The 721 Exchange

A Tax-Efficient Transition **for Real Estate Owners**

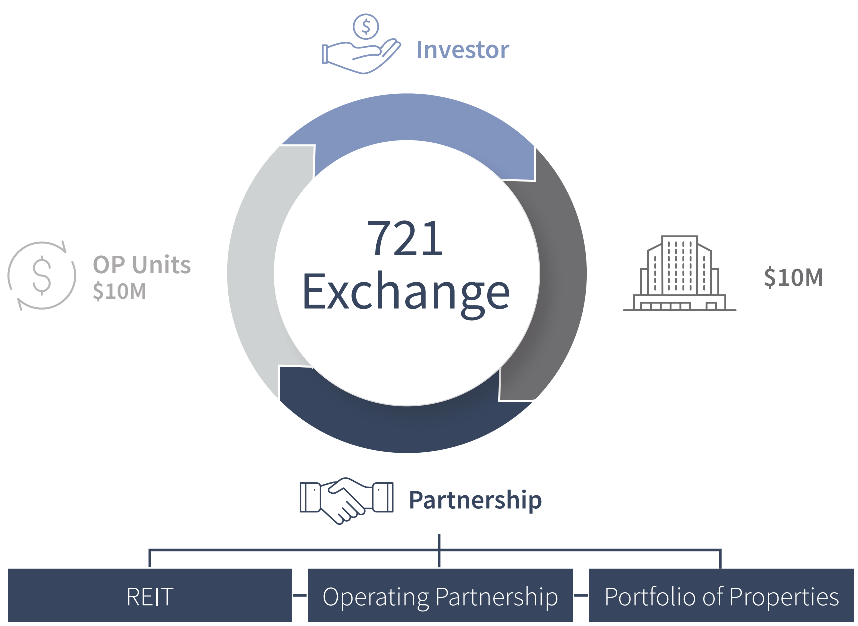
Real estate investors who have built significant wealth through property ownership often face a familiar challenge: how to exit highly appreciated assets without triggering substantial taxes or taking on new management responsibilities.

A 721 exchange—also known as an UPREIT transaction—offers a solution.

What is a **721 Exchange?**

A 721 exchange allows real estate owners to contribute property into an operating partnership (OP) in exchange for ownership units, rather than selling the property for cash.

These OPs are typically affiliated with a real estate investment trust (REIT), giving investors access to a broader, professionally managed real estate portfolio. Over time, OP units may be converted into REIT shares, creating potential liquidity.



Core **Benefits**

- **Defers** capital gains tax at the time of exchange
- **Defers** depreciation recapture
- **Transitions** ownership into a diversified real estate portfolio
- **Eliminates** day-to-day property management
- **Creates** potential for passive income and long-term appreciation
- **Creates** a path from illiquid real estate → more flexible ownership structure

While both 1031 exchanges and 721 exchanges offer tax deferral, they are designed to serve different roles within a real estate investment strategy.

1031 EXCHANGE	FEATURE	721 EXCHANGE
Yes	TAX DEFERRAL	Yes
Yes	REPLACEMENT PROPERTY REQUIRED	No
Active	MANAGEMENT	Passive
Limited	DIVERSIFICATION	Broad
Low	LIQUIDITY	Potential over time

The 721 Exchange as a **DST Exit Strategy**

For many investors, the 721 exchange is not the starting point—it's the next step.

01 Sell property and complete a 1031 exchange into a Delaware Statutory Trust (DST)

02 DSTs provides passive ownership and access to institutional-quality real estate. Hold the DST for income, tax deferral, and potential appreciation

03 At exit, DST investment may transition into a REIT via a 721 exchange

Why Investors Use a **721 Exchange**

TAX DEFERRAL

- Capital gains taxes are deferred at the time of exchange
- Depreciation recapture is also deferred
- Taxes are typically triggered only upon a future liquidity event

DIVERSIFICATION

Instead of remaining concentrated in a single property, investors gain exposure to a broader portfolio, helping to reduce reliance on:

- One geographic market
- One tenant or lease structure
- One property type

PASSIVE OWNERSHIP

A 721 exchange removes the operational burden of real estate ownership. Investors are no longer responsible for:

- Property management
- Leasing and tenant oversight
- Maintenance and capital expenditures

ESTATE PLANNING CONSIDERATIONS

For long-term investors, a 721 exchange can play a meaningful role in estate planning.

- OP units may receive a step-up in basis at death
- Deferred taxes may be reduced or eliminated for heirs
- Ownership structures can be simplified across multiple properties

FROM DST EXIT TO REIT OWNERSHIP

A key advantage of the 721 structure is that it provides a seamless transition from income-focused DST to diversified REIT exposure while allowing investors to:

- Continue tax deferral
- Continue passive ownership benefits
- Maintain exposure to institutional real estate

Madison Capital Group — **We Don't Try To Predict The Future, But We Are Prepared For It**

Madison Capital Group Holdings, LLC ("MCGH") is a full-service, private equity real estate investment firm with a primary focus on the multifamily, self-storage, boat and RV storage, and retail sectors. Through its entrepreneurial nature, vertical integration, and wide breadth of in-house capabilities, MCGH believes it is well-positioned to take advantage of varying market conditions and unique investment opportunities, including off-market and opportunistic opportunities. MCGH prides itself on its proven track record and established relationships built over decades of experience.

20+ years average senior management tenure	$6+ billion real estate transaction experience
130+ properties	18 states
Disciplined investment and acquisition strategy	Fully integrated national operating platform

DISCLOSURES

This is a brief and general description of certain 721 Exchange ("UPREIT") guidelines. This information is provided for informational purposes only, does not constitute individual investment advice, and should not be relied upon as tax or legal advice. Investors should consult with their tax, legal, and financial advisors regarding their individual circumstances and the potential implications of participating in a 721 exchange or contributing property to an operating partnership affiliated with a real estate investment trust ("REIT").

There are material risks associated with participating in 721 exchanges and investing in real estate securities, including but not limited to limited liquidity, long-term investment horizons, loss of control over contributed property, dependence on the performance of the operating partnership and/or REIT, tenant vacancies, general market conditions and competition, interest rate risks, the potential for new supply to enter the market and impact rental rates, potential adverse tax consequences, changes in tax laws or regulations affecting 721 exchanges or REIT structures, general economic risks, and the potential loss of the entire investment principal.

Potential cash flows, returns, or appreciation are not guaranteed and could be lower than anticipated. 721 exchange-related investments are typically long-term investments that may not provide liquidity for extended periods of time. Diversification does not guarantee a profit or protect against loss in a declining market; it is a strategy used to help manage investment risk.

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