

**nuveen**  
PRIVATE MARKETS



1031 UPREIT  
program playbook

*A significant opportunity for  
financial professionals*

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# 1031 UPREIT program playbook

1031 UPREIT programs offer an attractive, tax-advantaged solution for a number of qualified investment property owners.

## THE PROPERTY OWNERS' DILEMMA

Many property owners reach a point where they no longer want or need to own their property. Newly- and nearly retired investors may want to eliminate the burden of day-to-day management of a rental home. Those selling a business may no longer need a warehouse or office space.

Selling appreciated property generally results in a large tax bill that they may want to avoid and ends the investment benefits afforded by real estate, such as regular income, tax advantages and growth potential.

## 1031 UPREITS MAY OFFER AN ATTRACTIVE SOLUTION FOR ACCREDITED INVESTORS

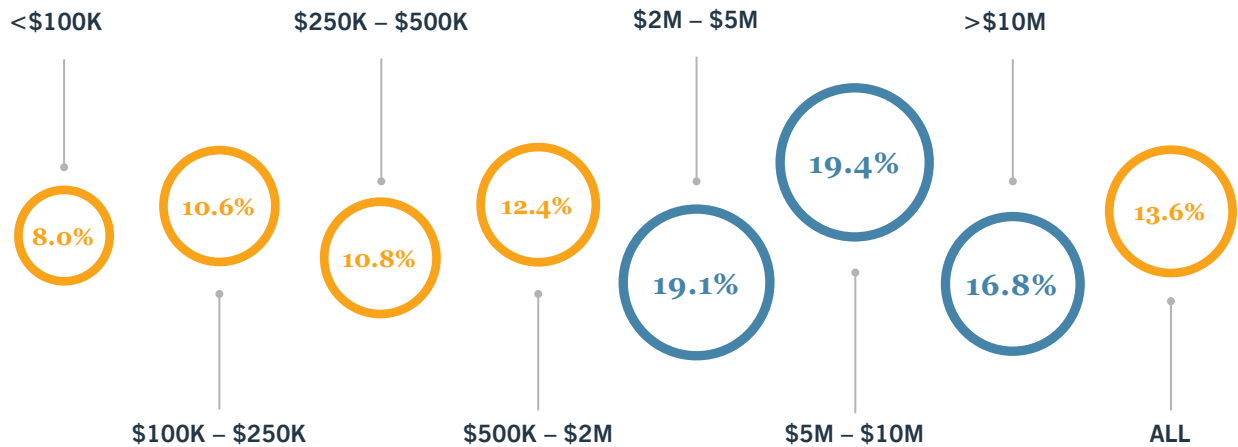
1031 UPREITs provide a way for accredited investors to exchange an investment property for income-producing interests in a passive real investment vehicle on a tax-deferred basis.

Financial professionals can leverage 1031 UPREIT programs to help investors address a specific pain point in their lives and achieve multiple financial goals, including tax-efficiently passing real estate assets to heirs.

Figure 1: Wealthier households own more eligible property

### INVESTMENT PROPERTY VALUE AS A PERCENTAGE OF TOTAL HOUSEHOLD ASSETS

#### TOTAL HOUSEHOLD FINANCIAL ASSETS



Source: Cerulli, U.S. High-Net-Worth and Ultra-High-Net-Worth Markets 2024. Investment property percentages were calculated using the sum of other (non-primary) residence plus non-residential real estate in Exhibit 2.09, Household non-financial assets by investable asset tier, 2023E.

## HOW TO USE THIS PLAYBOOK

This playbook can help you understand how 1031 UPREIT programs work so you can effectively use them to differentiate and grow your practice. It includes specific guidance on how to identify and engage

appropriate clients and prospects who may benefit from the programs. In addition, a hypothetical example illustrates how 1031 UPREITs can be used to tax-efficiently transfer the value of a property to multiple heirs as part of an estate.<sup>1</sup>

<sup>1</sup> Please note that each investor has different circumstances and unique situations and there can be no assurance that any of the stated objectives will be achieved.

