

CENTURY 1031 EXCHANGE INC.
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REVERSE EXCHANGES ©

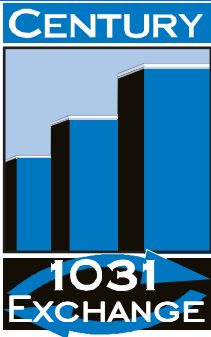
1. What is a Reverse Exchange?

A. Contrast with Forward Exchanges.

1. In a Forward Exchange, the Exchange Party first enters into an Exchange Agreement with a Qualified Intermediary (accommodator) to dispose of the Relinquished Property (sometimes called the “down leg”).
2. Second, the net sales proceeds from the sale of the Relinquished Property are held by the Qualified Intermediary pending acquisition of the Replacement Property (sometimes called the “up leg”).
3. Third, when the Exchange Party locates the Replacement Property, the Qualified Intermediary uses the net sales proceeds it is holding to acquire the Replacement Property, in order to permit the Exchange Party to complete the Exchange.

B. In a Reverse Exchange, the Replacement Property is acquired **before the Relinquished Property is sold.**

1. As a result of the IRS issuing Revenue Procedure 2000-37, Exchange Parties can enter into Reverse Exchange transactions on a “safe-harbor” basis.
2. In a Reverse Exchange transaction, in addition to the Exchange Party and the Qualified Intermediary, there is a third party, the Exchange Accommodation Titleholder, also known as the “EAT.” Usually, the Qualified Intermediary and the Exchange Accommodation Titleholder are 2 different legal entities.
3. In the typical case, the Exchange Accommodation Titleholder takes title to, or “parks,” the Replacement Property pending the sale of the Relinquished Property. (See below for variations.)



4. The Exchange Accommodation Titleholder holds title to the Replacement Property (or Relinquished Property as discussed below) pursuant to an agreement called a Qualified Exchange Accommodation Agreement (or QEAA). The QEAA between the EAT and the Exchange Party and the Exchange Agreement between the Exchange Party and the Qualified Intermediary are separate agreements.
5. During the period when the Exchange Accommodation Titleholder holds title to the property, the EAT, and not the Exchange Party, is treated as the owner of such property for Federal income tax purposes.
6. Reverse Exchange transactions are frequently used by Exchange Parties to be certain that they will be able to complete the Exchange following the sale of the Relinquished Property.

C. Types of Reverse Exchanges.

1. **“Exchange Last.”**
 - a. In an Exchange Last Reverse Exchange transaction, the Exchange Accommodation Titleholder holds title to the Replacement Property until the Relinquished Property is sold.
 - b. In an Exchange Last Reverse Exchange transaction, the Relinquished Property remains undisturbed until it is sold. This eliminates the need to obtain lender consent to transfer the Relinquished Property prior to its sale. In addition, the real estate tax base for the Relinquished Property remains undisturbed.
 - c. When the Relinquished Property is sold, the Exchange Party and the Qualified Intermediary enter into an Exchange Agreement. In completing the Exchange, the Qualified Intermediary arranges for the Exchange Accommodation Titleholder to convey the Replacement Property to the Exchange Party.
 - d. See Exhibit A for a diagram of an Exchange Last Reverse Exchange transaction.



2. "Exchange First."

- a. In an Exchange First Reverse Exchange transaction, (i) the Exchange Party and the Qualified Intermediary enter into an Exchange Agreement, (ii) the Qualified Intermediary arranges for the Exchange Party to acquire the Replacement Property, and (iii) the Relinquished Property is "parked" with the Exchange Accommodation Titleholder pending its sale.
- b. The Exchange First structure is used, for instance, in the exceptional case where the lender for the Replacement Property will not agree to participate in a Reverse Exchange transaction and either the Relinquished Property has no mortgage or deed of trust or its lender is cooperative.
- c. See Exhibit B for a diagram of an Exchange First Reverse Exchange transaction.

3. "Build To Suit" Transactions.

- a. In some cases, the Exchange Party desires to spend some of the anticipated net sales proceeds from the sale of the Relinquished Property to make improvements to the Replacement Property.
- b. To accomplish this result, the Exchange Accommodation Titleholder takes title to the Replacement Property and makes improvements to it, thereby increasing its equity.
- c. In order to make a Build To Suit transaction work and to comply with the 180-day limitation described below, at the least, all building plans should be completed, all building permits obtained, a contractor should be hired, the work should be bid, an owner's representative should be retained and adequate insurance should be in place by the time the Exchange Accommodation Titleholder first acquires the Replacement Property.

