

BL	. 1	100	-	-	_	10
DL	.u	E	ĸ	u	u	n



Risk Factors

Risk Factors

The information contained herein is believed to be accurate, however, no such warranties, representations, or guarantees are provided to that leffect, either expressly or implicitly. Transactions involving Internal Revenue Code Section 5/1031 are highly complex, and it is strongly recommended that investors seek competent, independent tax and legal courses prior to initiating, and white performing, such a tax deferred Exchange. All forms of real estate investing are speculative and involve a high degree of risk. Investors should be able to bear the complete loss of an All real estate is generally subject to the risks of increased and ongoing vacancy, problematic transats, economic downturns, physical dismage or loss, unexpected repairs and maintenance, envient domain, negative rezoning, blight, environmental damage and liability, and overall valuation fluctuations that may be outside of the owners control. 1031 Exchanges are highly complex and failure to comply with the stringent requirements may result in a complete loss of the desired tax deferral. Investors should carefully consult with independent tax and legal counsel prior to initiating, and while performing, a tax-deferred Exchange. There is no significantly established secondary market for securitized, fractionalized Tica and SIS ownership interests. The transfer of these interests may also be legally restricted.

Investors should carefully consider both their ongoing liquidity needs and estate planning goals prior to investing in such an interest. Most offerings are for ownership interests in a single property, and any desired diversification must be achieved with other real estate investments. Buerock Real Estate does not guaranteer ongoing distributions or overall investment performance. Buerock Real Estate does not guaranteer ongoing distributions or overall investment performance. Buerock Real Estate does not guaranteer ongoing distributions or overall investment performance. Buerock Real Estate does not guaranteer ongoing distributio

Securities offered through **Bluerock Capital Markets**, LLC, Member FINRA/SIPC Affiliated with Bluerock Real Estate, LLC N-13-26

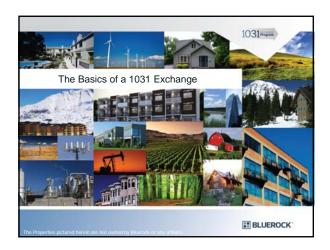
BLUEROCK"



Table of Contents

- Basics of §1031
- The 1031 Exchange Process
- Comparison of TIC & DST
- 1031 Technical Aspects
- Marketing 1031 Programs
- 1031 Sales Ideas

The properties pictured in this brochure are either owned by Bluerock and its affiliates, or included as examples of the types of properties intended to be acquired by Bluerock and its affiliates.



■ BLUEROCK

The 1031 Code

No gain or loss shall be recognized on the exchange of property held for productive use in a trade or business or for investment if such property is exchanged solely for property of like-kind which is to be held either for productive use in a trade or business or for investment.

1031 Program

BLUEROCK"



What is a §1031 Exchange?

- Tax strategy that may be used to defer capital gains taxes on the sale of real property as well as depreciation recapture
- Property must be exchanged for another "like-kind" property
 - Refers to the nature or character of the property, rather than its grade or quality
 - Property held for productive use in a trade or business or an investment



1031 Exchange Basic Requirements

For complete tax deferral, investors must:

Reinvest 100% of net sales proceeds into the replacement property;
Acquire an equal or greater amount of debt on the replacement property;
Identify potential replacement property within 45 days*
Close on the replacement property within 180 days**; and
Use a Qualified Intermediary (QI)

Must be in writing to the Qualified Intermediary
Closing on the replacement property or the due date for filling the tax return for the year which the relinquished property or the due date for filling the tax return for the year which the relinquished property was sold; unless an automatic filing extension has been obtained.



1031 Program

What to Expect from a Sponsor

A high degree of "hand holding" during the complex, time consuming and otherwise stressful process of performing a §1031 Exchange:

- Closely coordinating with the Advisors, clients, attorneys, accountants, and Qualified Intermediary
 Assisting with the completion of investment subscription documents including the calculation of oursership interest, total investment and debt assumption. Interfacing with the Off throughout the process and securing the transfer of funds for closing.