**HOW 1031 UPREIT PROGRAMS WORK**

A 1031 UPREIT program entails two potential tax-deferred exchanges.

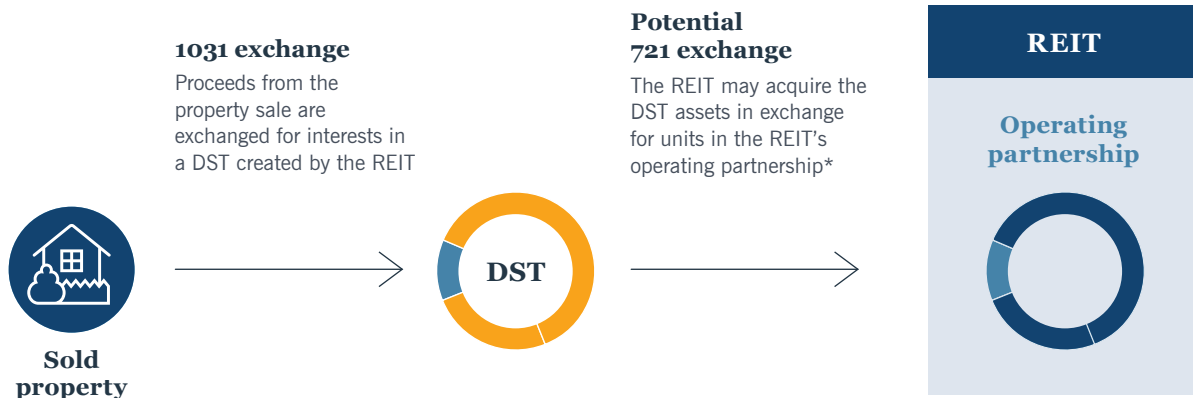
1. In the first, referred to as a 1031 exchange, the investor sells appreciated property and uses the proceeds to purchase interests in a Delaware Statutory Trust (DST) – a trust governed by Delaware state law that may own income-generating, institutional-quality real estate and issue beneficial interests to investors.

2. The second potential exchange, referred to as an umbrella partnership real estate investment trust (UPREIT) transaction or 721 exchange, is at the discretion of the REIT, which may, but is not obligated to, exchange the investor’s DST interests for REIT operating partnership units that provide direct exposure to the financial performance of the REIT. Each unit pays the same gross distributions and has the same net asset value as a REIT common share of the same class.

For more detail on the process as well as a glossary of relevant terms, please see [Nuveen’s 1031 UPREIT investor brochure](#).

**Figure 2: The 1031 UPREIT process**

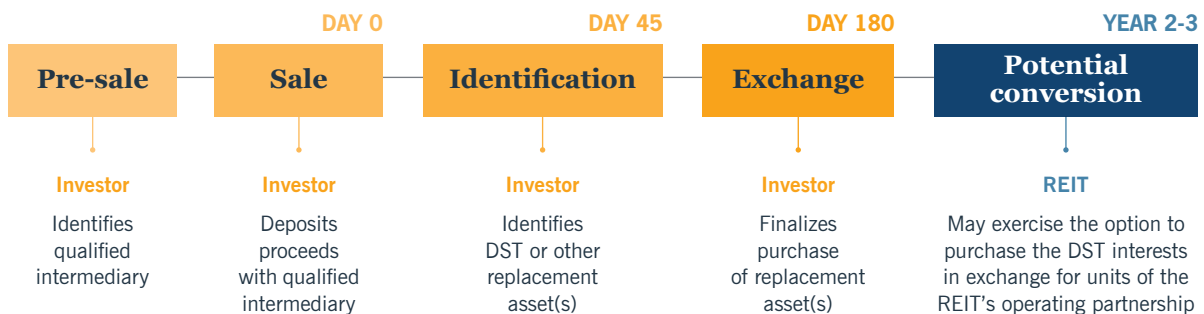
Two potential tax-deferred exchanges



\* Investors are not guaranteed to receive units in the operating partnership as the REIT’s operating partnership is not obligated to exercise its right to effect the UPREIT transaction.

