Net Lease Capital

Zero Cash Flow Properties

Hypothetical Example

A Potential Solution to Cover 1031 Exchange Debt Requirements

Investors can blend a combination of a highly leveraged property (Zero) and a Cash Flow property to exactly meet the debt, equity, and overall requirements of the Exchange without having to come up with additional equity. Investors can use a Zero to inexpensively meet the debt requirements of an Exchange so that no additional equity is required to meet the overall Exchange requirement.

Highly leveraged, zero cash flow properties (Zeros) are investment structures that help investors easily meet the debt and equity requirements of a 1031 Exchange. These properties have debt service obligations equal to (or nearly equal to) the net operating income of the property. This highly leveraged solution is possible because of the investment grade credit of the tenant and the absolute triple net nature of their long-term leases.

Example: An investor has sold a property for $1,000,000 and would like to do a 1031 Exchange. The Relinquished Property was moderately leveraged netting the seller $450,000 equity for reinvestment. To fulfill the debt requirement of the 1031 Exchange and complete the exchange, the sum of the cash invested, and the debt placed on the Replacement Property must be equal to or greater than the sum of the net cash proceeds, and the debt that was on the Relinquished Property. To meet their need, the investor may choose two Replacement Property investments to complete their Exchange. One with a lower loan-to-value ratio (LTV), the second with a high loan-to-value (LTV). Below, is how a Zero could be utilized to meet this investor's Exchange Requirement.

Sale of Relinquished Property	
Total Sales Proceeds	$1,000,000
Mortgage Balance (Debt Remaining)	$550,000
Net Sale Proceeds (Equity Available for Reinvestment)	$450,000
Replacement Property Investments	
Investment A	
LTV	22.64%
Equity Invested	$376,932.34
Total Investment A Amount[1]	$487,244.49
Debt Assumed on Investment A[2]	$110,312.15
Hypothetical Distribution of 5.00%	$18,847
Investment B	
LTV	85.75%
Equity Invested	$73,067.66
Total Investment B Amount[3]	$512,755.51
Debt Assumed on Investment B[4]	$439,687.85
Hypothetical Distribution of 0.00%	$0.00
Total Investment Amount ($487,244.49 + $512,755.51)	$1,000,000.00
Debt Assumed on Total Investment ($110,312.15+$439,687.85)	$550,000
Hypothetical Distribution* on Total Investment of 4.19%	$18,847
This hypothetical example satisfies 1031 exchange requirements with the total equity invested being equal to or greater than the net sales proceeds from the relinquished property, and the Debt Assumed on the Total Investment being greater than the debt on the relinquished property.	

*Note this is a simplified example solely intended to illustrate the way in which a zero cash flow property investment can satisfy the debt requirements of a 1031 exchange transaction and is not intended to provide a recommendation of investment or to provide tax or legal advice. This simplified example does not constitute an offer to buy or sell or a solicitation of an offer to purchase any securities. Please see reverse side for additional important disclosures.

1031 Exchange Blended LTV Calculator

The calculator will determine the minimum cash to allocate to the high-leverage offering to maximize the yield on the cash flow purchase.

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Important Risk Factors

- No public market currently exists, and one may never exist, for the interests of any NLCA-sponsored program. The purchase of interests in any NLCA-sponsored program is suitable only for persons who have no need for liquidity in their investment and who can afford to lose their entire investment.
- NLCA-sponsored programs offer and sell interests pursuant to exemptions from the registration provisions of federal and state law and, accordingly, those interests are subject to restrictions on transfer.
- There is no guarantee that the investment objectives of any particular NLCA-sponsored program will be achieved.
- The actual amount and timing of distributions paid by NLCA-sponsored programs is not guaranteed and may vary. There is no guarantee that investors will receive distributions or a return of their capital.
- Investments in real estate are subject to varying degrees of risk, including, among other things, local conditions such as an oversupply of space or reduced demand for properties, an inability to collect rent, vacancies, inflation and other increases in operating costs, adverse changes in laws and regulations applicable to owners of real estate and changing market demographics.
- NLCA-sponsored programs depend on tenants for their revenue and may suffer adverse consequences as a result of any financial difficulties, bankruptcy or insolvency of their tenants.
- NLCA-sponsored programs may own single-tenant properties, which may be difficult to re-lease upon tenant defaults or early lease terminations.
- The acquisition of interests in an NLCA-sponsored program may not qualify under Section 1031 of the Internal Revenue Code of 1986, as amended (the "Code") for tax-deferred exchange treatment.
- Disruptions in the financial markets and challenging economic conditions, including those resulting from the novel coronavirus and resulting pandemic, could adversely affect the operating results of properties owned by NLCA-sponsored programs and the ability of such programs to service the indebtedness on their properties.

[1](Equity/1-LTV Percent) ($376,932.34/1-0.2264)
[2]($487,244.49-$376,932.34)
[3](Equity/1-LTV Percent) ($73,067.66/1-0.85.75)
[4]($512,755.51-$73,067.66)

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