

WHAT IS A 1031 TAX DEFERRED EXCHANGE?

A 1031 tax deferred exchange is the method by which a taxpayer who owns property, which has been held for investment or in connection with a trade or business, can exchange the property for like kind property, which will also be held for investment or in connection with a trade or business, and defer paying taxes on some or all of the capital gains. For investments held by individuals, the deferral can continue through any number of exchanges until the tax liability is extinguished by death. The regulations which govern exchange transactions are in Section 1031 of the Internal Revenue Code.

The 1031 tax deferred exchange is a powerful tool. We can enable you to use more of your equity to acquire investment properties. Long favored for estate planning, an exchange can be employed to leverage, consolidate or diversify assets. Think of First American Exchange Corporation to move from a poor investment choice into a better income or equity position. We are solidly connected in every state in the nation.

EXCHANGE TERMINOLOGY

Exchangor/Taxpayer -	The entity or individual who wishes to participate in a 1031 tax deferred exchange.
Relinquished Property -	The property which the Exchangor currently owns and is going to exchange.
Exchange Credit -	The funds received from the transfer of the Exchangor's relinquished property.
Replacement Property -	The property which the Exchangor acquires in the exchange.
Growth Factor -	The interest earned on the exchange credit.
Like Kind Property -	Replacement property acquired in an exchange must be of "like kind" to the property being relinquished. All real property is of like kind, regardless of whether it is improved or unimproved, and regardless of the type of improvements. EXCEPTIONS: 1) Real property located outside of the United States; 2) Exchangor's primary residence; 3) Inventory; and 4) Improvements constructed after the Exchangor takes title to the replacement property.
Boot -	Non like kind property received by the Exchangor such as cash or a promissory note. Boot is taxable.



EXCHANGE DEADLINES

Identification Period - The Exchangor must identify replacement property(ies) within 45 days from the date of the first relinquished property closing.

Exchange Period - The exchange must be completed by the **earlier of:** 1) 180 days from the date of the first relinquished property closing; or 2) the due date of filing Exchangor's federal income tax return, together with all extensions, for the year the first relinquished property was transferred.

IDENTIFICATION RULES

3 Property Rule - Up to three (3) properties can be identified without regard to their fair market value.

200% Rule - Any number of properties as long as their combined fair market value does not exceed 200% of the fair market value of all relinquished property.

95% Rule - Any number of properties regardless of their aggregate fair market value, provided 95% of the value of the identified properties are acquired.

NOTE: If improvements are to be constructed and completed prior to the Exchangor taking title to the replacement property, said improvements should be specifically identified in the Replacement Property Identification Notice.



KEY QUESTIONS TO ASK WHEN INTERVIEWING QUALIFIED INTERMEDIARIES

- Is each exchange fund handled separately?
- Where are the funds invested?
- What security is in place for the exchange/sale proceeds?
- What bonds or insurance are in place to protect against employee error or theft?
- What interest rate will be paid on the exchange credit account?
- From what date will interest accrue to the benefit of the exchange credit account?
- What fees are charged?



Please consult with your financial and/or tax consultant regarding the advisability of entering into an exchange based on your particular circumstances. The deferred taxes alone may not offer sufficient advantages. Some, but not all, of the business considerations you may wish to discuss include the need or desire to:

- consolidate or diversify investments
- obtain greater appreciation on real property
- increase cash flow
- relocate a business investment
- transfer into or out of a high (or low) basis property
- minimize management problems
- sell fully depreciated property to increase the basis and extend depreciation
- change investment types, active or passive
- estate planning vs. immediate capital gains tax treatment
- use 100% of your equity for your next investment

CAVEAT

Although First American Exchange will provide forms to complete the exchange, the IRS recommends that your tax advisor and/or attorney review and approve these documents. Our role is to provide the mechanism to accomplish the exchange. First American Exchange cannot advise you concerning the specific tax consequences of your transaction. First American Exchange is not able to comment on the advisability of conducting an exchange.