**Figure 3: Clear framework and defined timetable**

A fixed timeline governs 1031 exchanges and UPREIT transactions



# 1031 UPREIT program playbook

## HYPOTHETICAL ILLUSTRATION

The hypothetical illustration below shows the potential impact and benefits of utilizing a 1031 exchange, however, there can be no assurance that any of these objectives will be achieved.<sup>2</sup>

**Janet, age 73**

**Property: Rental apartment building**

**Priorities:**

1. Avoid the large tax bill from a sale
2. Maintain monthly income
3. Eliminate responsibility of day-to-day property management
4. Transfer the value of the property tax-efficiently to children as part of an estate plan

## MEET JANET: A PROPERTY OWNER

Janet is a widow who owns a rental apartment building. The market value of the building has doubled since she and her late husband purchased it more than 10 years ago. Janet appreciates the monthly income that private real estate provides but no longer wants the responsibility of day-to-day property management. She also wants to avoid the large tax bill she would incur from a sale, as that would decrease both her retirement savings and the legacy she would be able to leave to her three adult children. She plans to transfer most of her wealth to them as part of her estate and would like to avoid burdening them with the property.

	Sell the property	1031 exchange	1031 UPREIT program
<b>JANET CONSIDERS THREE POTENTIAL SOLUTIONS:</b>	Sell the property and acquire the sale proceeds, minus transaction costs and taxes on gains	Sell the property and use tax-deferred proceeds to immediately purchase another investment property	Sell the property and use tax-deferred proceeds to purchase interests in a DST established by an UPREIT program. The investor may later have the potential, at the sole discretion of the REIT, to exchange DST interests for units in the REIT operating partnership.
<b>Unload property</b>	✓	X	✓
<b>Avoid large tax bill</b>	X	✓	✓
<b>Divisible transfer to heirs</b>	Yes – reduced amount	X	✓
<b>Taxes</b>	Paid on gains in year of sale	Deferred	Deferred
<b>Regular income</b>	Depends on reinvestment	Depends on replacement property	✓

Janet opts to participate in a 1031 UPREIT program, because it supports her desire to:

- **Defer the immediate taxes on gain from the sale.** If she continues to hold the replacement assets acquired from the 1031 UPREIT program, she will be able to continue to defer capital gains taxes until her death.
- **Divide the investment among her children as part of her estate.** Their transfer tax liabilities can

be offset using Janet’s remaining lifetime transfer exemption, plus they will receive a stepped-up cost basis at Janet’s death, reducing their exposure to income tax. In addition, each heir may potentially gain the flexibility to decide when and how much of their portion of the investment to liquidate.<sup>3</sup>

- **Maintain a source of regular income.** Janet, and eventually her heirs, may receive monthly distributions from her investment.

<sup>2</sup> An investor is not guaranteed a return on the investment and could lose up to 100% of the value of the investment. Each prospective investor should consult with their tax advisor to identify all requirements for successfully completing a qualifying like-kind exchange under IRC Section 1031, and other requirements for participation in a 1031 UPREIT program.

<sup>3</sup> Applies only if the investor’s DST interests are exchanged for interests in the REIT’s operating partnership.

