Inland Private Capital Corporation

1031 Exchange Solutions & Investing in Private Placements

Disclaimers

inlandprivatecapital.com

FOR INSTITUTIONAL USE ONLY. Distribution to prospective investors prohibited.

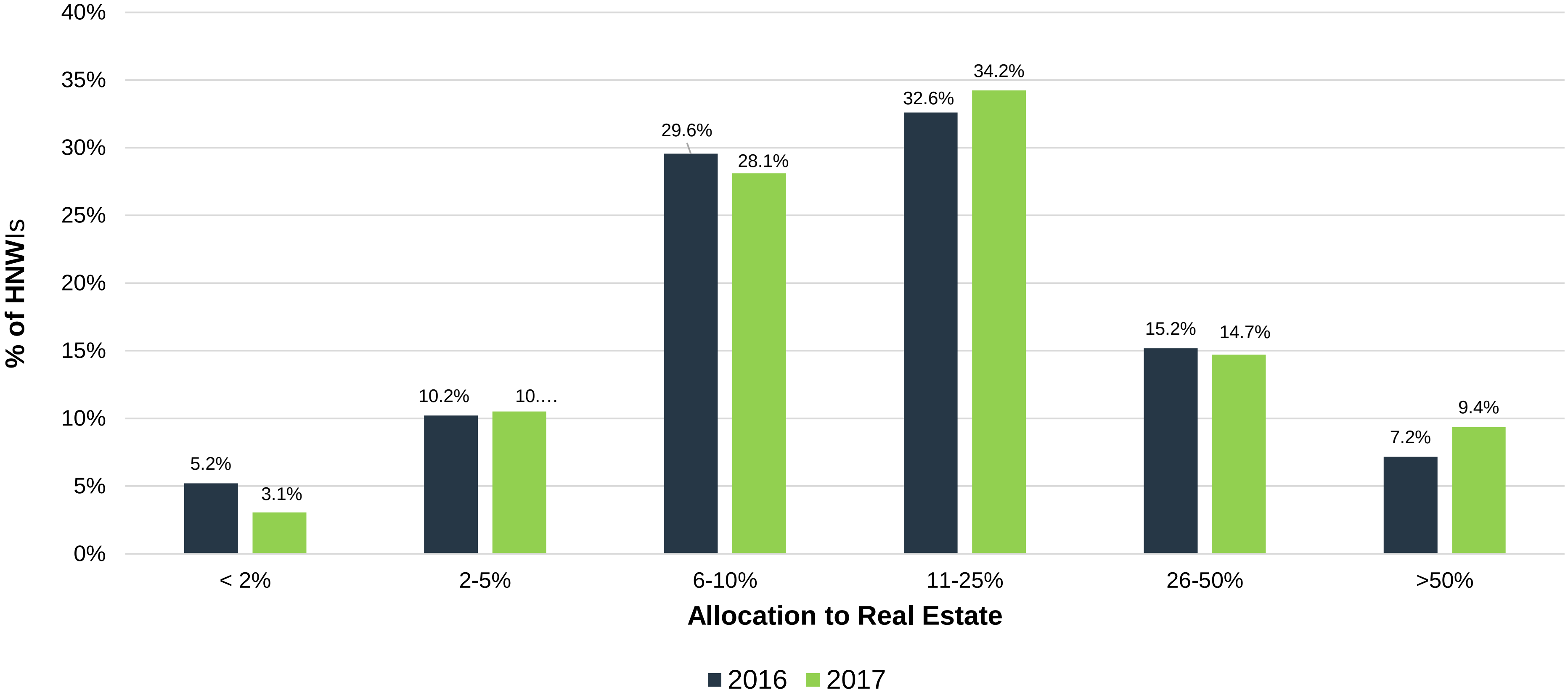
- Investments are suitable for accredited investors only.
- This material is neither an offer to sell, nor the solicitation of an offer to buy any security in any program sponsored by Inland Private Capital Corporation (IPC), which can be made only by the Private Placement Memorandum (PPM), and sold 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.
- The photographs shown are properties that are owned by IPC-sponsored programs that have closed offerings.
- The companies depicted in the photographs herein may have proprietary interests in their trade names and trademarks. Nothing herein shall be considered to be an endorsement, authorization or approval of IPC, or the investment vehicles it may offer, by the aforementioned companies. Further, none of the aforementioned companies are affiliated with IPC in any manner.
- The Inland name and logo are registered trademarks being used under license. This material has been distributed by Inland Securities Corporation, member FINRA/SIPC, placement agent for IPC.
- Inland refers to some or all of the entities that are part of The Inland Real Estate Group of Companies, Inc., one of the nation's largest commercial real estate and finance groups, which is comprised of independent legal entities, some of which may be affiliates, share some common ownership or have been sponsored and managed by such entities or subsidiaries thereof. Inland has been creating, developing and supporting real estate-related companies for 50 years.
- Publication Date: 7/24/2018