THE TYPICAL EXCHANGE PROCESS WHEN FIRST AMERICAN EXCHANGE CORPORATION ACTS AS THE QUALIFIED INTERMEDIARY

1. Exchangor (the taxpayer) retains the services of an independent tax advisor.
2. Exchangor enters into an agreement to sell property that is being held for investment purposes or for productive use in a trade or business. The agreement should include a recital that the Exchangor intends to relinquish the property as part of a 1031 tax deferred exchange and a provision for the right to substitute First American Exchange Corporation as seller.
3. Exchangor faxes or mails the Agreement for Sale and Purchase and a completed Relinquished Property Information Form to First American Exchange Corporation ("FAEC").
4. FAEC prepares the relinquished property exchange documents, including an Exchange Agreement with FAEC as intermediary. FAEC becomes a principal in each transaction (not an agent). The exchange documents must be signed prior to or at the time of closing. FAEC will provide the original exchange documents to the closing agent/Exchangor for execution.
5. When all contingencies are satisfied, Exchangor causes FAEC to be substituted in as seller in the "sale transaction" for Exchangor's relinquished property.
6. FAEC will cause Exchangor to be shown as grantor/transferor on the deed to the buyer of the relinquished property. This is called "direct deeding". FAEC does not come into title with respect to the relinquished property.
7. The first half of the exchange closes with transfer of the relinquished property - the exchange time periods begin to run.
8. FAEC deposits net proceeds from the transfer of the relinquished property into an escrow account in the name of "First American Exchange Corporation held in trust for (Exchangor's name)". Please inquire about the growth factor and bank fees.
9. Interest accrues, at an aggressive rate, on the funds deposited in the exchange escrow account. Per the Exchange Agreement, Exchangor receives credit for a "growth factor" (interest) earned on the funds deposited in the exchange escrow account.
10. Exchangor identifies replacement property(ies) in writing on or before the 45th day from the closing of the relinquished property. A Replacement Property Identification Notice specifically identifying the replacement property(ies) by street address or legal description and signed by Exchangor must be mailed or faxed to FAEC by the 45th day following the first relinquished property closing. If Exchangor intends to acquire a partial undivided interest in the replacement property, said interest should be identified. If improvements are to be constructed and completed prior to Exchangor taking title to the replacement property, said improvements should be specifically identified in the Replacement Property Identification Notice. The deadline is not extended if the 45th day is a Saturday, Sunday or legal holiday.
11. Exchangor enters into an agreement to acquire replacement property, including a recital that Exchangor intends to acquire property as a part of a 1031 tax deferred exchange and a provision for the right to substitute FAEC as buyer.
12. When all contingencies are satisfied, Exchangor causes FAEC to be substituted in as buyer of the replacement property.
13. FAEC will cause Exchangor to be shown as grantee/transferee on the deed from the seller of the replacement property.

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14. FAEC receives the Settlement Statement prepared for the replacement property and, after approved, wire transfers funds to the closing agent on the date of closing. If additional funds are required, FAEC notifies Exchangor.
15. The final portion of the exchange closes concurrently with acquisition of the replacement property - or in stages if multiple properties are involved - all on or before the 180th day after the transfer of the first relinquished property or the due date (including extensions) of the Exchangor's federal income tax return, whichever is earlier.
16. Exchangor files Form 8824 with the IRS (and, depending on state law, equivalent documentation with state tax authorities.

CONSULT WITH YOUR TAX ADVISOR BEFORE ENTERING INTO A 1031 TAX DEFERRED EXCHANGE. FIRST AMERICAN EXCHANGE CORPORATION PROVIDES INTERMEDIARY SERVICES ONLY AND CANNOT GIVE TAX ADVICE.

ADDENDUM/AMENDMENT TO PURCHASE AND SALE AGREEMENT

Proposed 1031 language for relinquished property contract:

The following is an addendum/amendment to that certain Purchase and Sale Agreement by and between _____, as seller(s) (hereinafter referred to as "Seller"), and _____, as purchaser(s) (hereinafter referred to as "Purchaser") dated _____, 2001.

SELLER AND PURCHASER AGREE AS FOLLOWS:

A material part of the consideration to Seller for selling the subject property is that Seller has the option to qualify this transaction as part of a tax deferred exchange under Section 1031 of the Internal Revenue Code. Purchaser agrees to cooperate in the exchange provided Purchaser incurs no additional liability, cost or expense.










Proposed language for replacement property contract:

The following is an addendum/amendment to that certain Purchase and Sale Agreement by and between _____, as seller(s) (hereinafter referred to as "Seller"), and _____, as purchaser(s) (hereinafter referred to as "Purchaser") dated _____, 2001.

SELLER AND PURCHASER AGREE AS FOLLOWS:

A material part of the consideration to Purchaser for purchasing the subject property is that Purchaser has the option to qualify this transaction as part of a tax deferred exchange under Section 1031 of the Internal Revenue Code. Seller agrees to cooperate in the exchange provided Seller incurs no additional liability, cost or expense.

WHY CHOOSE US TO ACT AS YOUR INTERMEDIARY?

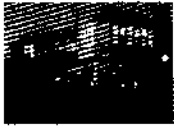
-  We are a Qualified Intermediary with substantial experience handling 1031 Tax Deferred Exchanges. When you select us, you not only benefit from tax deferred capital gains but also from the coordination of highly trained professionals who are constantly abreast of the latest information that might impact your exchange.
-  Your funds will be financially secure. The full assets and resources of our \$2 billion parent company, First American Title Insurance Company, secure every exchange.
-  You will receive prompt, professional service from us because meeting your business needs is our primary goal.
-  You can be assured that we will be here when you need us because we are a subsidiary of the nation's largest title insurance company, First American Title Insurance Company, with over a century of experience.
-  Your investment is protected with a \$10 million fidelity bond and \$22.5 million E & O policy.
-  Your funds will earn an aggressive rate of interest which will be credited to your exchange credit account.
-  Our 1031 exchange documents comply with all Internal Revenue Service Regulations.
-  We will provide you with periodic reminders to assist you in meeting all your exchange transaction deadlines.
-  We are a member of the Federation of Exchange Accommodators.

