The Tax Advantages of REITs

Real estate investment trusts (REITs) offer investors tax benefits unique to direct real estate ownership.

Advantages at a Glance

Preferential Tax Treatment for Return of Capital Distributions

Tax treatment of REIT distributions varies depending on how they are characterized. Distributions can be categorized as:

1. Ordinary income.

Tax rate is based on income, up to the current maximum rate of 37%. Investing in REITs may reduce ordinary income distributions by 20%, lowering the highest effective tax rate on this type of income to 29.6%.[1]

2. Capital gains.

The maximum tax rate is 20%, plus the 3.8% surtax.[2]

3. Return of capital (ROC):[3]

Distributions are not subject to current taxes. Instead, they reduce an investor's tax basis, and any appreciation on the investment would be treated as capital gains (long-term if held for over a year).

More Favorable Rates on Capital Gains

The portion of distributions deemed to be ROC is not taxed currently; rather, it reduces the investor's cost basis in the security, generally resulting in more favorable capital gains rates when the security is sold.

Easier Tax Reporting

Investors get the investment and tax benefits of direct real estate ownership, along with the ease of Form 1099 reporting relative to Schedule K-1 reporting.

REIT Distributions Explained

A REIT investor may receive a cash distribution based on the following:

1. **Current net operating income or gains on the sale of assets.**
   These are taxed at either ordinary income or capital gains rates.[2]

2. **Current or accumulated earnings not considered ordinary income due to depreciation or amortization.[4]**
   These are considered ROC and benefit from preferential tax treatment.

An Example of REIT Taxation in Practice

The hypothetical example below helps to illustrate the tax benefits of REITs.[5] It shows how a 5% annual distribution from a $100,000 REIT investment would be taxed, assuming that the distribution comprised a ROC amounting to 0%, 60% or 90%.

ROC Distributions Can Raise the After-Tax Distribution Yield

Hypothetical Example of REIT Taxation			
Investment in REIT		$100,000	
Distribution		$5,000	
Maximum Tax Rate on Distributions	29.6% (37% federal tax rate less 20% 199A deduction)		
ROC Portion of Distribution (%)	**0%**	**60%**	**90%**
ROC Portion of Distribution ($)	$0	$3,000	$4,500
Taxable Portion of Distribution	$5,000	$2,000	$500
Taxes Payable on Distribution	–$1,480	–$592	–$148
After-Tax Distribution	$3,520	$4,408	$4,852
Maximum Distribution Tax Rate	29.6%	11.8%	3.0%
After-Tax Yield[6]	**3.5%**	**4.9%**	**4.9%**
Tax-Equivalent Yield[7]	**5.6%**	**7.0%**	**7.8%**

Endnotes

1. It is possible, but less common, for REIT ordinary income to be taxed as qualified dividend income (taxed at capital gains rates).
2. Per Section 199A guidelines that are reported on Form 1099-DIV.
3. Return of Capital (ROC) distributions are distributions in excess of current or accumulated earnings and profits. Such distributions are not taxable to an investor to the extent that they do not exceed the investor's tax basis in its shares. Rather, the ROC reduces an investor's tax basis in the year the distribution is received, and generally defers taxes on that portion of the distribution. To the extent that a ROC exceeds an investor's tax basis, it generally will be taxable as capital gain. Such gain will be a long-term capital gain if the investor has held the shares for more than one year.
4. Depreciation and amortization of the underlying assets are non-cash expenses that reduce taxable income without impacting cash distributions.
5. The hypothetical example does not take into account state taxes. Investors could be subject to state income taxes, which would lower their after-tax yield. In addition, the hypothetical example does not take into account the impact of increasing net operating income (NOI). Increasing NOI would reduce the amount of ROC.
6. After-tax yield is reflective of the current tax year and does not take into account other taxes that may be owed on an investment in a REIT. Upon redemption, the investor may be subject to higher capital gains taxes as a result of a depreciating cost basis due to the ROC portion of distributions.
7. Tax-equivalent yield is a hypothetical calculation based on an assumed 37% tax rate (the highest current U.S. marginal tax rate).

Disclosures

A copy of the Brookfield Real Estate Income Trust Inc. prospectus is available at www.brookfieldREIT.com. This sales and advertising literature is neither an offer to sell nor a solicitation of an offer to buy securities. An offering is made only by the prospectus. This literature must be read in conjunction with the prospectus in order to fully understand all of the implications and risks of the offering of securities to which the prospectus relates. A copy of the prospectus must be made available in connection with any offering. No offering is made except by a prospectus filed with the Department of Law of the State of New York. Neither the Securities and Exchange Commission, the Attorney General of the State of New York nor any other state securities regulator has approved or disapproved of our common stock, determined if the prospectus is truthful or complete or passed on or endorsed the merits of the offering. Any representation to the contrary is a criminal offense.

Distribution payments are not guaranteed. Brookfield Real Estate Income Trust Inc. ("Brookfield REIT") may pay distributions from sources other than cash flow from operations, including, without limitation, borrowings, the sale of its assets, return of capital or offering proceeds, and advances. Distributions may also be funded in significant part, directly or indirectly, from the deferral of certain investment advisory fees, which may be subject to repayment to Brookfield REIT Adviser LLC (the "Adviser") and/or the reimbursement of certain operating expenses, which may be subject to repayment to its Adviser and its affiliates. For the portion of the Adviser's management fee that is paid in stock, the Brookfield REIT's cash position would not be reduced by that amount at that time but would be reduced in a future period, when the Adviser requests the repurchase of its stock for cash and such request is granted. For organizational and offering expenses paid by the Adviser on behalf of the Issuer prior to July 6, 2023, the Issuer would reimburse the Adviser ratably over 60 months, and this practice may have a smoothing effect on the Issuer's cash position and/or distribution payment amounts.