A strong educational component to assist advisors and clients in understanding all of the risks, investment merits, and alternatives available to them:

- Exchange vs. sale and reinvestment
 Accreditation, suitability and diversification
 Asser class investment options (Multifamily vs. Retail vs. Office vs. Industrial vs. Oil & Gas)

Attention to detail and ongoing customer service:

- Post-closing confirmation
 Periodic investment performance updates (quarterly and annually)
 Annual tax reporting (Schedule K-1 and Operating Statement)

BLUEROCK

1031 Program

The Investment Process

Upon receipt of the completed Subscription Agreement (the PA and PQ), the Investor Relations department will:

- Review the percentage of ownership interest, and equity and debt as recorded on the PA. Notify the Advisor if adjustment is needed $\,$
- Contact the QI to verify funds, obtain the proper titling for the closing documents, sign Assignment docs as the seller, and establish a close date
- Notify the Advisor of the anticipated close date and establish the best form of contact with the investor for the execution of final closing docs (usually email or via Fedex)
- Send closing docs to the investor that consist of a closing statement and a final purchase agreement if there have been any changes since the originals docs were received

PA: Purchase Agreement PQ: Purchaser Questionnaire

BLUEROCK

1031 Program

The Closing Process

Upon receipt of closing docs from the investor:

- Copies are sent to their QI for the wire of funds to escrow
- Once funds are verified by the title company, the closing can be completed
- The Advisor is given notice that the closing has occurred and is informed of all details regarding commission and investor correspondence
- The Investor and Advisor are mailed a copy of the closing statement and a welcome letter detailing the investment
- Throughout the process, our team is in communication with the Advisor, the QI, and the Investor.

1031 Program

Suitability and Accreditation

The definition of an "Accredited Investor" includes the following:

- A natural person who has individual net worth, or joint net worth (excluding personal residence) with the person's spouse, that exceeds \$1 million at the time of the purchase
- A natural person with income exceeding \$200,000 in each of the two most recent years or joint income with a spouse exceeding \$300,000 for those years and a reasonable expectation of the same income level in the current year; or
- An Irrevocable Trust with assets in excess of \$5 million, not formed to acquire
 the securities offered, whose purchases an experienced investor is capable of
 making. Revocable Trusts revert to requirements for individual investors.

NOTE: Accreditation does not necessarily equate to suitability

These guidelines have been set forth by the Securities Exchange Commission under the Securities Act of 1933 and are not complete. Each State and each Broker Dealer may have more stringent guidelines. Please review your company's requirements' of Accedited Investors prior to suggesting an investment. See Rule 501 of Regulation D for a complete definition.

13

BLUEROCK

1031 Program

Lifecycle of a 1031 Exchange

- Typically 5-10 years in duration
- Typically end upon sale or refinance of property
- Taxable event in the year exchange expires

14

BLUEROCK

Identification Rules

» Three (3) Property Rule:

The taxpayer may identify up to three properties of any fair market value. This is the most commonly used identification rule.

» 200% Rule:

The taxpayer may identify an unlimited number of properties provided the total fair market value of all properties identified does not exceed 200% of the fair market value of the relinquished property.

» 95% Rule:

If the taxpayer identifies properties in excess of both of the above rules, then the taxpayer must acquire 95% of the value of all properties identified.

1031 Program



721 Exchanges

Rather than exchange property for a property, IRS Section 721 allows an investor to exchange (tax-defer) the proceeds directly into an UPREIT in exchange for operating partnership units (OP Units)

- The ownership of OP Units may offer investors the following benefits:

 Access to a diversified portfolio of institutional-quality real estate;

 Deferral of capital gains;

 Realization of the economic benefits of the REITs entire portfolio, including a constitution and distribution of page 1. including potential capital appreciation and distributions of operating
- income;

 Convertibility of OP Units into REIT shares (at investor's discretion at time of exit or needing liquidity);

 Management of tax gain through partial conversion and liquidation of OP units over time;

 Full divisibility of OP Units; and

 Upon death, receipt by heirs of a stepped-up basis in OP Units (permanent tax-deferral)



BLUEROCK



Types of 1031 Exchange Structures

Two methods commonly used in fractional real estate ownership.

