The Reverse Improvement Exchange

The 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 reverse improvement exchange involves three phases discussed below.

Phase I: NExTLLC Acquires Title to the Replacement Property

Taxpayer assigns its rights to acquire the replacement property under the purchase agreement to NExTLLC (a disregarded entity owned 100% by NExT1031). Since NExTLLC does not have the capital to acquire the replacement property, it must borrow the funds necessary for the acquisition. The financing can be provided from several sources: the Taxpayer, an affiliate of the Taxpayer, or a third-party lender (a bank or the seller). Financing may come through a combination of a loan from the Taxpayer for the down payment and a loan from a third-party for the balance of the purchase price and closing costs. NExTLLC gives its lender(s) a promissory note(s) for the amount of funds borrowed. This note(s) will be secured by a deed of trust or mortgage on the replacement property. All loan documents to which NExT1031 is a party must contain our non-recourse language.

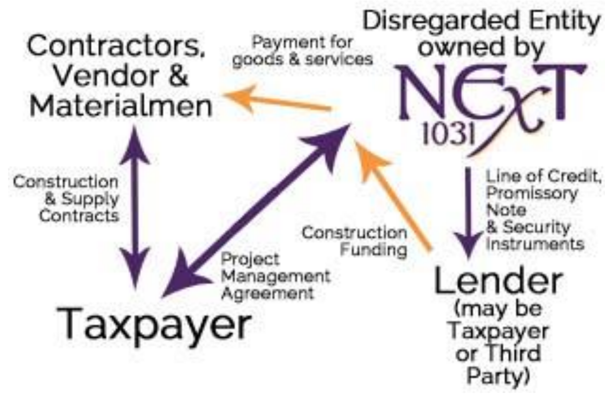
NExT1031, as the Exchange Accommodation Titleholder (“EAT”), NExTLLC and Taxpayer enter into a Qualified Exchange Accommodation Agreement under which NExTLLC agrees to hold and improve the Replacement Property for a period of time not to exceed 180 days. In addition, NExTLLC and the Taxpayer (or an affiliate of the Taxpayer) will enter into a Lease Agreement for the replacement property with NExTLLC, as landlord, and the Taxpayer or affiliate, as tenant. This lease allows the economics of the replacement property (i.e. rents (income) and expenses) to flow directly to the Taxpayer while NExTLLC owns the replacement property.

Upon closing, title to the replacement property is taken in the name of the NExTLLC. All relinquished property must be identified, in writing, within 45 days of NExTLLC taking title to the replacement property.

Phase II: Constructing the Improvements on the Replacement Property

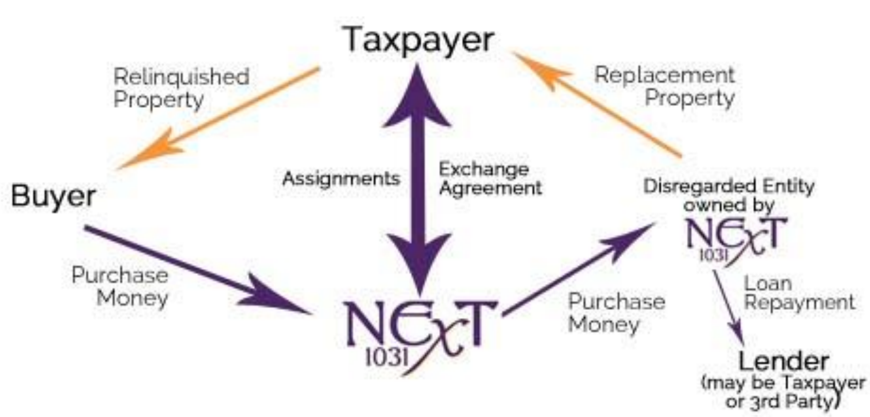
NExTLLC will retain the Taxpayer, or an affiliate of Taxpayer, as its Project Manager to oversee the construction of the improvements. The Project Manager will have the authority to hire contractors and manage the project on behalf of NExTLLC.

If not included in the primary loan, NExTLLC will be a party to construction financing with the Taxpayer, an affiliate of the Taxpayer, or a third-party lender. 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 NExTLLC.



Phase III: The Simultaneous or Delayed Exchange

As the Taxpayer prepares to close on the relinquished property, 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 are sent directly to NExT1031 and held in an exchange account until the exchange is concluded or the proceeds are advanced to NExTLLC to fund the construction of the improvements.



If the improvements are completed by the time the relinquished property closes then the exchange can be concluded as a simultaneous exchange. However, if there are still improvements to be made to the replacement property, NExTLLC will remain on title until the improvements are completed.

When the Taxpayer is ready to take title to the replacement property, 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.

NExTLLC will use the exchange proceeds to pay-down or pay-off the loans it received to acquire the replacement property. The Taxpayer may need to assume the balance of any outstanding loans. In a deed transfer, 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 EAT, to the Taxpayer.

The replacement property must be transferred to the Taxpayer within 180-days of NExTLLC's acquisition of title in order to receive the safe-harbor protection of Revenue Procedure 2000-37.

NOTE: The improvements to the replacement property do not need to be fully completed within the 180 day exchange period nor is a certificate of occupancy required. The final value of the replacement property is the combination of the original purchase price plus the capital improvements that are incorporated into the replacement property as of the date the taxpayer takes title to the replacement property.