NEXPOINT

1031 EXCHANGES & DELAWARE STATUTORY TRUSTS

WHAT TO KNOW

BEFORE YOU INVEST

1031 EXCHANGE BASICS

What is a 1031 exchange? This IRS-recognized tax deferral strategy allows an investor to sell an investment property and acquire a similar property with the intent to defer capital gains and depreciation recapture taxes. Note 1031 DST programs are not suitable for all investors. The Internal Revenue Code §1031 summarizes it clearly:

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.

Like-Kind Properties May Include:

- Multifamily Apartment Buildings
- Single Family Rentals
- Condominiums and Duplexes
- Office Buildings
- Retail Centers
- Warehouses and Storage Units

But Can Also Include:

- Vacant Lots
- Water, Air and Mineral Rights
- Development Rights
- Easements
- Tenancy-in Common (TIC) Interests
- Delaware Statutory Trust (DST) Interests

The Retreat, McKinney, TX

Meritage, Houston, TX

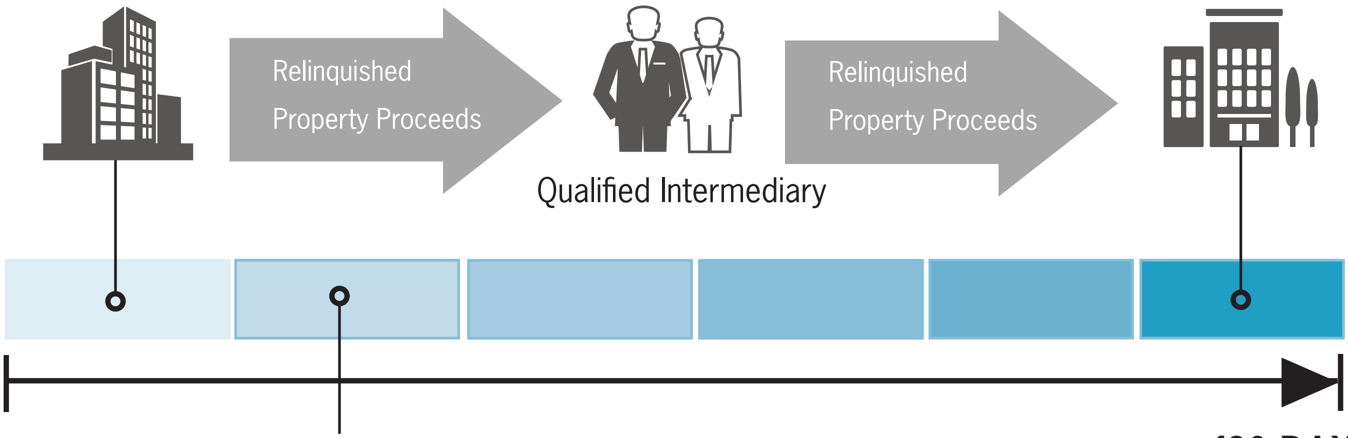
Gardens of Denton, Denton, TX

Photos shown in this brochure may be representative of the types of properties held by NexPoint.

1031 EXCHANGE PROCESS: 4 STEPS

1	The investor sells the relinquished property to a third-party buyer.
2	Sale proceeds are transferred to the Qualified Intermediary (QI)
3	The QI uses the proceeds to purchase the replacement property on behalf of the investor within the time limits defined in the Internal Revenue Code.
4	Upon closing, the investor owns a fractional interest in a trust that owns the replacement property.