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**MANY TYPES OF INVESTMENT REAL ESTATE QUALIFY**



**ELIGIBLE**

- Rental or investment home
- Rental apartment
- Shopping center
- Unimproved land
- Office building
- Warehouse
- Farmland
- Timber/mineral rights
- Other real estate assets held for investment purposes or for productive use in a business or trade



**INELIGIBLE**

- Personal-use property (e.g. primary or secondary residence)
- Property held primarily for sale (e.g. speculative home owned by a developer)
- Tangible and intangible personal property (e.g. furniture)
- Stocks or bonds
- Boats and recreational vehicles (RVs)

**MULTIPLE POTENTIAL BENEFITS FOR INVESTORS<sup>4</sup>**

**A 1031 UPREIT program enables investors to:**

- **Defer capital gains and other taxes** on the sale of investment property.
- **Maintain growth potential** from continued exposure to the real estate sector
- **Maximize retirement income potential** by using pre-tax sale proceeds to reinvest
- **Simplify estate planning** by converting property into divisible assets with a stepped-up cost basis for heirs
- **Eliminate the hassles** of hands-on property management

**Additional potential advantages available to investors who ultimately receive REIT operating partnership units:**

- **Enhanced portfolio diversification** – Investors gain exposure to a large professionally managed portfolio of institutional-grade real estate assets.
- **Periodic liquidity** – After a holding period of at least one year, investors may redeem their REIT operating partnership interests for cash.<sup>5</sup>

<sup>4</sup> There is no guarantee these potential benefits will be realized in whole or in part. Investing in real estate involves significant risks, including the possibility of losing all invested capital. Investment terms, including the risks of making an investment, would be set forth in definitive offering documents for an investment, including a confidential private placement memorandum and subscription documents.

<sup>5</sup> Subject to the terms and restrictions contained in the partnership agreement of the REIT operating partnership.

## CONSIDER CLIENTS AND PROSPECTS WHO MAY BENEFIT

You probably already have clients and prospects who own investment real estate. The below table can help you identify property owners you know who might benefit most from learning about 1031 UPREITs.

Client situation	Example
<b>Business owner selling the enterprise</b>	A dentist, attorney, manufacturer or other business owner who owns their office space or warehouse facility
<b>Individual or couple planning to transfer wealth</b>	Widow, older couple or family with children who want to pass on the value of the property in a tax-efficient manner
<b>High income earner planning for retirement</b>	A company CEO who owns investment property and expects to be in a lower income bracket in retirement
<b>Rental property owners</b>	A vacation rental owner in a tourist destination where property values have significantly increased
<b>Family farm owners</b>	Farmers whose children have chosen non-farming professions and who want to divide the value of the farm assets among heirs



## KEY QUESTIONS TO DETERMINE IF A 1031 UPREIT IS A GOOD FIT FOR YOUR ACCREDITED CLIENTS

Consider initiating conversations about 1031 UPREITs as part of regular client meetings as well as other tax planning, wealth transfer/estate planning and retirement planning discussions.

- Do you own appreciated investment real estate? What about real estate used in a trade or business?
- Would you like to get out of the day-to-day management of your real estate?
- Have you considered selling your real estate?
- Are you facing a significant tax bill on the sale of property and would like to explore ways to defer the tax on the gains?
- Would you like to pass on the value of your real estate assets to the next generation?
- Do your heirs want to own and manage the real estate?
- Are you looking to defer taxes until you and/or your heirs may be in a lower tax bracket in the future?
- Are you familiar with 1031 exchanges and UPREIT transactions?
- Is the ability to easily access liquidity from your investment important to you and your heirs?

## LEVERAGE 1031 UPREITS TO EXPAND AND ENHANCE YOUR BUSINESS

Adding 1031 UPREIT programs to your practice offers several potential advantages.



### *Consolidate assets*

A 1031 UPREIT program can convert real estate assets that were held away into assets under your purview.



### *Better manage their whole portfolio*

In contrast to an illiquid physical property, REIT operating units may be periodically redeemed for cash after a required holding period.<sup>6</sup> So as the value of the investment changes over time, you can rebalance the client's entire portfolio, including the real estate portion.