D. 45-Day and 180-Day Rules.

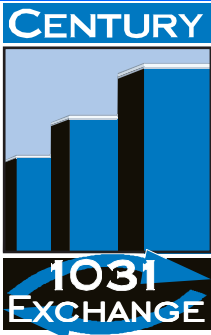
1. The 45-Day and 180-Day rules that apply to Forward Exchanges also apply to Reverse Exchanges.



2. **45-Day Rule.** The Exchange Party must designate the Relinquished Property within 45 days of the acquisition of the Replacement Property.
3. **180-Day Rule.** The Relinquished Property must be sold within 180 days of the acquisition of the Replacement Property.

2. Setting Up A Reverse Exchange Transaction.

- A. **Formation of LLC.** In the usual case, the Exchange Accommodation Titleholder forms a limited liability company (LLC) to acquire title to the Replacement Property.
 1. For Federal income tax purposes, an LLC with a single owner is treated as a “disregarded” entity and its assets are considered as owned by its member, in this case the EAT.
 2. In some states, instead of forming an LLC only, it is advantageous for the Exchange Accommodation Titleholder to form a limited partnership to take title to the Replacement Property. The limited partner of the limited partnership is the EAT and the general partner is an LLC that is wholly-owned by the EAT.
- B. **Acquisition of Title.** The LLC (or LP) acquires title to the Replacement Property.
- C. **Lender Loan.** The LLC signs the loan documents with the third party lender. It is critical that the lender be aware of this transaction and that the membership interest in the LLC will be transferred by the Exchange Accommodation Titleholder to the Exchange Party at the conclusion of the Reverse Exchange transaction.
- D. **Exchange Party Loan.** The Exchange Party (or an affiliate of the Exchange Party) loans the equity to the LLC.
 1. The LLC gives the Exchange Party lender (or its affiliate) a note for the equity and a deed of trust or mortgage encumbering the Replacement Property as security for repayment.
 2. In some cases, the first priority lender will not permit a second priority deed of trust or mortgage. In this case, the loan from the Exchange Party (or its affiliate) is made to the Exchange Accommodation Titleholder who gives the Exchange Party a note and a security interest in the LLC membership interest.



- E. **Property Management Agreement.** The Exchange Party (or an affiliate) enters into a Property Management Agreement pursuant to which the Exchange Party (or its affiliate) manages the Replacement Property and is entitled to receive the entire net income from the Replacement Property.
- F. **Master Lease.** The Exchange Party (or an affiliate) enters into a Master Lease of the Replacement Property to give possession of the Replacement Property to the lessee. No base rent is paid, but the lessee is obligated to pay all expenses.
- G. **Memorandum Of Put, Call and Restriction on Resale.** The Exchange Party, Exchange Accommodation Titleholder and LLC enter into an agreement (i) to permit the Exchange Party to “call” the Replacement Property from the EAT in order to complete the Exchange, (ii) to permit the EAT to transfer the Replacement Property to the Exchange Party after the 180-day period, and (iii) to restrict the EAT’s ability to sell the Replacement Property.
- H. **Build To Suit Transactions.** Build to Suit transactions are set up in the same manner. During the 180-day period in which the LLC (or LP) owns the Replacement Property, the LLC (or LP) makes improvements to the Replacement Property as directed and financed by the Exchange Party.
- I. **Exchange First Transactions.** Exchange First Reverse Exchange transactions are structured in a similar manner, except that the LLC holds title to the Relinquished Property during the 180-day period.

3. Completing A Reverse Exchange Transaction.

- A. **Sale of Relinquished Property.** The Qualified Intermediary sells the Relinquished Property and receives the net sales proceeds from the buyer.
- B. **Payment to Exchange Accommodation Titleholder.**
 - 1. The Qualified Intermediary pays the net sales proceeds to the Exchange Accommodation Titleholder.
 - 2. Note that if the net sales proceeds from the disposition of the Relinquished Property are in excess of the equity in the Replacement Property, it may be necessary to structure the sale of the Relinquished Property in part to complete the Reverse Exchange transaction and in part to do a separate Forward Exchange.



C. Transfer of the Membership Interest. The Exchange Accommodation Titleholder, at the direction of the Qualified Intermediary, transfers the membership interest in the LLC to the Exchange Party.

D. Repayment By LLC.

1. The LLC repays the loan made to it by the Exchange Party (or its affiliate).
2. If the amount realized from the sale of the Relinquished Property is less than the note from the LLC, the Exchange Party (or its affiliate) accepts the net sales proceeds as payment in full.