Risk Factors

Inland Private Capital Corporation
inlandprivatecapital.com

- Interests in an IPC-sponsored program may be sold only to accredited investors, which for natural persons, are investors who meet certain minimum annual income or net worth thresholds.
- Interests in an IPC-sponsored program are offered in reliance on an exemption from the registration requirements of the Securities Act of 1933, as amended, and are not required to comply with specific disclosure requirements that apply to registration under the Securities Act of 1933, as amended.
- The Securities and Exchange Commission has not passed upon the merits of or given its approval to the interests in any IPC-sponsored program, the terms of any offering, or the accuracy or completeness of any offering materials.
- 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.
- Investors should not assume they will be able to resell their interests.
- 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.
- Investors should be able to bear the loss of their investment.
- 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.

> Average real estate allocations for HNWI*



- 58% of HNWIs have more than 10% of assets allocated to Commercial Real Estate (CRE)
- 79% of HNWIs hold their CRE allocations in direct real estate

National Real Estate Investor's 2017 HNWI Research Report *HNWIs defined as individuals with more than $1 million in liquid financial assets

What is a 1031 Exchange?

inlandprivatecapital.com

> 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

Commercial Real Estate IS Like-Kind

Inland Private Capital Corporation

inlandprivatecapital.com

MULTIFAMILY HOUSING

HEALTHCARE

SELF STORAGE

RETAIL

STUDENT HOUSING

INDUSTRIAL

OFFICE

1031 Exchange Guidelines

Inland Private Capital Corporation

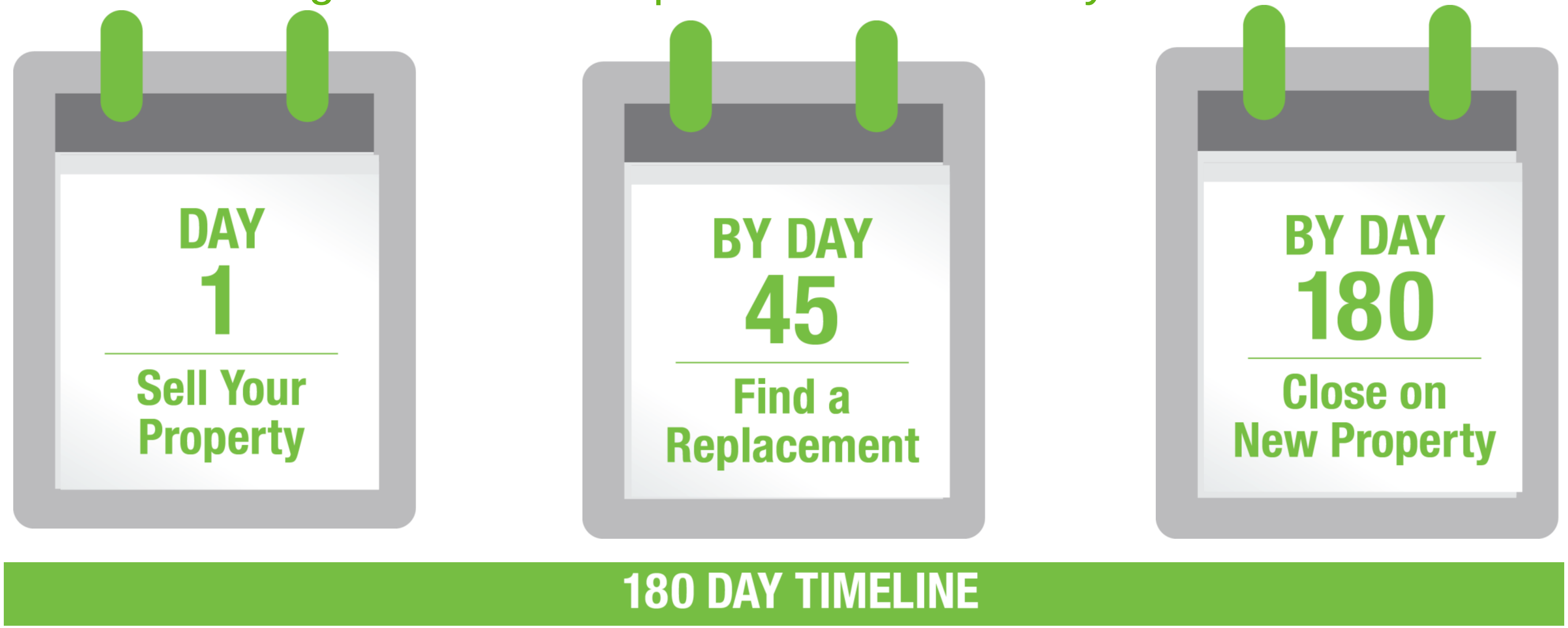
inlandprivatecapital.com

> How to successfully execute a 1031 exchange transaction

New asset value => Relinquished property	Cash invested in replacement property => Cash received from relinquished property sale	Debt on replacement property => Debt from relinquished property

1031 Exchange Timeline

> A 1031 exchange must be completed within 180 days



What is a Qualified Intermediary?

inlandprivatecapital.com

- The Qualified Intermediary (QI) is a company that facilitates Section 1031 tax-deferred exchanges and is defined in Treasury Regulations. The QI enters into a written agreement with the taxpayer where QI transfers the relinquished property to the buyer, and transfers the replacement property to the taxpayer pursuant to an exchange agreement. The QI holds the proceeds from the sale of the relinquished property in a trust or escrow account in order to ensure the taxpayer never has actual or constructive receipt of the sale proceeds, which would trigger capital gain consequences.

