
P | **PLYMOUTH REIT**



UPREITs and 721 Tax-Efficient Exchanges
2023

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From the First Mile to the Last Mile

Plymouth Industrial REIT focuses on the acquisition, development, ownership and management of single and multi-tenant industrial properties within the main industrial, distribution and logistics corridors of the United States.

Market Presence

Plymouth currently owns 206 buildings totaling 33.6 million square feet in industrial markets in the main industrial, distribution and logistics corridors of the U.S. at a cost basis well below replacement cost (as of 6/30/2022).

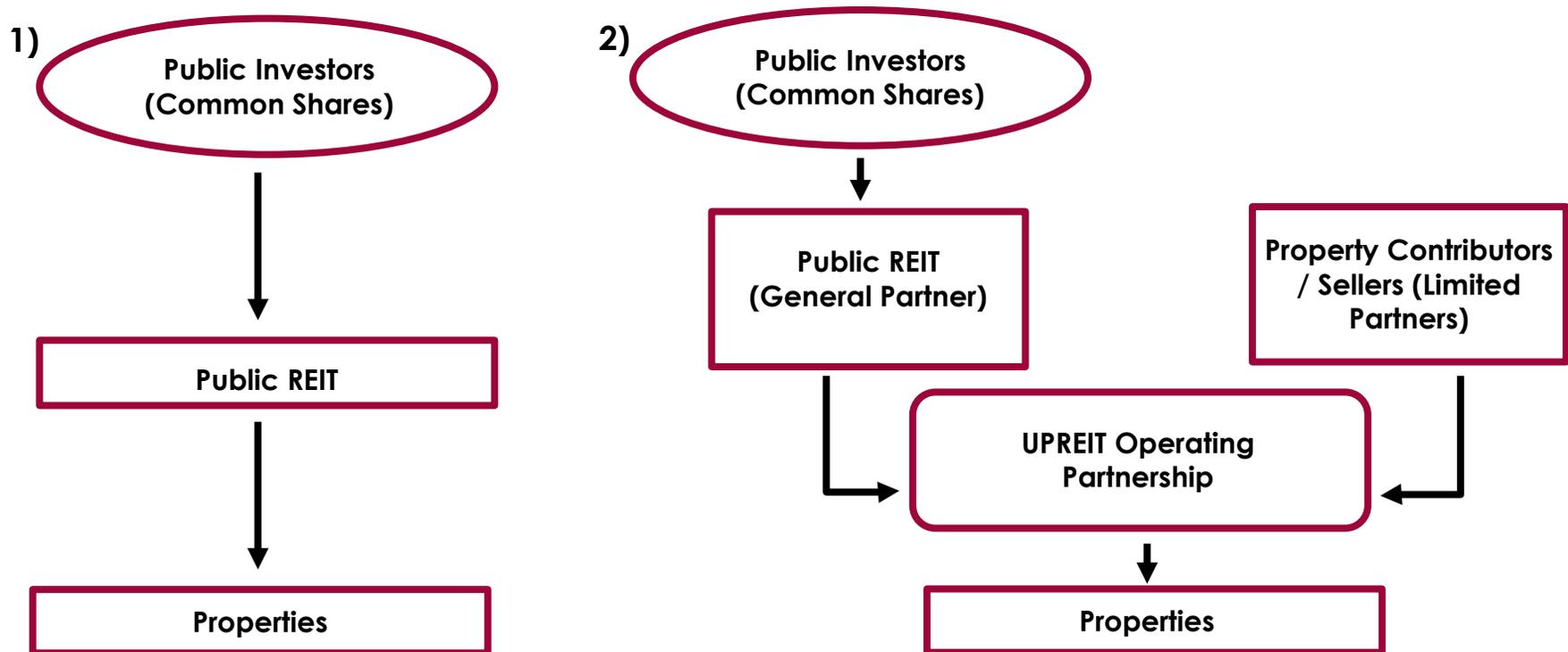


Platform Experience

- Full service, vertically integrated, self-administered and self-managed
- Focused on the acquisition, development, ownership and management of efficient, utilitarian single and multi-tenant industrial properties
- Executed transformational acquisitions of \$1.6 billion comprising over 33.6 million square feet of industrial space supported by strategic capital management, providing accretion and increased scale
- Focus on select primary and secondary markets allows for substantial rent growth opportunities
- Highly experienced management team with extensive commercial real estate and investment backgrounds
- Independent board with deep real estate, logistics, Wall Street and public company expertise

What is an UPREIT / 721 Exchange?