Summary of Risk Factors

An investment in shares of common stock of Brookfield REIT involves a high degree of risk. These securities should only be purchased if you can afford to lose your complete investment. Please read the prospectus for a description of the material risks associated with an investment in Brookfield REIT. These risks include but are not limited to the following:

- Brookfield REIT has a limited operating history, and its operating history should not be relied upon due to the changes to its business resulting from the adviser transition, including the engagement of Brookfield REIT Adviser LLC (the "Adviser") and Brookfield Oaktree Wealth Solutions LLC, and the changes to Brookfield REIT's board of directors, executive officers and investment portfolio. There is no assurance that Brookfield REIT will be able to successfully achieve its investment objectives.
- Brookfield REIT has only made limited investments to date, and you will not have the opportunity to evaluate its future investments before Brookfield REIT makes them.
- Since there is no public trading market for shares of Brookfield REIT's common stock, repurchase of shares by it will likely be the only way to dispose of your shares. Brookfield REIT's share repurchase plan will provide stockholders with the opportunity to request that it repurchase their shares on a monthly basis, but Brookfield REIT is not obligated to repurchase any shares and may choose to repurchase only some, or even none, of the shares that have been requested to be repurchased in any particular month in its discretion. In addition, repurchases will be subject to available liquidity and other significant restrictions. Further, Brookfield REIT's board of directors may modify or suspend the share repurchase plan if it deems such action to be in our best interest and the best interest of stockholders. As a result, the shares should be considered as having only limited liquidity and at times may be illiquid.
- Brookfield REIT cannot guarantee that it will make distributions, and if it does, it may fund such distributions from sources other than cash flow from operations, and there are no limits on the amounts Brookfield REIT may pay from such sources. Brookfield REIT believes that the likelihood that it pays distributions from sources other than cash flow from operations will be higher in the early stages of the offering.
- The purchase and repurchase price for shares of Brookfield REIT common stock will generally be based on its prior month's net asset value (NAV) (subject to material changes as described in the prospectus) and will not be based on any public trading market. While there will be independent annual appraisals of Brookfield REIT's properties, the appraisal of properties is inherently subjective, and its NAV may not accurately reflect the actual price at which its assets could be liquidated on any given day.
- Brookfield REIT has no employees and is dependent on the Adviser to conduct its operations. The Adviser will face conflicts of interest as a result of, among other things, the allocation of investment opportunities among Brookfield REIT and other Brookfield funds and accounts, the allocation of time of its investment professionals and the substantial fees that Brookfield REIT will pay to the Adviser.
- This is a "best efforts" offering. If Brookfield REIT is not able to raise a substantial amount of capital in the near term, its ability to achieve its investment objectives could be adversely affected.
- Principal and interest payments on any borrowings will reduce the amount of funds available for distribution or investment in additional real estate assets. Borrowing also increases the risk of loss and exposure to negative economic effects.
- There are limits on the ownership and transferability of Brookfield REIT's shares.
- If Brookfield REIT fails to maintain its qualification as a REIT and no relief provisions apply, its NAV and cash available for distribution to stockholders could materially decrease as a result of being subject to corporate income tax.
- Investing in commercial real estate assets involves certain risks, including but not limited to Brookfield REIT's tenants' inability to pay rent; increases in interest rates and lack of availability of financing; tenant turnover and vacancies; and changes in the supply of or demand for similar properties in a given market.
- Brookfield REIT's operating results will be affected by global and national economic and market conditions generally and by the local economic conditions where its properties are located, including changes with respect to rising vacancy rates or decreasing market rental rates; fluctuations in the average occupancy; inability to lease space on favorable terms; bankruptcies, financial difficulties or lease defaults by its tenants; and changes in government rules, regulations and policies, such as property taxes, zoning laws, limitations on rental rates, and compliance costs with respect to environmental and other laws.

Forward-Looking Statements

Statements contained in this sales material that are not historical facts are based on our current expectations, estimates, projections, opinions or beliefs. Such statements are not facts and involve known and unknown risks, uncertainties, and other factors. Prospective investors should not rely on these statements as if they were fact. Certain information contained in this sales material constitutes “forward-looking statements,” which can be identified by the use of forward-looking terminology such as “may,” “will,” “should,” “expect,” “anticipate,” “project,” “target,” “estimate,” “intend,” “continue,” “forecast,” or “believe” or the negatives thereof or other variations thereon or other comparable terminology. Due to various risks and uncertainties, including those described in the prospectus, actual events or results or our actual performance may differ materially from those reflected or contemplated in such forward-looking statements. No representation or warranty is made as to future performance or such forward-looking statements. In light of the significant uncertainties inherent in these forward-looking statements, the inclusion of this information should not be regarded as a representation by us or any other person that our objectives and plans, which Brookfield REIT considers to be reasonable, will be achieved.

You should carefully review the “Risk Factors” section of the prospectus for a discussion of the risks and uncertainties that Brookfield REIT believes are material to its business, operating results, prospects and financial condition. Except as otherwise required by federal securities laws, Brookfield REIT does not undertake to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

If you are a Financial Professional interested in offering Brookfield REIT to your clients, download the prospectus at www.BrookfieldREIT.com and contact Brookfield.

Brookfield (member FINRA/SIPC) is the intermediary manager for the Oaktree Strategic Credit Fund offering.

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