- The identification and replacement timelines should be monitored by the QI and the identification is done through the QI.

Qualified Intermediary - Disqualified Parties

- Neither the taxpayer nor a “disqualified person” may serve as a QI.

- A disqualified person is someone who is the agent of the exchanger at the time of the exchange. A person who has acted as the taxpayer’s employee, attorney, accountant, investment banker or broker, or real estate agent or broker within the two-year period preceding the date of the transfer of the first relinquished property is treated as an agent of the exchanger, and thereby a disqualified person. If an attorney has provided tax or legal services to the exchanger within the prescribed two-year period, the attorney is a disqualified person. The exchanger should, however, consider retaining an attorney to provide assistance with complicated closing documents and other aspects of the exchange.

1031 Exchange Bits & Pieces

- Vacation and second homes may qualify for exchange, if certain conditions are met.
- Investors may take some cash proceeds from the sale before the funds are sent to the qualified intermediary. The investor will pay capital gains tax on the cash but not the proceeds that were reinvested.
- Due to tax law changes, beginning on January 1, 2018, personal property, such as machinery and equipment, cannot be disposed of on a tax deferred basis under Section 1031.
- If an investor sold property that included both real property (which can exchanged under Section 1031) and personal property (which cannot), the investor may be required to pay tax on the portion of the sales proceeds attributable to the sale of the personal property. However, a new tax law provision permitting full and immediate expensing of certain tangible, personal property may, in certain circumstances, offset the burden of this tax.

1031 Exchange Bits & Pieces Continued

- Upon the death of the owner of the property, under current tax laws, the heirs would get a “step up” in basis, thereby avoiding all capital gains taxes on the original and subsequent properties. This may be an estate planning strategy for an investor.
- IPC’s offerings may also be appropriate for replacement properties in a 1033 exchange, which uses proceeds derived from an eminent domain condemnation or an insurance settlement as a result of a catastrophe.

The Delaware Statutory Trust (DST)

Inland Private Capital Corporation

inlandprivatecapital.com

In accordance with the Internal Revenue Service's Revenue Ruling 2004-86, a beneficial interest in a DST, which holds the replacement property, can be considered "like-kind" replacement property in an exchange. A DST may own one or more properties.

