WHAT IS A 1031/721 EXCHANGE?

Section 1031

Section 1031 allows a taxpayer to invest the proceeds from the sale of appreciated commercial real estate into a "like-kind" property without recognizing a taxable gain. Most properties held for investment or use in a business qualify as "commercial real estate" under this definition.

1031 Securities (Delaware statutory trusts)

Delaware statutory trusts (DSTs) are trusts that may own income-generating, professionally managed commercial real estate. In 2004, the IRS issued Revenue Ruling 2004-86, which allows taxpayers to receive 1031 tax deferral treatment by investing the proceeds from the sale of their appreciated, commercial real estate into DSTs.

Potential Benefits of a 1031/DST Like-kind Exchange

- Defer taxes from the sale of commercial real estate by investing in a professionally managed DST owning institutional quality commercial property.
- Opportunity to receive regular, tax-advantaged income based on the property's performance.
- Eliminate personal debt associated with commercial real estate ownership.
- Property and leasing management performed by a professional real estate operator.
- Opportunity for tax efficient wealth transfer to heirs.

Section 721

A 721 exchange allows a taxpayer to exchange an interest in a real property for an interest in a partnership owning numerous properties on a tax deferred basis.

Potential Benefits of a 721 Exchange

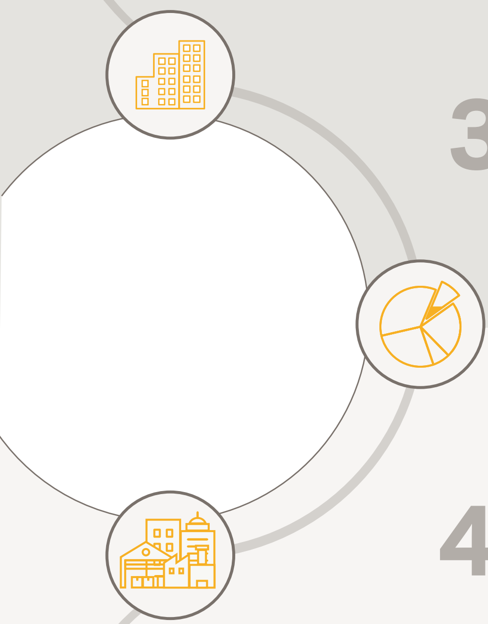
- **Diversification**
  Access to a professionally managed, diversified portfolio of institutional-quality real estate.
- **Capital appreciation and income**
  Operating partners participate in the cash flow and appreciation of the diversified portfolio of real properties owned by the partnership.
- **Liquidity**
  Partial and full liquidity available subject to the terms of the partnership's share repurchase program.
- **Estate planning**
  Potential to reduce or eliminate taxes altogether through the transfer of Operating Partnership Units (OP Units) to heirs on a "stepped up" basis.

The Operating Partnership is not required to exercise its Fair Market Value Option[1] (FMV Option) to acquire DST properties. In the event this occurs, investors will continue to own beneficial interests in the DST property and will not receive the OP Units.

[1] In connection with the master lease, the Operating Partnership receives a unilateral option (FMV Option) to reacquire the asset at fair market value two years later.

REIT EXCHANGE

Steps | **Timeline** | **1031**



1

Marketing/Pre-Sale Period

Investor sells appreciated property and deposits sale proceeds with Qualified Intermediary.

Important Note:

A Qualified Intermediary is a specialized escrow agent who facilitates the exchange. A taxpayer must hire a Qualified Intermediary before closing on the sale of real estate.

2

Identification Window

Investor identifies up to three potential replacement properties.[1]

[1] As an alternative, taxpayers may utilize the 200% rule to potentially identify more than 3 replacement properties.

Important Note:

Investors must identify potential replacement properties within 45 days of selling their relinquished property.

3

Exchange Period

Investor purchases at least one of the identified properties and begins receiving income generated from the property.

Assuming the taxpayer invests in a DST, the Operating Partnership acquires a FMV Option to purchase the DST property after two years.

Important Note:

Seller must close on one of the identified properties within 135 days following the conclusion of the identification window.

Seller must invest the entire proceeds from the sale of the appreciated property and match or exceed its debt level.

721

4

Assuming the Operating Partnership exercises its FMV option to purchase the DST property, investor's DST beneficial interests convert into OP Units or cash, at the Operating Partnership's sole option. Investors transition from single property ownership to OP Units in a diversified portfolio of properties.[2]

[2] In the event the Operating Partnership declines its FMV option, the DST Manager will continue to operate the DST property on behalf of investors and may seek a liquidity event through a sale to a third party.

Important Note:

Approximately two years from the conclusion of the last sale in the DST property, assuming the option is exercised. Tax deferral is provided under Internal Revenue Code Section 721.

5

After a one-year hold period investors may exchange all or a portion of their OP Units for REIT common shares which may be sold pursuant to the terms of the share repurchase program.

Important Note:

The exchange from OP Units to REIT common shares is a taxable event.

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Investor may sell REIT shares[3], pursuant to the share repurchase program.

[3] Share Repurchase Program generally limits redemptions to 5% per quarter (20% per year) and may be amended, suspended or terminated. Accordingly, shares may become illiquid.

Important Note:

Through the use of estate planning, investors' heirs may inherit the operating units on a "stepped-up" basis which may reduce or eliminate the deferred taxes altogether.