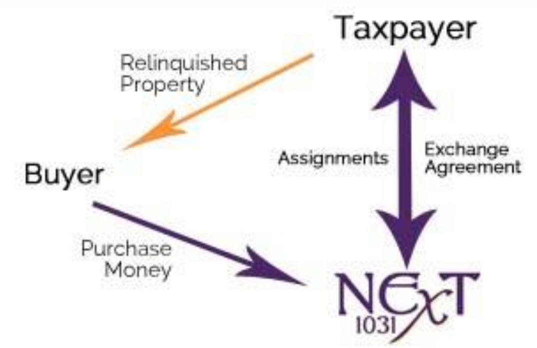
The Delayed Improvement Exchange

An improvement exchange allows a taxpayer, through the use of an exchange accommodation titleholder, to make improvements on a new replacement property using exchange equity. In other words, a taxpayer may use tax-free dollars to build or improve new investment property. There are two types of "improvement" or "build-to-suit" exchanges: the delayed improvement exchange and the reverse improvement exchange. The standard delayed improvement exchange involves four phases discussed below.

Phase I: Qualified Intermediary Facilitates Transfer of Relinquished Property

Taxpayer and NExT1031 enter into an Exchange Agreement in which NExT1031 agrees to acquire the relinquished property from the Taxpayer and transfer it to the buyer and then to use the proceeds from the sale of the relinquished property to acquire the replacement property from the seller and transfer it to the Taxpayer.

To accomplish the exchange, the Taxpayer assigns its rights in the sale contract on the relinquished property to NExT1031. At closing, NExT1031 instructs the settlement agent to transfer title to the relinquished property directly from the Taxpayer to the buyer. The proceeds from the sale are transferred directly to NExT1031 who will hold them in the exchange account.



The replacement property can close either simultaneously with sale of the relinquished property or there may be a delay in the closing of the replacement property. The Taxpayer must identify the replacement property along with the improvements to be completed within 45 days of the transfer of the relinquished property.

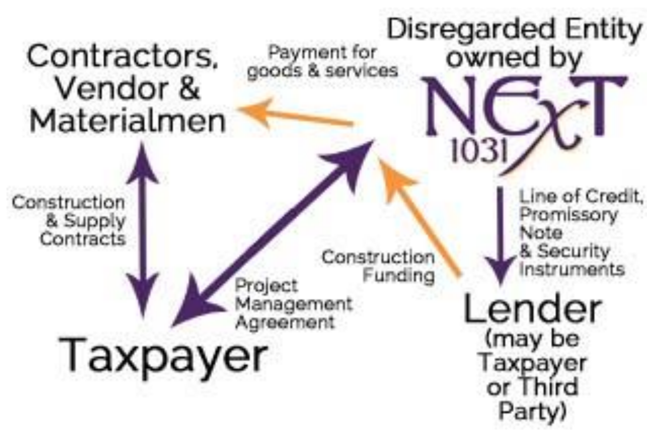
Phase II: Holding Entity Acquires Title to Replacement Property

When the replacement property is ready to close the NExT1031, the Taxpayer assigns its rights in the purchase agreement on the replacement property to a special purpose entity wholly-owned by NExT1031 ("NExTLLC") created to hold title to the replacement property. Taxpayer, NExTLLC and NExT1031, as the exchange accommodation titleholder, enter into the Qualified Exchange Accommodation Agreement under which NExTLLC agrees to hold and improve the replacement property for a time period not to exceed 180 days from the sale of the relinquished property. Title to the replacement property is transferred directly from the seller to NExTLLC.

Typically, NExT1031 advances funds to NExTLLC to purchase and improve the replacement property. Occasionally it is necessary for the NExTLLC to be a party to third party financing for the acquisition or improvement of the replacement property. All loans to which NExTLL is a party must be entirely non-recourse to the NExTLLC and its member.

Phase III: Construction of Improvements

NExTLLC will retain the Taxpayer, or an affiliate of Taxpayer, as its Project Manager to oversee the construction of the improvements. The Project Manager will have the authority to hire contractors and manage the project on behalf of NExTLLC. Although the Project Management Agreement gives the Taxpayer broad powers when dealing with the improvements, including hiring the contractors and consultants involved in the improvements process, any documents requiring the approval or signature of the legal owner of the replacement property must be delivered to NExTLLC, as the legal owner, for execution.



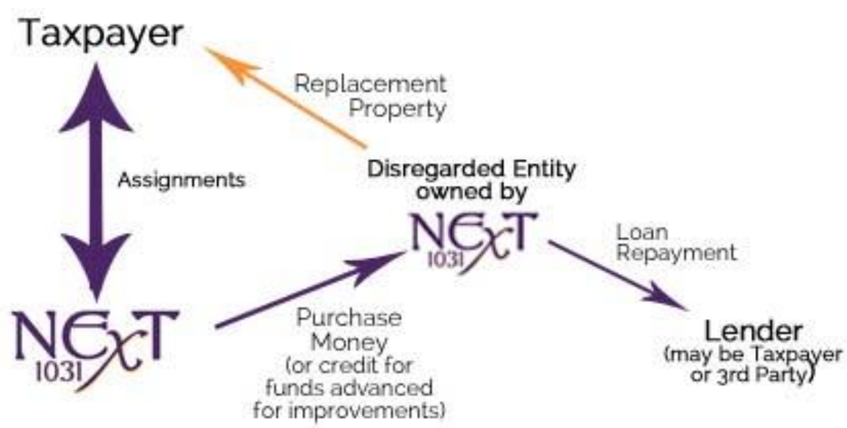
The Taxpayer, as Project Manager, presents draw requests to NExTLLC. NExTLLC will fund those draws with exchange funds advanced by NExT1031. If no exchange funds are available, then NExTLLC will borrow funds from the Taxpayer or a third party lender to complete construction. NExTLLC, as the borrower under the construction financing, should authorize the payment for the work done by the contractors; however, funds may pass directly from the lender to the general contractor, rather than flowing through NExTLLC.

Phase IV: NExT1031 Facilitates Transfer of Improved Replacement Property to Taxpayer

When the improvements are complete or on the 180th day after the relinquished property was closed, whichever first occurs, the improved replacement property is transferred to the Taxpayer at the increased value. The Taxpayer can elect to have the replacement property transferred either by deed or an assignment of membership interest.

If the Taxpayer requests a deed transfer, the same settlement agent who handled the transfer of title to the NExTLLC will be asked to handle the closing unless otherwise directed by Taxpayer. NExT1031 will wire any remaining exchange funds to the settlement agent to close the transaction and instruct the settlement agent to record a deed to the replacement property (generally a quit claim or bargain and sale deed) directly from the NExTLLC to the Taxpayer. Likewise, if the replacement property is transferred by an assignment on membership interests, the membership interest will run directly from NExT1031, as the exchange accommodation titleholder, to the Taxpayer. The final value of the replacement property is the combination of the original purchase price plus the cost of the capital improvements incorporated into the replacement property as of the date the taxpayer takes title to the replacement property.

For real property there is no requirement that the improvements be completed at the time the replacement property is transferred to the Taxpayer nor is a certificate of occupancy required. However, in order to have a full tax deferral, the value of the improved real property at the time of the transfer must be equal to or greater than the net sales price of the relinquished property, any debt from the relinquished property must be replaced and all proceeds from the sale of the relinquished property must be spent. Pre-payments to general contractors and the cost of unattached building materials are generally considered payments for goods and services, which are not like kind to real property, and therefore, are not qualified improvement expenses.



If the improvement exchange involves the construction of personal property Treasury Regulations require that the improvements be complete at the time Taxpayer receives title.