TIMELINE



DAY 0

Close of Property

DAY 45

Identification Period

See Glossary on pg. 6

180 DAYS

Maximum Time to Complete the Exchange

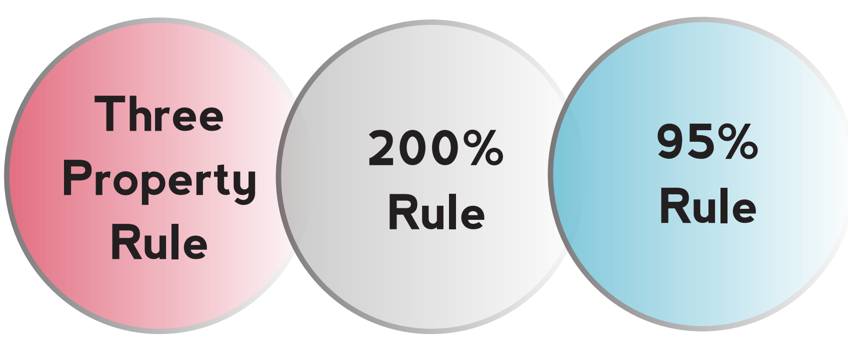
Failure to satisfy these requirements can create a tax liability.

MAIN OBJECTIVES OF THE 1031 EXCHANGE[1]

- Tax deferral
- Potentially tax-efficient, non-correlating income
- Potential capital appreciation
- Access to higher quality real estate through fractional ownership

IDENTIFICATION RULES

The ability to defer taxes through a 1031 Exchange may be a valuable benefit to taxpayers. In order to benefit, the exchange rules for identification and receipt of a replacement property must be strictly followed, including those used for identification:



Three Property Rule

The rule used most often by taxpayers allows up to three replacement properties to be identified without regard to the fair market values of the properties. Any or all of the three properties identified may be purchased.

200% Rule

States that the taxpayer may identify any number of properties as long as their aggregate fair market value as of the end of the identification period does not exceed 200 percent of the aggregate fair market value of all the relinquished properties as of the date the relinquished properties were transferred by the taxpayer.

95% Rule

If the taxpayer identifies properties that are "over" the first two rules above, it can still be considered valid if the taxpayer receives at least 95% in value of what was identified.

Landmark at Grand Oasis, Atlanta, GA

1031 EXCHANGE OWNERSHIP STRUCTURES

Fractional ownership interest in commercial assets can be an attractive alternative to purchasing a wholly-owned property due to the short 180-day time limit and regular property operations.

Whole-property purchase responsibilities	Fractionally-owned purchase potential advantages
Locate a suitable replacement property and perform adequate due diligence on the asset	Access to suitable replacement properties sponsored and pre-packaged with financing, due diligence and title commitments
Secure funding of the entire purchase price, including financing to replace any debt on the original property within the required timeframe	Pooled funds with other investors allow for possibility to purchase higher quality assets
Manage the property on a day-to-day basis	Experienced property management teams who handle the day-to-day operation of the assets

DSTs: A POTENTIALLY EFFICIENT WAY TO COMPLETE A 1031 EXCHANGE

Delaware Statutory Trusts (DSTs) provide a structure to facilitate a 1031 Exchange fractional ownership strategy. The IRS Rev Proc 2004-86 has approved the use of a DST as direct ownership for the purpose of a 1031 Exchange. As illustrated here, you can think of a DST as taking a small piece of the property. A DST is a legal entity created under Delaware law as a trust that holds title to 100% of the interest in the real property. Investors acquire a beneficial interest in the trust, with limited personal liability for the underlying assets. Although many 1031 Exchanges are completed directly by the property owner acquiring his or her own property, DSTs are an alternative solution providing a passive ownership that may be a viable solution for some investors. The investment is passive because it does not require active management by the investor. The sponsor of the DST provides all property management duties. In addition to allowing the exchanger to defer taxes, this structure offers several other benefits and points to consider, as seen below.

