



# UPREIT 101

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## What is an UPREIT?

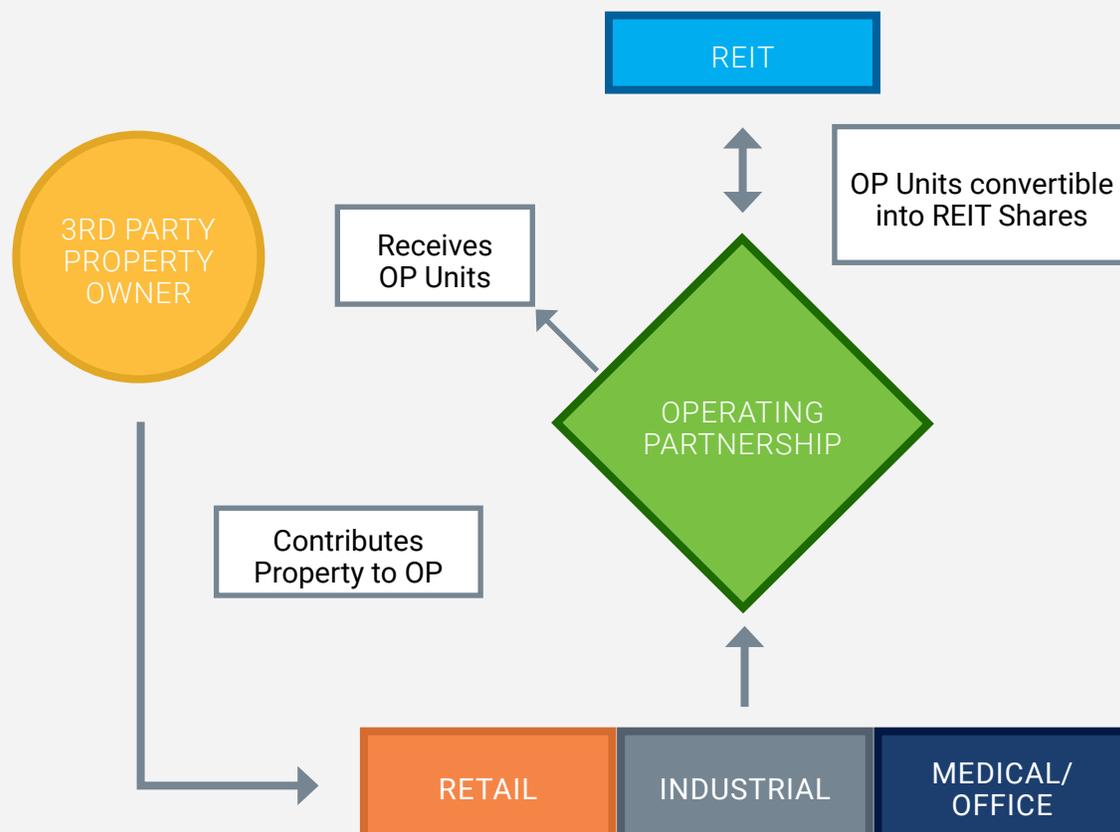
An UPREIT (Umbrella Partnership Real Estate Investment Trust) is a corporate structure that allows real estate owners to exchange their property holdings for operating partnership (OP) units in a Real Estate Investment Trust (REIT) in a tax deferred transaction similar to a 1031 exchange. These OP units can later be converted into REIT common shares.

## How it Works

In a simple UPREIT structure, a REIT typically acquires all of its properties through its Operating Partnership (the UPREIT entity).

Individuals contribute their real estate directly to the Operating Partnership in exchange for OP units. Since the OP entity is not considered an "investment company" for tax purposes, the contribution may not be treated as a sale and capital gains taxes may be deferred. The property contributor's new OP units are then convertible into REIT common shares at the contributor's discretion.

## The Mechanics Of An UPREIT Transaction



## UPREIT Benefits

In addition to tax deferral, UPREIT transactions benefit from a variety of attractive features. Some of the most notable attributes include:



### Diversification

OP unitholders own an interest in a portfolio rather than a single asset



### Passive Management

OP unitholders benefit from professional REIT management and are freed from daily operating concerns



### Recurring Cash Flow

OP units generally mirror performance of REIT common shares including monthly or quarterly dividend payments



### Estate Simplification

OP units can be distributed among heirs and receive a stepped up tax basis equal to the value at death

## Who Can Benefit From UPREITs?

UPREIT transactions are limited to “accredited investors” as defined by the U.S. Securities and Exchange Commission (SEC). In order to qualify, investors must meet certain income or net worth requirements.

Assuming the investor is accredited, the best candidates for UPREITs are generally real estate owners with low tax bases, family-owned properties (multiple heirs), and owners having too much of their net worth tied up in a single asset (diversification issues).

## Final Thoughts

UPREITs are often the most attractive option for real estate owners looking to dispose of real estate while simultaneously deferring capital gains. Though less common than 1031 exchanges, UPREITs carry a variety of added benefits and should be included in any list of real estate sale options.

## Speak With Your Financial Professional To Learn More About Four Springs Capital Trust

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