The rights and obligations of investors in a DST will be governed by the DST's trust agreement. Typically, investors have limited voting rights over the operation and ownership of any properties owned by the DST. In addition, the trustees of the DST will be entitled to certain fees and reimbursements, as set forth in the applicable trust agreement.

<u>Multiple Ownership Structure</u>

DSTs allow multiple Investors in each property with the percentage of beneficial ownership varying from one investor to the next.

Understanding DSTs

Inland Private Capital Corporation

inlandprivatecapital.com

Often used in multiple-owner, securitized programs, benefits of the DST structure exist for both the exchanger and, if a property is financed, the lender. Among these benefits are the following:

- The lender makes only one loan to one borrower (the DST).
- The trust agreement is written to prevent creditors of the exchanger from reaching the DST's property, therefore making it bankruptcy remote.
- The DST shields the exchanger from any liabilities with respect to the property.
- Exchangers have no operational control over the management of the DST or its property.
- Because exchangers have no operational control over the DST, the lender has no need to perform due diligence on individual exchangers.
- Because exchangers have no operational control over the DST, exchangers should also not be required to sign any indemnifications or guarantees.

Understanding DSTs

Inland Private Capital Corporation

inlandprivatecapital.com

Although the DST has many attractive features, care must be taken to follow the prohibitions on the power of the trustee, as described in IRS Revenue Ruling 2004-86.

- No capital contributions may be made by new or existing beneficiaries after the offering is fully subscribed.
- The DST cannot renegotiate its existing mortgage debt or enter into new or replacement mortgage debt unless a property tenant is bankrupt or insolvent.
- The DST cannot renegotiate its existing lease(s) or enter into new leases or lease extensions unless a property tenant is bankrupt or insolvent.
- The trustee cannot reinvest proceeds of the sale of its real estate.
- Capital expenditures may only be made for normal repair and maintenance or improvements required by law.
- Any cash held between distributions may only be invested in short term debt obligations.
- All cash, other than reserves, must be distributed on a current basis.

Investors with Property to Exchange

> A typical 1031 exchange involving the eventual investment into a DST has three basic steps

01

Exchanger sells property, known as the relinquished property, and proceeds are escrowed with a Qualified Intermediary (QI)

02

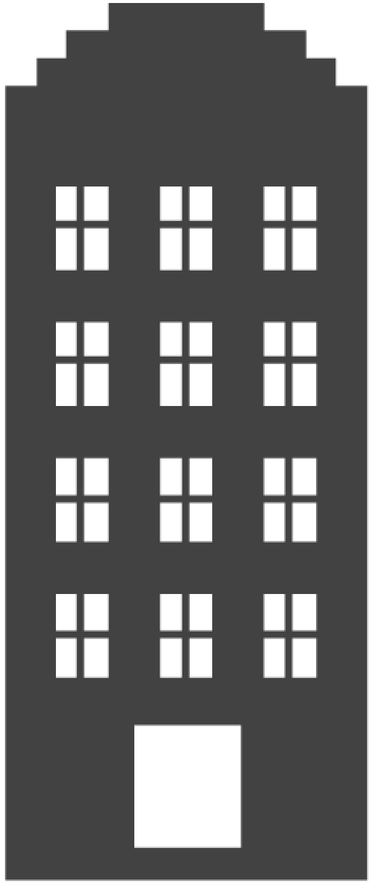
Qualified Intermediary, through a written agreement with the investor, transfers funds for purchase of replacement property

03

Exchanger receives beneficial interest in a DST

Hypothetical Real Property Sales

	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**



Hypothetical Illustration: An Exchange with Debt

Inland Private Capital Corporation

inlandprivatecapital.com

A hypothetical investor has found a buyer for his property and upon closing the sale, the sales proceeds are sent to his QI. The clock begins ticking on his identification and replacement timelines. The investor does not take possession of any funds at closing.

Relinquished Property:

Sales Price:	$1,100,000	
Debt Paid Off:	500,000	(45%)
Equity	$ 600,000	

Hypothetical Illustration: Property Replacement

The hypothetical investor decides to invest in a multiple-owner DST private placement offering so that he can forgo the management responsibilities of having his own property. He makes his identification through his QI before expiration of his 45 days.

