



**Inland**  
Private Capital Corporation



**ZÜRICH**

Private Placement Memorandum

# Zero Coupon Chicagoland Office DST

The Date of this Private Placement Memorandum is January 8, 2018

**CONFIDENTIAL**

Investing in DST Interests involves a high degree of risk. Before investing you should review the entire Private Placement Memorandum including the "Risk Factors" beginning on page 17.





## > Zero Coupon Chicagoland Office DST

Newly built Class A single-tenant office property comprised of 788,857 square feet located in a Northwest suburb of Chicago, IL

Inland Private Capital Corporation (IPC) is sponsoring the offering of 100 percent of the beneficial interests in Zero Coupon Chicagoland Office DST, a to-be-formed Delaware statutory trust (the Trust).

The Trust will own the real estate and improvements located at 1299 Zurich Way in Schaumburg, Illinois (the Property), consisting of approximately 38.8 acres of land and an 11-story (plus basement) single-tenant office building leased to Zurich American Insurance Company (the Tenant). The Tenant is a member company of Zurich Insurance Group (Zurich), a leading multi-line insurer that serves its customers in global and local markets. This LEED Platinum® office building serves as the Tenant's North American headquarters.

**You should read this Private Placement Memorandum (the Memorandum) in its entirety before making an investment decision.** Capitalized terms used in pages i through xii but not defined herein shall have the meanings set forth in the Memorandum.



# > The Offering

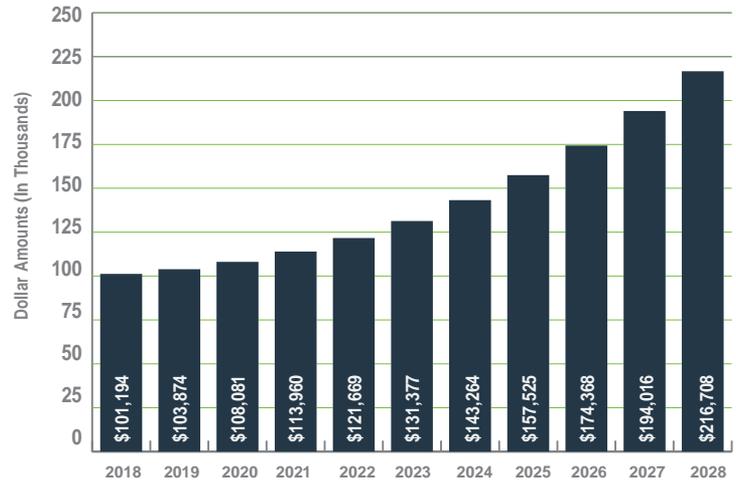
The Trust will be offering (the Offering) to sell to certain qualified, accredited investors (Investors) 100 percent of the beneficial interests in the Trust. The Offering is designed for accredited investors seeking to participate in a tax-deferred exchange as well as those seeking a quality, multiple-owner real estate investment.

Beneficial Interests:	<b>\$66,473,739</b>
Loan Proceeds:	<b>\$333,006,904</b>
Offering Price:	<b>\$399,480,642</b>
Loan-to-Offering Price Ratio:	<b>83.36%</b>
Minimum Purchase (1031):	<b>\$25,000</b>
Minimum Purchase (cash):	<b>\$25,000</b>
Maximum Purchase:	<b>\$32,439,185</b>
Current Cash Flow:	<b>0.00%</b>

## Projected Equity Growth

(\$100,000 investment)

These projections are based on the value of the Property remaining the same as at the date of Conversion. There is potential for property value loss. All real estate investments have the potential to lose value during the life of the investment; therefore, these projections may not be realized if the value of the Property decreases. There is no guarantee that investment objectives will be achieved or that Investors will receive a return of their capital or any projected equity growth.



