you**

Hypothetical $1,000,000 DST investment with a targeted 40% REIT leverage. Actual leverage, timing, and contribution are not guaranteed.

70–85%

typical loan-to-value

Your equity: about 15%

Loan: about 85%

up

- **Highly leveraged:** typically 70% to 85% loan-to-value
- Used to **replace debt with minimal equity**
- **No cash flow:** rental income goes to paying down the loan
- Can pass through **large amounts of depreciation** from the added leverage
- Typically a **longer hold period**
- Lets you use **less leverage** on your other replacement properties

DST STRATEGY 4

Zero-coupon DST with a cash-out option

YOU INVEST

$1,000,000

All cash into a zero-coupon DST that is 85% leveraged

→

RETURNED TO YOU

$850,000

About 30 days after closing, through a cash-out refinance

→

STAYS INVESTED

$150,000

Equity that can grow with appreciation and loan paydown

Use the cash however you'd like

Debt is serviced by the property and non-recourse to you

Can provide liquidity to an estate

Hypothetical example for illustration only. Terms, leverage, and refinance timing vary by program and are not guaranteed.

⚠ Potential red flags

State income tax filings where properties are located

Cash flow being paid from reserves

Bridge financing

Property not yet purchased by the DST

High year-1 cash flow that drops once the loan starts to amortize

Single-tenant, single-property DST

The sponsor’s first DST

Sponsor has no full-cycle DSTs

✓ Potential green flags

Long, positive sponsor track record

High-quality tenants

Strong cash flow paid from current operations

Competitive debt terms, if leveraged

Good market and real estate fundamentals

No state income tax

Multiple properties

SECTION 04

Oil & gas mineral rights

Real estate below the ground, and a 1031 replacement option with income potential.

04

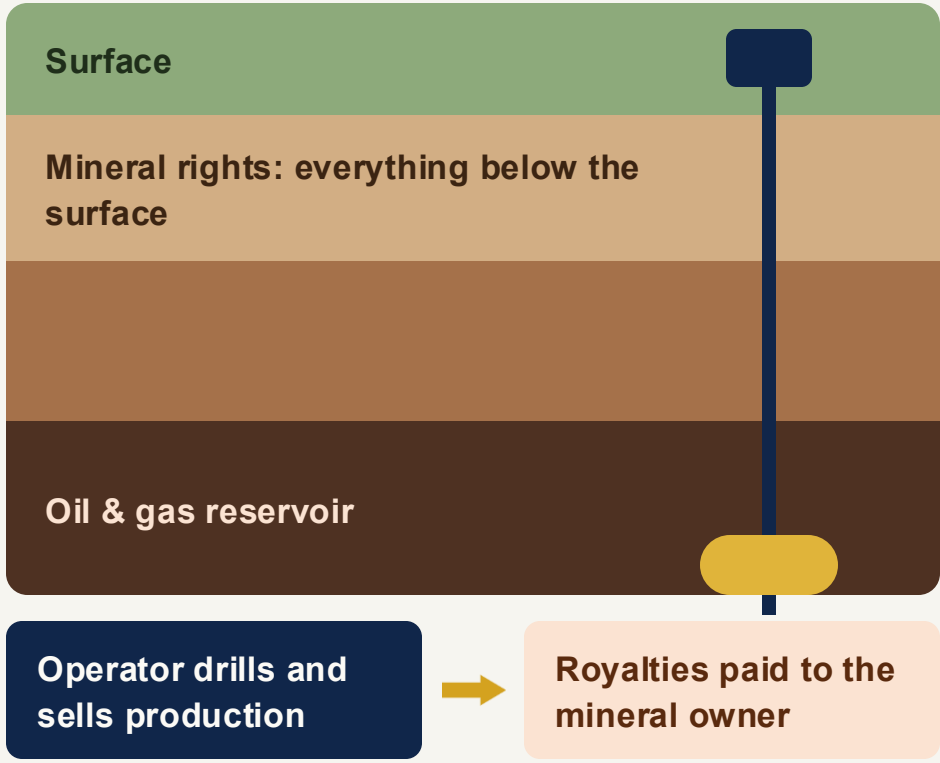
What are oil & gas mineral rights?

Below-ground real estate
Mineral rights are the real estate below the ground.

A share of production
Owners receive a share of revenue when operators drill and sell what's extracted.

Transferable
Like real estate above ground, the rights can be sold to other investors.

1031 eligible
Mineral rights can qualify as like-kind replacement property.



Potential advantages

Flexible transaction size

Strong cash flow potential

No capital calls

Investor independence: you own the rights directly

Tax savings through the depletion deduction

Potential value increase from new wells, improved technology, and new discoveries

Important considerations

Distributions and value **fluctuate** with production and commodity prices

Cannot replace debt in a 1031 exchange

Production from existing wells **declines over time**

Future drilling on the acreage is **not guaranteed**

What to look for in mineral rights

Proven reserves

How much recoverable oil and gas is estimated to remain.

Current cash flow

Income from wells producing today, not only future drilling.

Production upside

Potential for new wells or increased production on the acreage.

Operator experience

The track record of the company drilling and operating the wells.

Age of the wells

Where the wells are in their production life and decline curve.

Commodity mix

The balance of oil, natural gas, and NGLs and their price exposure.