This DST owns a portfolio of investment grade retail stores, and the terms of the private placement offering look like this:

Equity:	$13,825,153
Debt:	$13,035,000
Total Offering Price:	$26,860,153
Loan to Value:	48.53%

Hypothetical Illustration: The Exchange

The hypothetical investor instructs his QI to send his funds to the DST to purchase his replacement property before expiration of his 180 day timeframe. Ownership of his replacement property looks like this:

$600,000 investment into total equity of $13,825,153 = 4.34% ownership interest

Equity:	$ 600,000 or 4.34% of total equity
Debt Assumed*:	565,719 or 4.34% of total debt
Total Investment	$1,165,719

* For purposes of determining liabilities assumed with respect to the properties in connection with this investor's Section 1031 exchange, the investor is allocated a pro rata percentage of the debt.

Hypothetical Illustration: Relinquished vs. Replacement

Relinquished:

Equity:	$ 600,000
Debt:	500,000 (45%)
Total Investment:	**$1,100,000**

Replacement:

Equity:	$ 600,000
Debt:	565,719 (48.5%)
Total Investment:	**$1,165,719**

The investor has satisfied the safe harbor rules of completing an exchange within his timeframes while meeting or exceeding the relinquished property's equity and debt.

Potential Advantages

> Cash investors may benefit from owning commercial real estate through fractional ownership

- Portfolio diversification
- Value tied to bricks and mortar
- May provide hedge against inflation
- Income generated, if any, may be considered passive income (see next slide)
- Capital appreciation possible on sale
- Potential tax advantages through depreciation and other deductions may provide attractive taxable equivalent yields
- Possibility of deferring the tax on capital gain in the event of a profitable sale through an IRS section 1031 exchange

Income received from a DST may qualify for the new 20% pass-through deduction. As a result, investors may receive a deduction of up to 20% of the income received from a DST. Note that certain elements of calculating the investor's eligibility for the pass-through deduction, including amounts treated as "unamortized basis" in depreciable real estate if the investor acquires their DST interest in a Section 1031 exchange, remain subject to clarification from the IRS.

Passive Income & Passive Loss

Passive Income
The income from a business in which the individual does not regularly and materially participate.

Passive Loss
Any loss from a business in which the individual does not regularly and materially participate. Passive losses can be used to offset only passive income and not wage or portfolio income*.

*Portfolio Income: The income from interest, dividends and other nonbusiness investments.

Source: PassTrak Series 7 Principles and Practices

Make PALs with Your PIGs

- IPC's private placement offerings **may be passive income generators** (PIGs).
- Investments in other passive real estate programs with expenses that exceed cash flow will result in Passive Activity Losses (PALs). The only way to get **a tax benefit from these passive losses**, prior to the disposition of the real estate, is to have passive income. Passive losses are not deductible against any kind of income except passive income.
- **There is no guarantee that IPC's offerings will generate passive income.** The rules regarding the deductibility of passive losses (whether from an investment in an interest, or from another passive activity that potentially could be used to offset income from an investment in an interest) are complex and vary with the facts and circumstances particular to each investor. In addition, any income may be subject to the 3.8% Medicare Contributions Tax imposed on rent and other types of investment income for tax years beginning after 2012. Potential investors must consult with their own tax advisors regarding their ability to offset any passive income they have with passive losses.

Example of PIG/PAL Strategy

A hypothetical investor has $100,000 in passive activity losses. He is looking to carry forward his losses over a 10 year period of time. He is considering an investment which produces 6% in cash flow and has a probable life of 10 years.

Here is a formula the investor might use to determine the amount of money he would need to invest in order to produce $10,000 of passive income to offset his passive losses.