### *Deliver additional value*

Reinforce your position as their primary advisor by anticipating a pain point for clients and providing a potential solution that addresses:

- **Tax efficiency** – Demonstrate how clients can maximize reinvestment proceeds from the sale of investment real estate by deferring the taxes that would otherwise be due.
- **Estate planning** – Offer additional flexibility to families looking to transfer the value of real estate assets to the next generation in a tax-efficient manner.
- **Retirement/income planning** – Present a solution for maintaining the regular income and inflation-protection of real estate ownership without the need to manage property.



### *Strengthen your referral pipeline*

- Adding 1031 UPREIT programs to your practice is a great reason to engage real estate professionals, accountants and other **centers of influence (COIs)** who are potential referral sources.
- **Clients** you help with a 1031 UPREIT program may refer you to a friend or relative in a similar situation.

<sup>6</sup> Redeeming REIT operating units may be a taxable event.

## Misconceptions about 1031 UPREIT programs

### X MISCONCEPTION

The sold property and the replacement property have to be the same type.

### ✓ FACT

The law governing 1031 exchanges stipulates that the properties must be “like-kind,” which means one type of investment property can be exchanged for another type. An interest in DST that owns real estate also qualifies as a “like-kind” investment property.

### X MISCONCEPTION

The rules governing 1031 exchanges are too complex and too strict.

### ✓ FACT

These rules, including a tightly defined timeline, make these transactions relatively straightforward, predictable, and more likely to be completed, particularly when utilizing institutionally sponsored replacement property solutions like 1031 UPREITs.

In contrast, property exchanges between two individuals often entail contingencies and other complex variables that can cause unexpected delays or prevent deals from closing.

### X MISCONCEPTION

1031 UPREIT programs are only for the ultra-wealthy.

### ✓ FACT

An accredited investor with eligible investment property can leverage the tax advantages of these programs, although it's always advisable to work with a knowledgeable and experienced partner who can guide you through the process.

## 1031 UPREIT program playbook

### SELECT THE RIGHT REAL ESTATE MANAGER FOR A 1031 UPREIT PROGRAM

Investors who receive units in a REIT's operating partnership should plan to hold them for as long as they wish to maintain their tax deferral. For that reason, they should evaluate the REIT as a potential long-term investment. Below are some key factors to consider:

- **Balance sheet strength.** Evaluate whether the REIT has the financial strength to be able to pay investors a stable and attractive distribution and generate growth over time.
- **Performance track record.** Examine the REIT's performance track record, including how well it has been able to withstand various real estate and economic cycles.
- **Portfolio composition.** Consider the asset quality and level of diversification of the real estate portfolio.
- **Investor treatment.** Evaluate the REIT sponsor organization's history of honoring redemption requests and how they service investors.

### EXPAND YOUR PRACTICE

By offering a tax-advantaged solution to a challenge faced by a range of property owners, you enhance the value you bring to your relationships with current clients and attract new ones.

Keep in mind that 1031 UPREIT programs can be complex. That's why it's important to work with a knowledgeable partner that can anticipate and help avoid potential missteps that can derail a transaction.

**With a long history of helping investors maximize after-tax outcomes and deep expertise in real estate, Nuveen can provide the support you need in the process.**

*To learn more about how 1031 UPREIT programs can help you expand and enhance your practice, contact your Nuveen Advisor Consultant at 800.221.9271.*

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Nuveen, LLC provides investment solutions through its investment specialists. Securities offered through Nuveen Securities, LLC.

This material does not constitute tax advice. Investors should carefully consider the tax implications of these kinds of transactions. Operating partnerships issue K-1s for tax reporting purposes. Return of capital, depreciation and deductibility of distributions may vary compared to common REIT shares. The tax implications of these kinds of transactions, as well as the structuring required to implement them, are complex. Investors should consult with their tax professionals to understand the tax implications for their specific situations.

This communication includes a brief and general description of Section 721 and Section 1031 of the Internal Revenue Code. Transactions structured pursuant to these provisions are complex. All investors should consult their own tax advisors regarding the structuring of these transactions and their tax consequences as applicable to their particular circumstances.

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