TAX STRATEGY

Bonus depreciation funds

These funds buy qualifying business assets with equity plus debt. Under current law, **100% bonus depreciation** can let a fund deduct the cost of eligible property in the first year and pass those deductions to investors, so the deduction can exceed the amount invested.

Convenience store and car wash fund

2:1

targeted first-year deduction

$100,000 invested → about **$200,000** targeted deduction

Orange grove fund

4:1

targeted first-year deduction

$100,000 invested → about **$400,000** targeted deduction

Deduction ratios are targeted, not guaranteed. $100,000 examples are hypothetical. Deductions may be limited by passive activity, at-risk, and other rules, and depreciation may be recaptured when assets are sold. Consult your CPA.

OPPORTUNITY ZONES 2.0

How a rural Opportunity Zone fund works

Invest a capital gain from stocks, a business, or real estate into a **Qualified Rural Opportunity Fund (QROF)** within 180 days of the sale. Only the gain needs to be invested, not the full proceeds.

DAY 0–180

Sell and reinvest the gain

Roll the capital gain into the QROF.

→

YEARS 0–5

Tax is deferred

No tax on the rolled-in gain for 5 years.

$238,000 deferred

→

YEAR 5

30% rural step-up

30% of the deferred gain is permanently eliminated.

$71,400 tax saved

→

YEAR 10+

Tax-free growth

Appreciation on the OZ investment is free of federal capital gains tax.

Dollar figures use a hypothetical $1,000,000 gain at a 23.8% federal rate. OZ 2.0 benefits apply to investments made on or after January 1, 2027. Non-rural OZ funds receive a 10% step-up. Benefits require meeting holding periods and continued fund compliance.

RURAL OZ FUND EXAMPLE

PST OZ AG Fund E

A vertically integrated pistachio fund sponsored by **Guardian Capital RE LLC** with operating partner **Pistachio St**, targeting **$75 million** of investor equity across two pillars.

PILLAR 1

OZ farmland

- About 2,500 acres of OZ-designated California pistachio farmland
- Dual-source water required on every acquisition
- Targeted 50% leverage

crop supply

PILLAR 2

OZ processing plant

- 40-million-lb plant to hull, dry, shell, and pack
- Joint venture; fund targets 90–95% ownership
- Fund farms targeted to fill about 75% of Year 1 capacity

Bonus depreciation on orchards and plant improvements

IC-DISC export structure on operating distributions

10-year hold to capture the full OZ step-up

10-year illiquid hold

Full benefits require 10 years. No public market or redemption right.

Commodity prices

Pistachio prices could fall if global supply recovers faster than expected.

Water and weather

Groundwater rules, drought, frost, or heat can reduce water and yields.

Plant execution

Construction delays, cost overruns, or startup issues can reduce cash flow.

Debt and rates

Leverage adds risk, including refinancing risk when loans mature.

Concentration and rules

One crop in one region. OZ rules or rural designation could change.

Not a complete list. Review the fund’s private placement memorandum for a full description of risks. Targets are not guaranteed.

Questions?

Ryan Finch, CFP®

Tangible Wealth Solutions

www.yourtws.com

IMPORTANT DISCLOSURES

Disclosures

Not an offer to buy, nor a solicitation to sell securities. All investing involves risk. Past performance is not indicative of future results. Speak to your finance and/or tax professional prior to investing. Any information provided on this site has been prepared from sources believed to be reliable, but is not guaranteed by Tangible Wealth Solutions and is not a complete summary or statement of all available data necessary for making an investment decision. Any information provided is for informational purposes only and does not constitute a recommendation. Securities offered through Emerson Equity LLC Member: FINRA/SIPC. Only available in states where Emerson Equity LLC is registered. Emerson Equity LLC is not affiliated with any other entities identified in this communication.

DST / UPREIT Disclosure: DST interests are available only to accredited investors. There is no guarantee that a DST will be contributed to a REIT, that any particular valuation (fair market value or par) will be achieved, that any refinance or cash-out will occur, or that redemptions will be available. Examples in this presentation are hypothetical and not indicative of any specific investment.

Oil & Gas Mineral Rights Disclosure: Distributions and values fluctuate with production volumes and commodity prices. Production from existing wells declines over time, and future drilling is not guaranteed. Tax benefits such as depletion depend on individual circumstances and current law, which may change.

See the following slide for the Real Estate / 1031 Risk Disclosure.

IMPORTANT DISCLOSURES

Real Estate / 1031 Risk Disclosure

- There is no guarantee that any strategy will be successful or achieve investment objectives.
- **Potential for property value loss** – All real estate investments have the potential to lose value during the life of the investments.
- **Change of tax status** – The income stream and depreciation schedule for any investment property may affect the property owner's income bracket and/or tax status. An unfavorable tax ruling may cancel deferral of capital gains and result in immediate tax liabilities.
- **Potential for foreclosure** – All financed real estate investments have potential for foreclosure.
- **Illiquidity** – These assets are commonly offered through private placement offerings and are illiquid securities. There is no secondary market for these investments.
- **Reduction or Elimination of Monthly Cash Flow Distributions** – Like any investment in real estate, if a property unexpectedly loses tenants or sustains substantial damage, there is potential for suspension of cash flow distributions.
- **Impact of fees/expenses** – Costs associated with the transaction may impact investors' returns and may outweigh the tax benefits.
- **Stated tax benefits** – Any stated tax benefits are not guaranteed and are subject to changes in the tax code. Speak to your tax professional prior to investing.