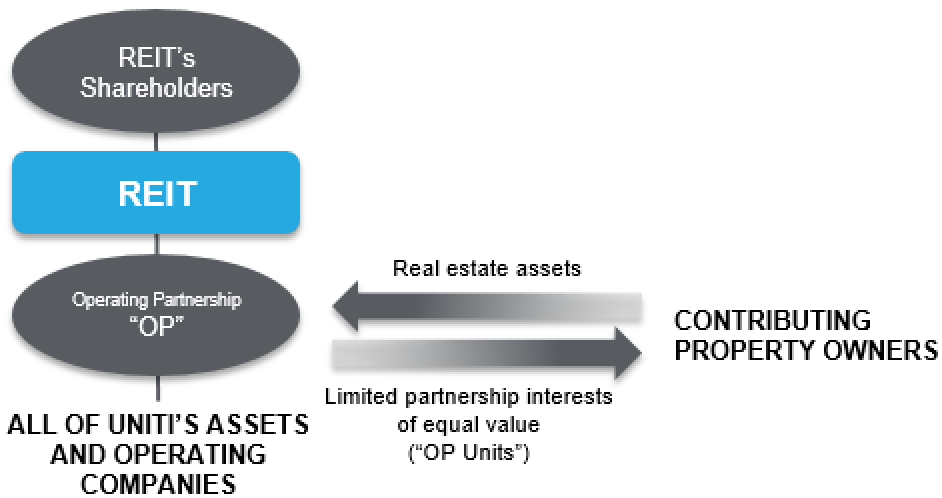
What is an "UPREIT"?

The acronym "UPREIT" stands for "umbrella partnership REIT." In the basic UPREIT structure, all REIT properties are acquired and owned directly or indirectly by the REIT in its "umbrella partnership." The umbrella partnership is the entity through which the REIT operates and collects all income from the properties. The REIT typically is the general partner and the majority owner of the partnership. In a typical UPREIT transaction, property owners contribute their properties in exchange for ownership units in the partnership ("<u>OP Units</u>"). Figure 1 below illustrates a typical UPREIT transaction.

FIGURE 1

UPREIT Structure



What are the tax benefits of an UPREIT?

For third parties contributing property to the operating partnership, any capital gain tax liability is deferred until such time as the OP Units are converted into cash or common shares of the REIT. After a period of time (often one year), the non-REIT partners may enjoy the same liquidity of the REIT stockholders by tendering their units for either cash or REIT shares (at the option of the REIT). This conversion may result in the partners incurring the tax liability that had been deferred at the time its property was transferred to the operating partnership. However, the unitholders may tender their units over a period of time, thereby spreading out such tax. In addition, when a partner holds the units until death, the estate tax rules operate in such a way as to provide that the beneficiaries may tender the units for cash or REIT shares without paying income taxes.

How are holders of OP Units taxed?

An OP Unit holder is deemed to earn a portion of the total income of the operating partnership, including income from each of the states in which it transacts business. Thus, OP Unit holders have income tax filing requirements in each state the operating partnership transacts business. REIT shares, on the other hand, generate income that is taxable only in the stockholder's state of residency, which means only one state tax return must be filed.

What are the benefits of an UPREIT transaction?

An UPREIT transaction makes sense if a property owner is looking to achieve one or more of the following: (a) defer capital gains tax when appreciated real estate is sold; (b) eliminate management hassles of owning real estate; (c) diversify through ownership of a portfolio of properties; or (d) receive consistent quarterly income. The following real estate holdings are good candidates for an UPREIT transaction:

- Family-owned properties with unresolved succession issues
- Properties with third-party tenants
- Partnerships that need to be dissolved
- Long-term assets with very low basis
- Surplus property generated by consolidations
- Property owners concerned they have too much of their net worth tied up in real estate

How are Uniti OP Units valued?

Uniti OP Units are convertible on a one-for-one basis with shares of Uniti stock. As such, Uniti OP Units will have the same value as Uniti common stock. Uniti common stock is traded on the Nasdaq stock market under the symbol "UNIT".

Do Uniti OP Units have voting rights?

No. While the economics are the same, the OP Unit holders cannot vote like Uniti stockholders because they are not owners of the corporation.

Do holders of Uniti OP Units receive distributions?

Yes, Uniti OP Unit holders receive distributions equal to the dividends paid on Uniti common stock, which is currently $2.40 per share per year.