**A \$100,000 investment could potentially be \$216,708 at the end of 2028.**



## > Solid and Sound Tenant

**Zurich American Insurance Company** is a leading multi-line insurer with 54,000 employees worldwide, serving customers across the globe. Zurich's customers are a mix of individuals, small businesses, mid-sized and large companies, and multinational corporations.<sup>1</sup> Zurich was founded in 1872 in Switzerland and offers more than 140 years of experience, including 100 years in North America as the leader in commercial property-casualty insurance. Employing approximately 9,500 persons, the company provides risk protection to corporations including workers' compensation, liability and property. It also offers life insurance and disability coverage.<sup>2</sup> Zurich's North American operations have been headquartered in Schaumburg, Illinois, for more than 30 years, reflecting its commitment to the community and best-in-class work environment for its employees.<sup>3</sup>

Zurich insures approximately 90 percent of Fortune 500 companies and more than 215,000 customers, with more than 740,000 claims annually.<sup>4</sup> Its strategy is to insure corporations against risk, and to help identify, prioritize and mitigate risk.<sup>2</sup> Zurich achieved over \$4.5 billion in operating profit in 2016 and has reported a profit every quarter for 14 consecutive years, withstanding Hurricane Katrina, the global financial crisis and Superstorm Sandy in 2012.

On a local basis, Zurich generates nearly \$1.3 billion annually in economic impact to the State of Illinois, while providing thousands of jobs in the Chicago area.<sup>3</sup>

“We have a very strong brand position, which gives our customers and brokers confidence because they believe in the brand.”

**Randall Clouser, Head of Marketing, Distribution and Regional Management, Zurich North America**

1 Zurich.com.

2 Leaders. Volume 40, Number 4. Focus on the Customer, Zurich Insurance Faces the Future With and for its Customers. Oct/Nov/Dec 2017.

3 Zurichna.com.

4 Zurichna.com. About Zurich. Zurich North America fact sheet.



### Zurich Financial Information - 2016 Highlights:<sup>5</sup>

	Total annual revenue recorded at \$67.2 billion
	Net income after taxes - \$3.2 billion
	Business operating profit - \$4.5 billion
	Standard & Poor's Credit financial strength rating of AA-/stable

### Zurich American Insurance Accolades:

- Top 500 **World's Most Valuable Brands**<sup>6</sup>
- Ranked one of **America's Best Large Employers**, 2nd year in a row<sup>7</sup>
- **4th Largest** Workers Comp Insurance Company<sup>8</sup>
- Ranked **one of Greenest Global Companies** in the world<sup>9</sup>

5 Zurich Insurance Group. Annual Report 2016.

6 Brand Finance. January 2017.

7 Forbes. May 2017.

8 National Association of Insurance Commissioners. March 2017.

9 Newsweek. June 2016.



## > The Property

Constructed in late 2016, this Class A office building is 100 percent leased to the Tenant. The Property encompasses 788,857 square feet and is an 11-story building, home to nearly 3,000 employees and contractors, as well as Zurich's executive team. The campus provides 2,666 parking spaces, 2,501 of which are within the parking garage, and is the largest suburban office campus in the country.

The U.S. Green Building Council has awarded the Property the LEED Platinum certification for the facility's environmental sustainability initiatives, including multiple green roofs, energy efficient technologies, rainwater harvest and re-use, and a lush landscape with more than 600 trees. With Zurich's commitment to the environment, it was essential that the building be efficient, inspiring and enhance employee wellness.

Zurich was also awarded the Build-to-Suit Project of the Year for its North America headquarters at the 29th annual Chicago Commercial Real Estate Awards and was the recipient of the 2017 International Architecture Award.<sup>11</sup>

### Building features:<sup>10</sup>

- Fitness center
- Yoga studio & spin room
- Cafeteria
- Coffee bar station
- Sit/stand desks
- 200-seat theater room (for broker events & training)
- Outdoor terraces
- Walking trails
- Outdoor volleyball courts

<sup>10</sup> Zurichna.com. CEO Mike Foley takes you inside Zurich's headquarters video.