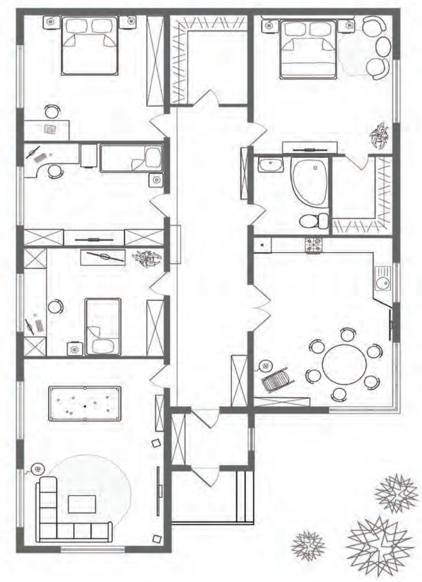
THINGS TO CONSIDER WITH A DST

Potential Benefits	Potential Risks
Ability to own higher-quality real estate with lower investment minimums	The trustee may be unable to close a deal within the required timeframe
Ability to diversify a portfolio with various locations and property types	There may be limited transferability, lack of liquidity and less control over operating decisions for individual investors. There is a potential for loss of principal value invested.
Professional asset and property management creates passive ownership, which eliminates property management responsibilities for the investor, but retains monthly income in most cases	If the trustee violates one of the mandatory tax restrictions, the investor could become immediately taxable
Quick closing process helps meet timing requirements	The tax code could also change and negatively impact the investor

Photos shown on this page are from The Adair, Sandy Springs, GA

A COMPARISON SCENARIO

While there are different scenarios and benefits of 1031 exchanges for each individual investor, below is a hypothetical example that demonstrates the advantages of using this strategy. Capital gain liability, depreciation recapture, and net investment income tax can lessen investors' reinvestment amount considerably. In a properly executed 1031 exchange with the taxes deferred, more investment dollars are available for the new investment property.



The table below shows a seller within the highest tax bracket with two different scenarios, and what each respective situation would look like if he or she:

A. Sells the property and pays the taxes
B. Sells the property and completes a 1031 exchange

In this scenario, the original property cost $400,000 and was sold for $1,100,000. While holding the property, the owner claimed $250,000 of depreciation expenses, resulting in an adjusted cost basis of $150,000.

	SCENARIO A	SCENARIO B
	Paying Taxes on Property Sale	**Completing a 1031 Exchange and Deferring Taxes[1]**
Purchase Price	$400,000	$400,000
Depreciation[2]	$250,000	$250,000
Adjusted Cost Basis	$150,000	$150,000
Sale Price	$1,100,000	$1,100,000
Total Taxable Gain	$950,000	$950,000
Long-term Capital Gain Liability (20%)[3]	$140,000	$0
State Tax	—	—
Net Investment Income Tax (3.8%)[3]	$36,100	$0
Depreciation Recapture Tax (25%)	$62,500	$0
Total Taxes Due	$238,600	$0
Net Proceeds for Investment	$861,400	$1,100,000

The tax information provided is for informational purposes only and should not be construed as legal or tax advice. Consult an attorney or tax professional regarding your specific legal and tax situation.

[1]The above scenario cannot reflect factors such as income tax brackets and investment horizons. Individual investors should consider these factors when making investment decisions.
[2]Assumes straight-line depreciation in this scenario.
[3]Assumes a taxpayer in the highest federal income tax bracket. Lower tax rates may provide reduced benefits.

GLOSSARY OF TERMS

Accredited Investor – Defined in Rule 501 of Regulation D. While each state may have additional accreditation requirements, individuals are generally considered to be accredited if they have a net worth exceeding $1,000,000 (not including value of primary residence), or if their income exceeds $200,000 in each of the last two years. A joint income with a spouse exceeding $300,000 for those years with an expectation of the same income level in the current year.

Basis – The value of a property for tax purposes. Takes into consideration added value for capital improvements and decreased by the amount of depreciation taken.

Boot – The money or the fair market value of "other property" received by the taxpayer in an exchange. Subject to taxation to the extent there is a capital gain. Examples of boots can include: cash boot, mortgage boot, and personal property.

Exchange Period – The timeframe in which the exchanger must acquire the Replacement Property in the exchange. Starts on the date the Exchanger transfers the first Relinquished Property and ends when the exchange is completed or on the 180th day.

Exchanger – The property owner aiming to defer capital gain by utilizing a 1031 exchange.

