Inland Private Capital Corporation

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Commercial Real Estate Cash Investment Solutions

www.inlandprivatecapital.com

REITs, LLCs and DSTs are Cash Investment Vehicles

Many investors recognize the advantages of including commercial real estate properties in an investment portfolio. These assets may provide **portfolio diversification, a potential stream of income** and **the opportunity for capital appreciation**. Inland Real Estate Investment Corporation (Inland Investments) and its subsidiary Inland Private Capital Corporation (IPC) offer a variety of real estate investment solutions as an alternative to traditional stocks and bonds.

Inland Celebrates Its 50th Anniversary

50 INLAND YEARS

Cash Investments in a Real Estate Investment Trust

Subject to certain suitability standards, any investor can purchase shares of a real estate investment trust (REIT). A REIT is typically structured as a publicly registered corporation that holds a portfolio of properties. Nonlisted REITs allow individual investors to indirectly own professionally managed income-producing properties through shares of the REIT. In the beginning of its life cycle, the REIT may not yet have identified properties for its portfolio. A public nonlisted REIT must periodically provide a per share estimated value for improved investor pricing transparency.

Cash Investments in a Limited Liability Company

Limited liability companies (LLCs) have become a preferred business entity structure to hold title to investment real estate properties. The insulation from personal liability coupled with the relative ease of administration and potential tax benefits make ownership of property through an LLC a desirable investment option. A primary advantage of an LLC is the owners' ability to enjoy the benefits of no tax at the business organization level (pass-through entity). Income and capital gain from the LLC pass through directly to the owner(s), who would only have to pay taxes at the individual level. Tax reporting is in the form of a Schedule K-1.

IPC's LLCs, available to accredited investors, generally own one or more identified properties but may represent a blind pool of assets or new development programs. The properties owned by IPC's LLCs are professionally managed. However, upon the sale of a property in a multiple-owner LLC, the investor does not have the option to participate in a 1031 exchange.

Cash Investments in a Delaware Statutory Trust

Accredited investors can purchase beneficial interests in a Delaware statutory trust (DST) as purely discretionary cash investments. The DST is a pass-through entity that holds real estate. IPC's DST private placement offerings are only sold to accredited investors that have the sophistication to understand the risks inherent in the offering.

DST investors receive all the benefits of owning commercial real estate without the burden of hands-on property management. DST offerings are for specified, identified properties. Upon the sale of a property in a DST, the investor will have the option to pay any capital gains tax or defer any capital gains tax by participating in a 1031 exchange. Each investor's tax situation is different and they should consult their tax advisor.

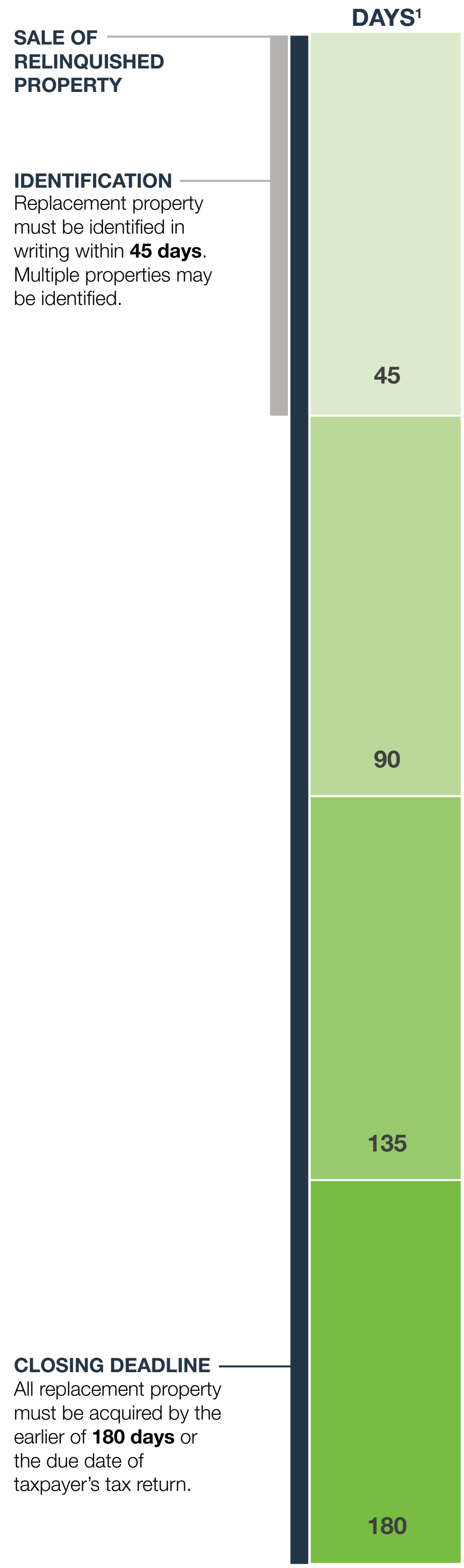
Some investors may purchase DST properties with cash as a test run for future 1031 exchanges. This may work well for property owners that like the idea of participating in a 1031 exchange but have not actually sold their investment property yet, therefore helping them build comfort before doing a large 1031 exchange.

