§1031 Improvement and Reverse Exchanges

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ASSET PRESERVATION, INC.

ASSET PRESERVATION®
INCORPORATED

A National IRC §1031 "Qualified Intermediary"

www.apiexchange.com

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THE POWER OF STRATEGY

Member:

FEA

ASSET PRESERVATION, INC.

EXPERTS IN THE POWER OF STRATEGY

Savvy investors know that Internal Revenue Code (IRC) Section 1031 provides a vehicle for deferring capital gain taxes while disposing of investment property. The United States Treasury Department has validated the services of a "Qualified Intermediary" to complete a tax deferred exchange.

Asset Preservation, Inc. (API), a subsidiary of Stewart Title Company, is a national leader in the "Qualified Intermediary" industry. We have a history of protecting investors' assets through our expertise in specialized services that can defer capital gain indefinitely. At API, we are committed to providing investors with the highest level of experience, expertise and security of funds in the industry — what we call the ***API Advantage.***

OUR VISION

Excelling as the premier §1031 "Qualified Intermediary" company nationally by delivering superb service, as well as the highest levels of proceed security available and value-added solutions from the industry's foremost experts.

"PARKING ARRANGEMENTS": SEIZE, PROTECT AND CREATE

Revenue Procedure 2000-37, enacted on September 15, 2000, creates a "safe harbor" for reverse and improvement exchanges whereby the Exchange Accommodation Titleholder (EAT) enters into a "parking arrangement" and acquires title to either the relinquished or replacement property. Strategically applied, these types of exchanges empower the investor with the ability to enhance their investment alternatives.

SEIZE THE MOMENT

Immediately acquire a desirable replacement property prior to selling the relinquished property.

PROTECT YOUR EXCHANGE

Eliminate the pressure-filled problems presented by the 45-day identification period.

CREATE YOUR INVESTMENT

Build from the ground up or improve an existing property, resulting in an investment that meets your exact needs.

REVERSE AND IMPROVEMENT EXCHANGES

THE REVERSE EXCHANGE

The reverse exchange is a "parking arrangement" that allows an Exchanger to purchase a replacement property and then later sell the relinquished property within 180 days. Several reverse exchange strategies are available:

- **"Parking the Replacement Property"**: The EAT acquires title to the replacement property. Within 180 days, the Exchanger sells the relinquished property and the EAT transfers the replacement property to the Exchanger.
- **"Parking the Relinquished Property"**: The EAT acquires the relinquished property and completes a simultaneous exchange for the replacement property. The EAT remains on title to the relinquished property until it is sold to a purchaser within 180 days.
- **"Reverse/Improvement Exchange"**: The EAT acquires the replacement property and makes improvements to this property. The improved replacement property is later exchanged for the relinquished property within 180 days to complete the exchange.

THE IMPROVEMENT EXCHANGE

The improvement exchange is a "parking arrangement" that allows an Exchanger, through the use of an EAT, to make improvements on a replacement property within the 180-day exchange period. The improvement exchange can be advantageous in the following situations:

- Eliminating a taxable situation by adding the cost of capital improvements to the replacement property's value.
- Building a new property from the ground up to maximize investment opportunities.

EXPERTS IN THE POWER OF STRATEGY

Asset Preservation offers a very sophisticated structure for reverse and improvement exchanges and the most qualified professionals to facilitate these complex and unique transactions. Our superior services are designed to maximize the Exchanger's safety and eliminate risk.

LIMITED LIABILITY COMPANY PROTECTION

When an EAT, such as API, holds title to a property, it is essential that the property be fully insulated from any liability that might arise from activities involving other Exchangers' properties. API creates a separate limited liability company (LLC) for each Exchanger. By holding a property in its own separate LLC, API isolates the Exchanger from all liability issues. Each LLC complies with state and federal registration and filing requirements.

EXPERIENCE

API has performed thousands of reverse and improvement exchanges throughout its fifteen-year history. API, the industry leader, can help you successfully navigate through a maze of potentially complex and destructive pitfalls.

LETTER OF ASSURANCE

API can provide each Exchanger with a "Letter of Assurance" backed by our established and nationally recognized parent company, Stewart Title Company, which assures the performance of API. This assurance provides the highest level of security for exchange proceeds and property while in the possession of API. Anything less than an assurance or guarantee, in writing, is settling for less than the best security available.

TO LEARN MORE, CALL ASSET PRESERVATION, INC.

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REVENUE PROCEDURE 2000-37: A SUMMARY

Revenue Procedure 2000-37 outlines the following parameters to create a "safe harbor" for transactions where the EAT holds title to either the relinquished or replacement properties:

- The title to either the relinquished or the replacement property must be "parked" with the EAT.
- The EAT must hold legal title, referred to as the "Qualified Indicia of Ownership."
- The Exchanger and the EAT must enter into a written agreement known as the "Qualified Exchange Accommodation Arrangement" (QEAA).
- The Exchanger must have a "bona fide intent" that the "parked" property will either be the relinquished or replacement property in an exchange.
- The EAT cannot be the Exchanger or a "disqualified person."
- The EAT must report the property on its income tax return.
- The Exchanger must identify the relinquished property within 45 calendar days.
- The Exchanger must complete the exchange within 180 calendar days from the date the property is transferred to the EAT.

REVENUE PROCEDURE 2000-37: PERMISSIBLE AGREEMENTS

Revenue Procedure 2000-37 provides for the following permissible agreements, regardless of whether they contain terms that may typically destroy an arms-length relationship between the EAT and the Exchanger.

PERMISSIBLE AGREEMENTS

- The EAT may act as both the Qualified Intermediary and the EAT, provided that they satisfy the Qualified Intermediary safe harbor provisions in Section 1.1031(k)-1(g)(4).
- The Exchanger may guarantee all or part of the obligations of the EAT including debt and incurred expenses.
- The Exchanger may loan or advance funds or guarantee a loan or advance to the EAT.
- The EAT may lease the property to the Exchanger or a disqualified person.
- The EAT may enter into a management agreement with the Exchanger.
- The Exchanger may act as contractor and/or supervisor with respect to the "parked" property.
- The EAT and the Exchanger may enter into agreements using puts and calls at fixed or formula prices for subsequent dispositions.