- The legal organizational of a REIT is typically very simple, where the REIT owns properties directly; see “1” below.
- A more tax-efficient structure is an Umbrella Partnership REIT (“UPREIT”), wherein there is an intervening structure, known as an Operating Partnership (“OP”); see “2” below.
- In a typical UPREIT transaction, an individual contributes real estate directly to the Operating Partnership in exchange for Operating Partnership Units (“OP units”), similar to a 1031 exchange. This is formally referred to as a 721 exchange.
- 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.
- These OP units can later be converted into REIT common shares at the contributor's discretion.



UPREIT Benefits

UPREITs are often the most attractive option for real estate owners looking to dispose of real estate while simultaneously deferring capital gains. UPREIT transactions are becoming increasingly popular among investors looking for diversification benefits while maintaining a long-term exposure to the asset class.

However, UPREITs are limited to “accredited investors” as defined by the SEC. In order to qualify, investors must meet certain income or net worth requirements.

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 mirror the performance of REIT common shares including quarterly dividend payments

Estate Simplification

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

Who Can Benefit From UPREITs?

- UPREIT transactions are limited to “accredited investors” as defined by the SEC. In order to qualify, investors must meet certain income or net worth requirements.
- The best candidates for UPREITs are real estate owners with low tax basis, family-owned properties (multiple heirs), and owners having too much of their net worth tied up in a single asset (diversification issues).

Case Study

Property owners of a Mid-west industrial real estate portfolio received OP units in exchange for the contribution of their property to Plymouth. The sale was structured as a tax-deferred transaction. The property owners, now OP Unitholders, received quarterly dividend distributions the same as Plymouth shareholders.

The OP Unitholders have the right to convert their units to shares of Plymouth common stock, which can then be sold in the open market. Plymouth's common stock is traded on the NYSE under the ticker symbol PLYM.

- Property owners will **diversify their investment** by participating in the performance of the REIT's larger pool of properties
- Property owners obtain a **liquid investment**, which they may dispose of in whole or in part, on short notice and at a time they choose
- OP Unitholders have **transparency as to the value of their investment** due to the exchangeability into listed common stock of the REIT
- Because the OP Unitholder has the ability to choose when to exchange the Units for REIT shares or cash, it can **better time all associated tax issues**
- Allows property owners to retain the economic value of their investment (including dividends) while **eliminating the administrative burdens of property ownership and management**
- OP Unitholder's **estate can receive a "step up" in basis to the then fair market value of the OP Units**, allowing the Unitholder's estate to exchange the OP units for REIT stock without incurring tax on the built-in gain at the time of death



<u>Hypothetical Transaction</u>	<u>Sale of Property for Cash</u>	<u>Sale of Property for OP Units</u>
Market Value	\$ 24,800,000	\$ 24,800,000
Tax Basis	14,700,000	14,700,000
Debt	14,250,000	14,250,000
<i>Capital Gain</i>		
80% from Appreciation	\$ 8,080,000	\$ 8,080,000
20% Depreciation Recapture	2,020,000	2,020,000
Total Capital Gain	\$ 10,100,000	\$ 10,100,000
<i>Capital Gain Taxes</i>		
15% on Appreciation	\$ 1,212,000	\$ -
25% on Depreciation Recapture	505,000	-
Total Capital Gain Taxes	\$ 1,717,000	\$ -
Equity Value to Property Owner		
Net Proceeds	10,550,000	10,550,000
Total Capital Gains Tax	(1,717,000)	-
Total Equity Value to Property Owner	\$ 8,833,000	\$ 10,550,000



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