Real Property Exchange: The 1031 Transaction

Section 1031 of the Internal Revenue Code allows an investor to defer the payment of capital gains taxes that may arise from the sale of a business or investment real property. By using the proceeds of the sale to purchase "like-kind" real estate, taxes may be deferred, as long as the investor satisfies certain conditions. In order to qualify as like-kind real estate, both the relinquished and replacement real properties must have been held for investment purposes or for productive use in trade or business. The tax deferral can continue until the investor finally makes the decision not to reinvest in another real property, but to take the cash. IPC offers replacement properties for investors participating in an exchange. These properties are packaged into a DST.

Investors choosing to participate in a 1031 exchange through an investment into a DST will receive a beneficial interest in the DST, which holds title to the real estate. Investors in a DST receive a 1099 at year-end and may be able to offset passive losses with passive income received from a DST.

1031 Exchange Timeline



[1] All days are calendar days, regardless of whether the day falls on a holiday or weekend.

Investors with a Real Property to Exchange

A typical 1031 exchange into a DST involves three basic steps.

1 **Exchanger sells property, known as the relinquished property, and proceeds are escrowed with a Qualified Intermediary (QI)[1]**

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

3 **Exchanger receives beneficial interest in a DST**

[1] Qualified Intermediary (QI) is a company that is in the full-time business of facilitating section 1031 tax deferred exchanges.

Hypothetical Example of Real Property Sale

The examples below show a hypothetical real property sale with and without a 1031 exchange.

	No exchange (cash)	With exchange
Sales Proceeds	$1,000,000	$1,000,000
Less 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**

* 2015 U.S. state average capital gains tax per taxfoundation.org

Characteristics of REITs, LLCs and DSTs

	REIT	LLC	DST
Accepts cash investments	✓	✓	✓
Issues 1099 at year-end	✓	✗	✓
Professionally managed portfolio	✓	✓	✓
Accepts qualified plans	✓	✗	✗
Administered by transfer agent	✓	✗	✗
Potential to list on an exchange, merge or sell entity	✓	✗	✗
Sold to non-accredited investors	✓	✗	✗
Subject to investor account statement regulations (FINRA15-02)	✓	✗	✗
Suitable replacement entity for 1031 exchange	✗	✗	✓
1031 exchange option upon property sale to defer capital gain	✗	✗	✓
Specified property (ies)	✗	✓	✓
Day 1 fully covered distribution*	✗	✓	✓
Potential passive income generator*	✗	✓	✓
Offers choice on leverage level (high, low, all cash)	✗	✓	✓
Sold through RIAs (net of commission)	✓	✓	✓

* Distributions cannot be guaranteed. There is no guarantee that IPC's offerings will generate passive income.

Inland Investments and IPC offer a range of commercial real estate investments across sectors, including multifamily, healthcare, self-storage, retail, office, student housing and industrial. By working with Inland Investments, investors can identify the right investment opportunity to suit their needs.

For more information regarding retail or accredited investor commercial real estate investment solutions, contact your financial advisor or visit **www.inland-investments.com.**

Important Risk Factors to Consider

Some of the risks related to investing in commercial real estate include, but are not limited to: market risks such as local property supply and demand conditions; tenants' inability to pay rent; tenant turnover; inflation and other increases in operating costs; adverse changes in laws and regulations; relative illiquidity of real estate investments; changing market demographics; acts of God such as earthquakes, floods or other uninsured losses; interest rate fluctuations; and availability of financing.

Some of the risks specifically related to investing in a nonlisted REIT include, but are not limited to:

- The board of directors, rather than the trading market, determines the offering price of shares; there is limited liquidity because shares are not bought and sold on an exchange; repurchase programs may be modified or terminated; a typical time horizon for an exit strategy is longer than five years; and there is no guarantee that a liquidity event will occur.
- Distributions cannot be guaranteed and may be paid from sources other than cash flow from operations, including borrowings and net offering proceeds. Payments of distributions using offering or financing proceeds will reduce the amount of capital a REIT ultimately invests in real estate assets.
- Failure to qualify as a REIT and thus being required to pay federal, state and local taxes, which may reduce the amount of cash available for distributions.
- Principal and interest payments on borrowings will reduce the funds available for other purposes, including distributions to stockholders. In addition, rates on loans can adjust to higher levels, and there is a potential for default on loans.
- Conflicts of interest with, and payments of significant fees to, a business manager, real estate manager or other affiliates.
- Tax implications are different for each stockholder. Stockholders should consult a tax advisor.

Some of the risks specifically related to investing in an IPC-sponsored DST include, but are not limited to:

- 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.
- 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.
- The acquisition of interests in an IPC-sponsored program may not qualify under Section 1031 of the Internal Revenue Code of 1986, as amended 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.

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