<sup>11</sup> The Chicago Athenaeum: Museum of Architecture and Design and The European Centre for Architecture Art and Urban Studies.

# > Strategic Location

Zurich's location in Schaumburg, approximately 30 miles northwest of downtown Chicago in Cook County, is situated in the largest center of economic development in the state of Illinois, outside of Chicago. Schaumburg is considered to be a diverse suburban office market with many industries making their home in the northwest suburbs, commonly known as "The Place for Business". In addition to the 9.5 million square feet of retail and commercial space, the village has over 12 million square feet of office space and 13.5 million square feet of industrial space. Schaumburg is, in fact, the dominant retail destination in Chicago's northwest suburbs, boasting a daytime population of 150,000.<sup>12</sup> A recent report by Colliers International indicated increasing office activity in this suburban market with decreasing vacancy rates and rent figures growing by 1.93 percent from Q3 2016 to Q3 2017.

The Property is easily accessible off Interstate 90, located at the intersection of I-90 and Meacham Road, and offers many dining and retail options for the local workforce. The Property is a 14-mile drive to Chicago's O'Hare International airport, one of the busiest airports in the world and the fourth busiest airport in the United States.<sup>13</sup>

## Local Area Amenities



12 Village of Schaumburg website.  
13 Ohareairport.net. June 20, 2017.



## Chicago Market Highlights:

- Cook County is the **2nd most populous U.S. County**<sup>14</sup>
- Total employment over **last five years grew at 1.4%**<sup>15</sup>
- **Office employment has grown at 0.9%** annual increases<sup>15</sup>
- Unemployment rate for Chicago metro is 4.2%<sup>16</sup>

## > The Lease

The initial term of the lease on the Property (the Lease) is approximately 26 years, having commenced on December 1, 2016 and terminating on November 30, 2042, unless sooner terminated or extended pursuant to the Lease. The Tenant may extend the Lease for four consecutive terms of five years each. The monthly base rent due under the Lease during its initial term is equal to the monthly debt service payments under the Loan, as described herein. Rental increases are scheduled at five percent annually starting with year one through year 21 of the lease term. However, the Tenant is not required to pay base rent in the final five years of the initial term of the Lease. As a result, the Lease is subject to special rules under Section 467 of the Internal Revenue Code. Section 467 has two principal income tax consequences. First, the base rent payable over the first 21 years is allocated for income tax purposes over the entire 26-year term. Second, a so-called “Section 467 Loan” is deemed to arise from the Tenant (as lender) to the landlord (as borrower) in respect of the prepaid base rent under the Lease.

The Lease is structured as an “absolute net” lease. The Tenant is obligated to pay all taxes and assessments of every kind and nature with respect to the Property, to maintain the required insurance coverage specified under the Lease and pay all premiums and deductibles arising from the insurance policies and to maintain, repair and make replacements to the Property.