- $100,000 passive activity losses divided by 10 years (carry-forward period)
- Looking to offset $10,000 in passive activity losses per year
- $10,000 passive income / 6% (hypothetical cash flow) = $166,666.00
- Investment of $166,666.00 equals $10,000 of offset taxable income per year assuming a continuing 6% cash flow

Example of Substitute 1099 & 1098

Inland Private Capital Corporation

inlandprivatecapital.com

Property Location:
Multifamily Asset
123 Street Name
City, State 12345

Date of Acquisition:	XX/XX/XX
End of taxable year or termination date:	12/31/XX
End of Year ownership:	2.7695%

Rental Income:	**Property Total 01/01/XX-12/31/XX**	**Year-End Allocation 01/01/XX-12/31/XX**
Base rental income	$1,180,513	$32,694
Additional rent income	$1,237,647	34,277
Uncontrollable cost variance	391,304	10,837
Total gross rent Substitute Form 1099 Miscellaneous rent	2,809,464	77,808
Interest expense See note regarding 1098 Mortgage interest reporting	(1,180,513)	(32,694)
Asset management fee	(104,000)	(2,880)
Qualified property operating expenses reimbursed by DST	(12,687)	(351)
Mortgage loan servicing fee	(2,400)	(66)
DST fees	(1,081)	30
Total operating expenses	(1,300,681)	(36,021)
Net rental income	1,508,783	41,787
Total interest income (Reserve account) Substitute Form 1099 Interest Income	116	3
Total Net Income	**$1,508,899**	**$41,790**

Reconciliation of Income to Distributions		
Total Net Income (less reserve interest income)	$1,508,783	
Transferred to property reserve	(119,183)	
Total distributions from Feb. to Jan. of respective year *	$1,389,600	

* Distributions lag one month - February through the following January

Example of Substitute 1099 & 1098

For the period 01/01/XX through 12/31/XX

Mortgage debt:	Property Total 01/01/XX -12/31/XX	Year-End Allocation 01/01/XX-12/31/XX
Lender Name		
Qualified non recourse debt beginning balance	$28,600,000	$792,077
Principal Payment	(822,309)	(22,774)
Ending Balance 12/31/XX	**$27,777,691**	**$769,303**

Property Reserve Accounts:	Property Total	Your 2013 Allocation
Bank Name		
Beginning balance	$128,364	$3,555
Transferred from operations	119,183	3,301
Capital expenditures (see details below)	(68,458)	(1,896)
Interest earned	116	3
Ending Balance 12/31/XX	**$179,205**	**$4,963**

Paid from reserve: Additions to Personal Property:		
Appliances and furniture (Feb - Oct)	$13,552	$375
Carpeting and flooring (Jan - Dec)	54,906	1,521
Total additions to personal property	**$68,458**	**$1,896**

Example of Substitute 1099 & 1098

Inland Private Capital Corporation

inlandprivatecapital.com

Charges represent additions to personal property. Consult with your tax advisor concerning depreciation expense rules. These improvements do not change the original asset allocations noted below.

The component parts of the Property at the time of acquisition are:	Percentage of Total
Land	12.980%
Land Improvements	1.820%
Building	85.200%
Total costs	**100.000%**

Due to the sophistication and unique requirements of an exchange, it is recommended that you consult a knowledgeable tax professional to assist you in the filing of federal, state, and local income tax returns. Note: many states require you file separate state franchise tax returns that are unrelated to the state income tax. In most cases, the cash investment in the property will not be the tax basis.

You should consult an advisor about tax filing requirements for your location.

This property is located in **City, State.**

Please note: The operating statement need not be attached to your tax return. The amounts should be used to complete the appropriate tax form.

If you incurred any change of ownership in the current year (sale, death, transfer of interest, etc.), check with a tax advisor to determine any tax liability arising from the change in ownership.

For the tax year 20XX, this statement serves as a substitute for:

- Form 1988 Miscellaneous for reporting the gross rental income
- Form 1099 Interest Income
- Form 1098 Mortgage Interest Paid

These amounts will be reported to the Internal Revenue Service, electronically.

Note: Figures in ()'s are negative numbers.