4. Who Is Century Reverse Exchange Inc.?

- A. Warren (Skip) Kessler, the President of Century Reverse Exchange Inc., has over 30 years of experience in structuring and implementing Section 1031 Exchanges, including Forward Exchanges, Reverse Exchanges, and Construction Exchanges for real estate and other eligible property.
- B. Mr. Kessler and his staff have structured and implemented 100s of safe-harbor Reverse Exchange transactions under Revenue Procedure 2000-37 involving billions of dollars of real estate.
- C. Mr. Kessler is a frequent speaker on Section 1031 Exchanges.

The information contained in this outline is not intended to be, and should not be construed to be, legal or tax advice. Before entering into a Reverse Exchange transaction you should consult your legal and tax advisers as to your specific facts and objectives.

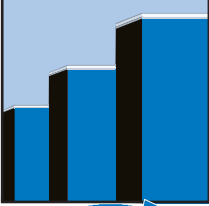
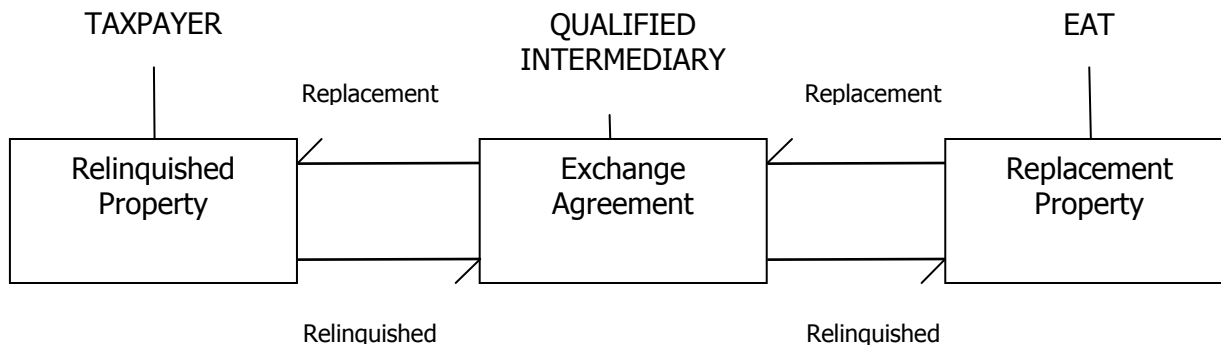


EXHIBIT A
“EXCHANGE LAST” REVERSE EXCHANGE



Step 1 The EAT acquires the Replacement Property.

Step 2 The Taxpayer disposes of the Relinquished Property pursuant to the Exchange Agreement.

Step 3 The EAT conveys the Replacement Property to the QI who conveys it to the Taxpayer or there is a direct deed from the EAT to the Taxpayer as directed by the QI.

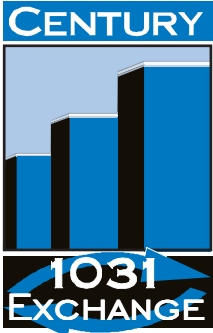
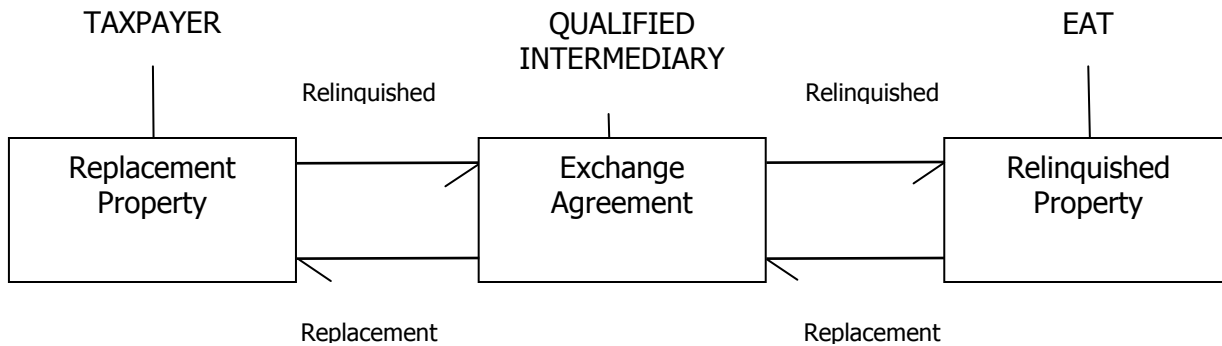


EXHIBIT B
“EXCHANGE FIRST” REVERSE EXCHANGE



Step 1 The EAT “acquires” the Replacement Property and causes it to be deeded to the Taxpayer.

Step 2 The QI exchanges the Relinquished Property for the Replacement Property and parks the Relinquished Property with the EAT.

Step 3 The EAT sells the Relinquished Property.

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