14 U.S. Census Bureau.

15 CBRE Appraisal Report.

16 CNN Money. U.S. Unemployment hits lowest level since 2001. June 2, 2017.



## > The Financing

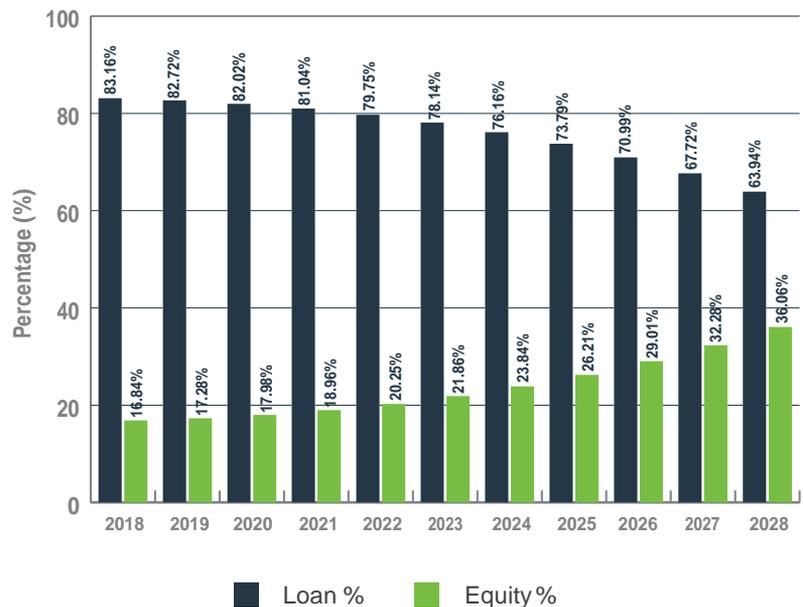
The Property is subject to a mortgage loan, as described in the Memorandum (the Loan), from Wells Fargo Bank Northwest, National Association, as Trustee (the Lender). The original principal amount of the Loan is \$333,134,755.94. The Loan has a maturity date of November 15, 2037 and a fixed interest rate equal to 4.918% per annum.

The Trust will be required to make consecutive monthly payments of principal and interest, amortized over the remaining term of the Loan, with interest calculated on the basis of a 360-day year. The total amount of the monthly debt service payment (including the payment of a monthly trustee fee) is equal to the corresponding monthly base rent payable by the Tenant under the Lease.

Through financing with monthly debt service equal to monthly base rent, a high loan-to-value ratio can be achieved, while also fully amortizing the Loan within the initial Lease term. **All income from the Property will be used to pay the Loan and thus no cash will be available for distribution to Investors while the Loan is outstanding.**

### Amortization Schedule

This chart is designed to illustrate the concept of equity growth through principal amortization. These projections are based on the value of the Property remaining the same as at the date of acquisition. There is potential for property value loss, as with all real estate investments, therefore, these projections may not be realized if the value of the Property decreases. There is no guarantee that investment objectives will be achieved or that Investors will receive a return of their capital or any projected equity growth.



**End of year 2028 Loan-to-Offering Price Ratio: 63.94%**

# > Investment Strategy

## The 1031 Exchange

The Property is highly leveraged and, by design, will produce no cash flow. An investment in the Trust may be especially appropriate for those selling a property and looking for suitable replacement property(ies) to execute a 1031 exchange. To meet IRS rules and accomplish a successful 1031 exchange, there must be equal or greater debt on the replacement property(ies). Through an investment in the highly leveraged Property, Investors have the opportunity to cover the debt associated with their relinquished property, and to deleverage their current debt position through the self-amortizing structure of this investment. The fully amortizing Loan also will give prospective Investors the opportunity to grow their equity position through the life of their investment. Many investors own business/income-producing properties that are encumbered by high levels of debt or investors may be interested in increasing the amount of debt on their investment, therefore creating the need for a highly leveraged opportunity.

