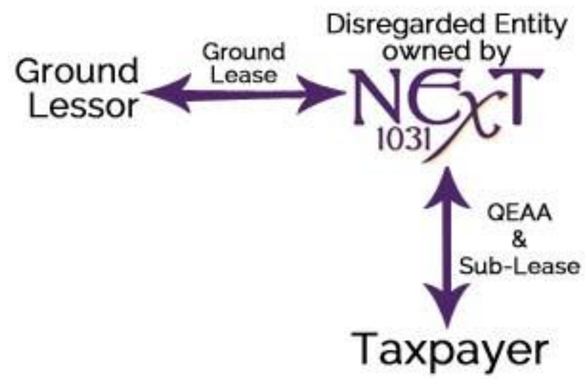
The Reverse Improvement Exchange on Newly Created Leasehold

As with the other types of reverse or improvement exchanges facilitated by NExT1031, we use tax disregarded special purpose entities to hold title to property ("NExTLLC"). The typical reverse improvement exchange on a newly created leasehold involves three phases.

Phase I: NExTLLC Acquires Newly Created Leasehold Interest in the Replacement Property Land:

The process begins with the NExTLLC, as lessee, and a third-party (or possibly an affiliate of the Taxpayer), as lessor, entering into a ground lease for the land on which the improvements will be constructed. The ground lease must have a term in excess of 31 years to allow the lease to be like-kind to real estate. The Replacement Property for the exchange will be the leasehold interest with the improvements added during the NExTLLC's ownership.



The NExTLLC will enter into a Qualified Exchange Accommodation Agreement (the "QEAA") with the Taxpayer under which the NExTLLC agrees to hold the Replacement Property for a period of time not to exceed 180 days.

Phase II: Constructing the Improvements on the Replacement Property:

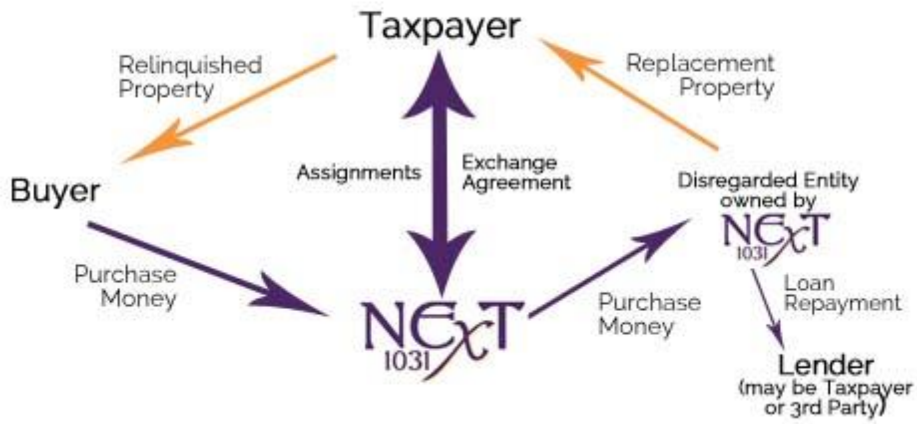
The NExTLLC will retain the Taxpayer, or an affiliate of Taxpayer, as its Project Manager to oversee the construction of the improvements. The Project Manager will have the authority to hire contractors and the project team on behalf of the NExTLLC.

Since the NExTLLC does not have the capital to pay for the improvements, it must borrow the funds necessary for the construction. The financing can be provided from several sources: the Taxpayer, an affiliate of the Taxpayer, or a third-party lender (a bank). The NExTLLC, as the borrower under the construction financing, should authorize the payment for the work done by the general contractor; however, funds may pass directly from the lender to the general contractor, rather than flowing through the NExTLLC.

Phase III: The Simultaneous or Delayed Exchange:

At some point in the construction process the Taxpayer will prepare to close on the relinquished property, and NExT1031 will enter the transaction as the Qualified Intermediary under an Exchange Agreement with the Taxpayer. NExT1031 assigns into the Taxpayer's rights as the seller of the relinquished property and instructs the settlement agent to transfer the relinquished property from the Taxpayer to the buyer through "direct deeding". The exchange proceeds from the sale of the relinquished property will be held by NExXT1031 in an exchange account until the exchange is concluded or advanced to the NExTLLC to fund the construction of the improvements.

In some cases, the improvements are completed by the time the relinquished property closes, and the exchange can be concluded as a simultaneous exchange. Most often, however, there are still improvements to be made to the replacement property, so the NExTLLC continues under the ground lease until the improvements are completed.



When the Taxpayer is ready to take title to the replacement property, Taxpayer may elect to have the replacement property transferred either by an assignment of the ground lease or an assignment of membership interest in the NExTLLC. Any remaining exchange funds will be used to pay-down/pay-off loans and pay any closing costs. The Taxpayer may need to assume the balance of any outstanding loans that cannot be paid off with the exchange funds.

In a reverse exchange intended to obtain the protection of Revenue Procedure 2000-37, the NExTLLC must transfer the replacement property to the Taxpayer within 180-days of the NExTLLC's acquisition of the ground lease interest.

<u>IMPORTANT**</u>** - When the ground lessor is the Taxpayer or an entity disregarded as separate from Taxpayer for federal income tax purposes, this exchange structure should be considered aggressive. It appears Revenue Procedure 2004-51 may have intended to eliminate this structure of exchange from safe harbor treatment in situations where the land being leased is owned by the taxpayer. It is critical that Taxpayer discuss this transaction with a tax and/or legal advisor and that all parties are comfortable proceeding. There are many issues and complicating factors which require the advice of a knowledgeable tax advisor.