Forward Exchange – Most common form of a 1031 exchange. Begins with the sale of the Relinquished Property and completes with the purchase of a Replacement Property.

Identification Period – The 45-day period in which the investor must identify up to three potential Replacement Properties for a like-kind exchange. The 45-day window begins with the transfer of the investor's Relinquished Property.

Like-Kind Property – Any real property held for productive use in a trade or business or for investment can be considered "like-kind" property. Any real estate that is not held for personal use.

Private Placement Memorandum (PPM) – A legal, offering document that contains relevant objectives, disclosures, risks, and terms to aid investors in making informed investment decisions. May include financial statements, details of the company or entity issuing the securities offered, and the procedures for investing. Sometimes referred to as offering memorandum or offering document.

Qualified Intermediary – Third party entity that holds the exchanged funds and helps facilitate the exchange. Also referred to as QI, exchange facilitator, or exchange accommodator.

Realized Gain – Amount realized from sale of the property. Equal to the gross sale price minus the closing costs minus the adjusted basis. In a fully tax-deferred 1031 exchange, the realized gain is deferred.

Recognized Gain – Amount of the realized gain that is subject to tax. In a fully tax-deferred 1031 exchange, no gain is recognized.

Relinquished Property – The property the Exchanger is selling.

Replacement Property - The property the Exchanger is acquiring (purchasing).

Reverse Exchange – A 1031 exchange in which the replacement property must be purchased before the Relinquished Property is sold. Can also take place when improvements must be made to the Replacement Property before it can be acquired by the Exchanger. Generally more complex than a forward 1031 exchange.

Sponsor – The company/party offering a property asset that is available for sale to investors. The Sponsor handles everything from purchasing the property, to building the financials, to handling of the property management. The Sponsor will sell fractionalized interests to individual investors.

Please contact your financial advisor for more information.

ABOUT NEXPOINT

NexPoint is a leading alternative investment platform and multi-billion dollar integrated asset manager that provides differentiated access to alternatives through a range of investment offerings, including publicly traded real estate investment trusts (REITs), private placements, 1031 exchanges, closed-end funds, interval funds, and a business development company (BDC). The Advisor's management team has extensive real estate experience, having completed billions of gross real estate acquisitions since the beginning of 2012.

IMPORTANT RISKS AND DISCLOSURES

The Private Placement Memorandum contains more complete information regarding the investment including the following risk factors:

- 1031 Exchange programs are not suitable for all investors. Please contact your tax professional or financial advisor.
- There will be no public market for the interests. Limited transferability and lack of liquidity.
- There is no specified time that the investment will be liquidated.
- Delaware Statutory Trusts are a relatively new vehicle for real estate investment and are inflexible vehicles to own real property.
- Investors will have no voting rights and will have no control over management of the trust or the Property.
- There is no guarantee that investors will receive any return.
- Distributions may be derived from sources other than earnings. No assurance of when distributions will be made or that any particular rate of distribution will be maintained.
- The Property will be subject to a Master Lease Agreement.
- The Property will be subject to the risks generally associated with the acquisition, ownership and operation of real estate including, without limitation, environmental concerns, competition, occupancy, easements and restrictions and other real estate related risks.
- The Manager and its affiliates are subject to conflicts of interest between their activities, roles and duties for other entities and the activities, roles and duties they have assumed on behalf of the Trust. Conflicts exist in allocating management time, services and functions between their current and future activities and the Trust.
- Accredited investor use only.
- No assurance that the disposition of property will allow for the repayment of outstanding indebtedness.
- Reliance on an advisor.
- Payment of significant fees to the advisor and its affiliates.
- Limited powers of the advisor with respect to the properties.
- Risk that a prospective purchase may not be consummated.

* There can be no assurance that the investment objectives described herein will be achieved. Investment in securities sponsored by NexPoint is subject to substantial risks and may result in the loss of principal invested.

NexPoint Securities, Inc., Member FINRA/SIPC

www.NexPointAdvisors.com

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