For further information, please call Janice Houff at (800) 600-2245, John Berkley at (800) 916-0888, or your local First American Title Insurance Company office/agent.



FIRST AMERICAN EXCHANGE CORPORATION'S SERVICES

From a standard 1031 exchange to the most complex reverse exchange, we're here to help you!



Real Estate



Aircraft



Vessel



Reverse Exchange



Build to suit

As your Intermediary, we will:

- Prepare the Exchange Agreement, Assignments, Notices and other exchange documents.
- Coordinate the exchange transaction with you, your tax advisor and closing agents.
- Receive the net proceeds from the transfer of the relinquished property and invest them in an interest bearing account. Interest at an aggressive rate will be credited to your exchange credit account.
- Provide you with periodic reminders of your exchange deadlines.
- Prepare a complete, accurate and timely account summary which itemizes the receipt and disbursement of all exchange credit funds.
- Call our professionals or your First American local marketing representative/agent and put the power of the nation's leading real estate-related financial and informational services corporation behind your exchange today. We welcome the opportunity to add to your investment success.



FEE SCHEDULE

FIRST AMERICAN EXCHANGE CORPORATION

First American Exchange Corporation's fees for providing intermediary services are as follows:

1. An EXCHANGE FEE for one Relinquished Property transaction and one Replacement Property transaction to be paid at the time of the first Relinquished Property closing, according to the following schedule:

Range of Funds Held		Total Fees
-	200,000	850
\$200,001	300,000	1,200
\$300,001	400,000	1,700
\$400,001	600,000	2,100
\$600,001	800,000	2,300
\$800,001	1,000,000	2,600
\$1,000,001	1,500,000	2,850
\$1,500,001	2,000,000	3,500

2. For each additional Relinquished Property, if any, the following fees are to be debited from Exchangor's proceeds at the time of such closing:
 - (a) an ADDITIONAL PROPERTY FEE of \$250.00 (Two Hundred Fifty Dollars); plus
 - (b) an ADDITIONAL EXCHANGE FEE in accordance with the above schedule, if additional funds are received and held by Intermediary.
3. For each additional Replacement Property, if any, an ADDITIONAL PROPERTY FEE of \$250.00 (Two Hundred Fifty Dollars) to be debited from Exchangor's proceeds at the time of such closing.

Exchangor agrees to pay Intermediary \$100.00 (One Hundred Dollars), in addition to the above fees, in the event Intermediary receives less than forty-eight (48) hours notice of a Relinquished Property closing or a Replacement Property closing, together with the necessary information to prepare the exchange documents.

In any event, all fees shall be debited from Exchangor's proceeds prior to the final disbursement. No portion of the fees are refundable as a result of Exchangor's failure to complete the exchange.



FIRST AMERICAN EXCHANGE CORPORATION RELINQUISHED PROPERTY INFORMATION FORM

Who referred you to First American Exchange?
Name(s) of Exchangor(s)
Address of Exchangor(s)
Telephone/Fax numbers of Exchangor(s)
Social Security Number(s) or Tax I.D. Numbers of Exchangor(s)
Description of Relinquished Property (municipal address, county and state)
Name(s) of Purchaser(s) of Relinquished Property
Address of Purchaser(s)
Telephone/Fax number of Purchaser(s)
Name of Exchangor's Tax Advisor or Attorney
Address of Tax Advisor or Attorney
Telephone/Fax numbers of Tax Advisor or Attorney
Name of Closing Agent/Agency
Address of Closing Agent/Agency
Telephone/Fax numbers of Closing Agent/Agency
Estimated date of closing
Purchase Price
Name/Agency of Listing Real Estate Agent
Address of Listing Real Estate Agent
Telephone/Fax number of Listing Agent
Name/Agency of Selling Real Estate Agent
Address of Selling Real Estate Agent
Telephone/Fax numbers of Selling Agent

AFTER COMPLETION, PLEASE RETURN, ALONG WITH A COPY OF THE PURCHASE AND SALE AGREEMENT, TO:

Janice T. Houff, President
First American Exchange Corporation
Via Facsimile: 850-402-1505
1983 Centre Pointe Boulevard, Suite 100
Tallahassee, FL 32308
Telephone: 800-600-2245 or 850-205-8700



FIRST AMERICAN EXCHANGE CORPORATION REPLACEMENT PROPERTY INFORMATION FORM

Name(s) of Seller(s) of Replacement Property
Address of Seller(s)
Telephone/Fax numbers of Seller(s)
Description of Replacement Property (municipal address, county and state)
Name of Closing Agent/Agency
Address of Closing Agent/Agency
Telephone/Fax number of Closing Agent/Agency
Estimated date of closing
Purchase Price
Name/Agency of Listing Real Estate Agent
Address of Listing Real Estate Agent
Telephone/Fax number of Listing Agent
Name/Agency of Selling Real Estate Agent
Address of Selling Real Estate Agent
Telephone/Fax numbers of Selling Agent

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