- Tenancy-in-Common (TIC)
- IRS Revenue Procedure 2002-22
- Delaware Statutory Trust (DST)
 - IRS Revenue Ruling 2004-86

BLUEROCK						
	1031 Program					
Comparison of TIC & DST Structures						
TENANCY-IN-COMMON	DELAWARE STATUTORY TRUST (DST)					
Maximum of 35 investors	Maximum of 499 investors					
Higher minimum investment	Lower minimum investment					
Up to 35 separate real estate closings	Lender only needs to make one loan because the DST owns 100% of the real estate					
Each investor is required to be recourse with respect to "bad boy" and some environmental carve-outs	Loan carve-outs apply to sponsors, not investors					
All major decisions require unanimous agreement by investors	Sponsors (as Sole Trustee) makes decisions on behalf of the investors					
Investors can be liable for the actions of co- investors	Investors do not need separate LLCs					
Each investor must pay annual LLC fees	No annual LLC fees					
Lenders underwrite each investor	Lender does not underwrite each investor					

1031 Program

The 'Seven Deadly Sins' of the DST

- Once the offering is closed, there can be no further capital contributions to the DST by either existing or new investors
- 2. The DST cannot renegotiate existing loans or borrow more funds
- 3. The DST cannot reinvest proceeds from the sale of its real estate.
- The DST is limited to making minor, nonstructural capital improvements, in addition to those required by law
- 5. Any reserves or cash held between distribution dates can only be invested in short-term debt obligations
- All cash, other than necessary reserves, must be paid out to investors
- 7. The DST cannot renegotiate existing leases or enter into

2

BLUEROCK

1031 Program

Advantages of a DST

- Provides access for more investors
- Provides investments of lower ticket amounts
- Provides more simple and efficient closing investment process
- Provides investors protection against personal liability
- Allows swifter action in case of issues
- Provides investors less exposure to rogue investors
- Provides a less complex structure for investors
- Eliminates annual LLC fees to investors

21

1031 Program

Risks of DSTs

- Violation of one or more "Seven Deadly Sins"
- Limited managerial control
- Leverage-related volatility
- General real estate risk
- Limited diversification
- Sponsor-related fees
- Adverse tax ruling
- Illiquidity

■ BLUEROCK

1031 Program

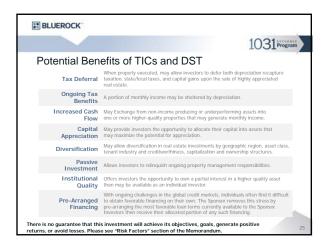
General Offering Risk Disclosures

- Illiquid Investment
- Limited Control
- Significant Fees
- General Real Estate Risks
- The Use of Leverage
- Tax Risks
- Property Specific Risks

See "Risk Factors" section of the Memorandum for a complete listing of all of the risks associated with the Offering.



	_
	_



1031 Program

1031 Sales Ideas

- Include "Real Property" when discussing a client's assets. Often clients do not associate real estate with their investment portfolio. Examples include: raw land, residential rentals, buildings and properties used in business.
- Partner with a local Qualified Intermediary to present 'educational symposiums' on tax-efficient investment strategies and succession and estate planning with an emphasis on investment real estate.

Please check with your Compliance Department to ensure that your marketing efforts fall within your Broker Dealer's company-specific requirements

BLUEROCK

1031 Program

1031 Sales Ideas

 Reach out to local attorneys, CPAs, commercial real estate brokers and QIs in order to form strategic alliances. These professionals may not have access to the same quality of 1031 properties that are available to Advisors.

What to look for:

- Business owners preparing for retirement,
- Clients with inherited property,
- Clients who own second homes or vacation homes,
- Clients interested in creating initial basis in institutional quality real estate (non-1031 equity).

h



1031 Program

Boot

Currently under the IRS 1031 exchange rules, only "like kind" property held for business or investment purposes qualifies for a 1031 exchange.

There are a number of things that, if included as a part of the exchange, can trigger a capital gain tax bill on the portion of the exchange that they represent called a 1031 exchange boot. Any boot received is taxable (to the extent of gain realized on the exchange).

Examples of boot that a real estate investor may experience include:

- Mortgage Boot (debt reduction): when the mortgage debt of the new exchange property is of lesser value than the mortgage debt on the relinquished property
- Cash Boot: includes net cash received at closing
- Sale Proceeds Boot (non closing/transaction costs): includes items such as: repair items, reserves, escrows, prorations, other items not included in the actual cost to acquire the property

29

The Exchange Equation For full tax deferral, a Taxpayer must meet two requirements: 1. Reinvest all net exchange proceeds 2. Acquire property with the same or greater debt. Relinquished Replacement Boot Value \$900,000 \$1,200,000 - Debt \$300,000 \$660,000 \$0 - Cost of Sale \$60,000 Net Equity \$540,000 \$540,000 \$0 The Taxpayer acquired property of greater value, reinvesting all net equity and increasing the debt on the replacement property. Analysis: There is no boot.