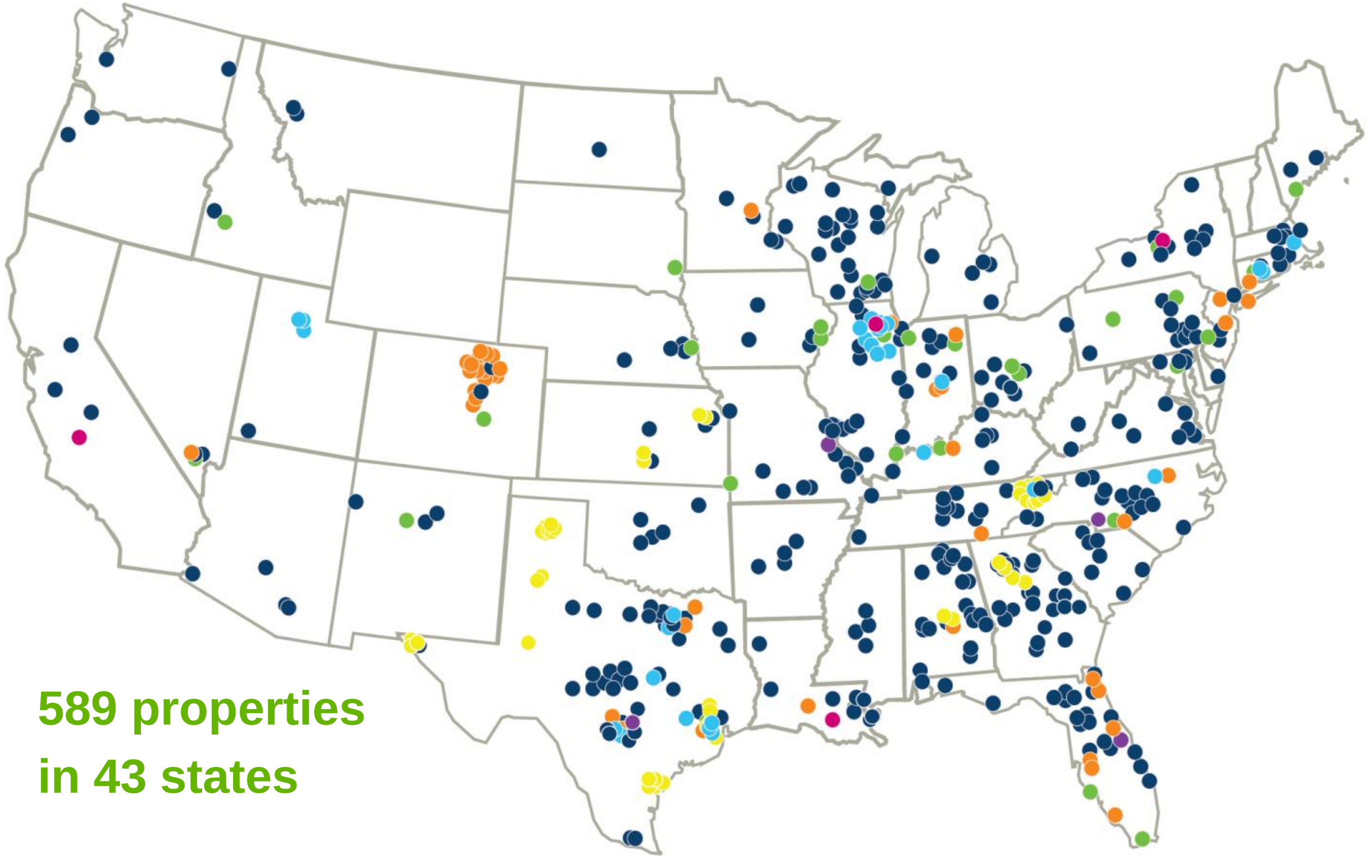
Inland Private Capital Corporation (IPC)

Inland Private Capital Corporation

inlandprivatecapital.com

- Formed in 2001 – a subsidiary of Inland Real Estate Investment Corporation
- Offers private placement securities offerings to accredited investors seeking to own real estate directly, for tax purposes
- Product may appeal to:
  - 1031 Exchange Investors
  - Cash Investors
  - Investors seeking to transition from active to passive property ownership
  - Investors seeking to "trade up" into ownership of high quality properties
- Accredited Investors only – for high net worth, sophisticated investors

Snapshot of IPC as of December 31, 2017



589 properties in 43 states

As of December 31, 2017:

- Sponsored 217 private placement programs
- Offered more than $3.7 billion in equity
- Offered more than $7.1 billion of assets based on offering price

Questions?

Inland Private Capital Corporation

inlandprivatecapital.com

50 INLAND YEARS

INTEGRITY
EXPERTISE
INNOVATION