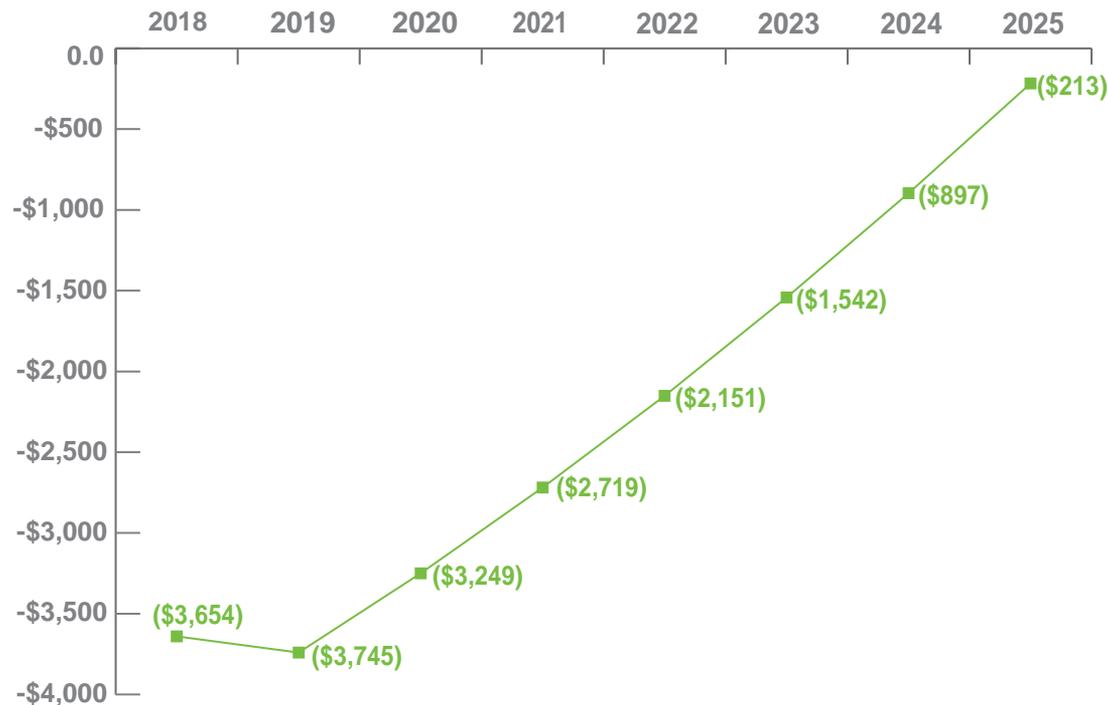
## Passive Loss Benefits

This investment is projected to generate passive activity losses for cash Investors through 2025. An Investor's passive losses, if any, from an investment in Zero Coupon Chicagoland Office DST may be used to offset passive income generated by other passive real estate investments. Generally, for cash Investors, passive activity losses will arise in a year if the sum of (a) deductible loan payments (e.g., payments of interest on the Loan) and (b) any depreciation to which an Investor is entitled, exceeds the income generated by the investment in the year.

Given the complex nature of such tax strategies, it is imperative that Investors consult their own accounting and tax professionals to discuss this strategy further. Each Investor's tax circumstances are unique, and this information does not constitute tax advice for any particular Investor.

## PIG/PAL Strategy Passive Losses

(\$100,000 investment)



# > Office Sector Overview

The United States office market continues to grow with technology and financial services industries leading leasing activity. The demand for office space is strong due to healthy job creation in most markets.<sup>17</sup> Businesses tend to require more office space as job opportunities rise. The supply of office space also is expanding, with 16.1 million square feet of new office space completed in the second quarter of 2017, the largest amount of office space completed since the second quarter of 2009.<sup>17</sup> Further, developers delivered more than 11 million square feet of office space in the third quarter of 2017, and the pipeline of new product is expected to continue beyond 2017. The office growth trend is tied to the rise of technology.<sup>18</sup>

Employers are seeking space to house employees that is different than the type of space favored in the past, particularly because of the generational shift in the workforce. Millennials comprise 53 percent of the workforce, and they desire more collaborative and creative spaces, with features such as 20-foot ceilings and concrete floors. Employers will need to adapt to Millennials' office space preferences to remain competitive and to recruit top talent.

## Key Office Trends<sup>19</sup>

- Q3 2017 leasing activity highest since 2015
- Asking rents continue to rise with high demand
- New supply needed to keep pace with demand
- Healthy job growth continues to warrant new construction



<sup>17</sup> GlobeSt.com. Office Market's Fortunes Link to Tech Sector. November 6, 2017.

<sup>18</sup> JLL Research Report. Office Outlook. Q3 2017.

<sup>19</sup> CBRE report. Q3 2017 U.S. Office Occupier, Figures.

# > About Inland Private Capital Corporation

The Inland Real Estate Group of Companies, Inc. (Inland) is one of the nation's largest commercial real estate and finance groups, representing nearly 50 years of expertise and integrity in the industry. As a business incubator, Inland specializes in creating, developing and supporting member companies that provide real estate-related investment funds – including limited partnerships, institutional funds and nonlisted real estate investment trusts (REITs) – and real estate services for both third parties and Inland-member companies.

In March 2001, Inland Private Capital Corporation was formed to provide replacement properties for investors wishing to complete a tax-deferred exchange under Section 1031 of the Internal Revenue Code of 1986, as amended, as well as investors seeking a quality, multiple-owner real estate investment. The programs sponsored by IPC offer securities to accredited investors on a private placement basis.

## Track Record Since Inception

(THROUGH DECEMBER 31, 2016)

<p>Sponsored <b>197</b> private placement programs</p>	<p><b>527</b> properties in 43 states</p>	<p>Offered more than <b>\$3</b> billion in equity</p>	<p>More than <b>\$6.3</b> billion of assets based on offering price</p>
<p>More than <b>31.80</b> million square feet of gross leaseable area</p>	<p><b>\$1,232,937,239</b> cumulative distributions to investors</p>		<p><b>70</b> assets sold</p>

## Program Dispositions

(AS OF DECEMBER 31, 2016)

	RETAIL	OFFICE	MULTIFAMILY	INDUSTRIAL
Cumulative Sales Price	\$435,738,911	\$204,909,165	\$49,266,108	\$96,270,041
Weighted Avg. Total Return*	138.49%	119.43%	140.19%	133.26%
Weighted Avg. ARR**	8.11%	4.13%	22.68%	7.25%
Number of Programs	33	7	2	5



Inland Private Capital Corporation  
**2X RECIPIENT**

### Metrics for Program Dispositions

\* **Weighted Average Total Return** is calculated by dividing the sum of amounts distributed to investors over the hold period of the investment plus the sale proceeds returned to the investors, by such investors' capital invested in the program inclusive of all fees and expenses. To determine the weighted average, the total return for each program is multiplied by the capital invested in that program, divided by total capital invested in all programs represented in the analysis.

\*\* **Weighted Average Annualized Rate of Return (ARR)** is calculated as the sum of total cash flows distributed during the term of the investment plus any profit or loss on the initial offering price, divided by the investment period. To determine the weighted average, the ARR for each program is multiplied by the capital invested in that program, divided by the total capital invested in all programs represented in this analysis.

The Weighted Average Total Return and Weighted Average ARR metrics presented above apply to those programs in which the property owned by such program was sold. Please note that this analysis does not include programs in which the subject property was in foreclosure. In such situations, IPC has negotiated with the applicable lender and advanced funds to the investors to allow the investors to exchange their beneficial interests in the original program for a proportional beneficial interest in a new program, in order to continue their Section 1031 exchanges and avoid potential capital gains and/or forgiveness of debt tax liabilities.

#### **IMPORTANT NOTES**

The Inland name and logo are registered trademarks being used under license. "Inland" refers to some or all of the entities that are part of The Inland Real Estate Group of Companies, Inc. which is comprised of a group of independent legal entities some of which may be affiliates, share some common ownership or have been sponsored and managed by subsidiaries of Inland Real Estate Investment Corporation.

Each prospective Investor should consult with his, her or its own tax advisor regarding an investment in the Interests and the qualification of his, her or its transaction under Internal Revenue Code Section 1031 for his, her or its specific circumstances.

Zurich, which is depicted in the photographs herein, may have proprietary interests in its trade names and trademarks. Nothing herein shall be considered to be an endorsement, authorization or approval of Inland Private Capital Corporation, or the investment vehicles it may offer, by Zurich. Further, Zurich is not affiliated with Inland Private Capital Corporation in any manner.



2901 Butterfield Road  
Oak Brook, IL 60523  
888.671.1031

[www.inlandprivatecapital.com](http://www.inlandprivatecapital.com)