§1031 TAX DEFERRED EXCHANGE

THE POWER OF EXCHANGE

ASSET PRESERVATION, INC.

a Stewart Title Company subsidiary

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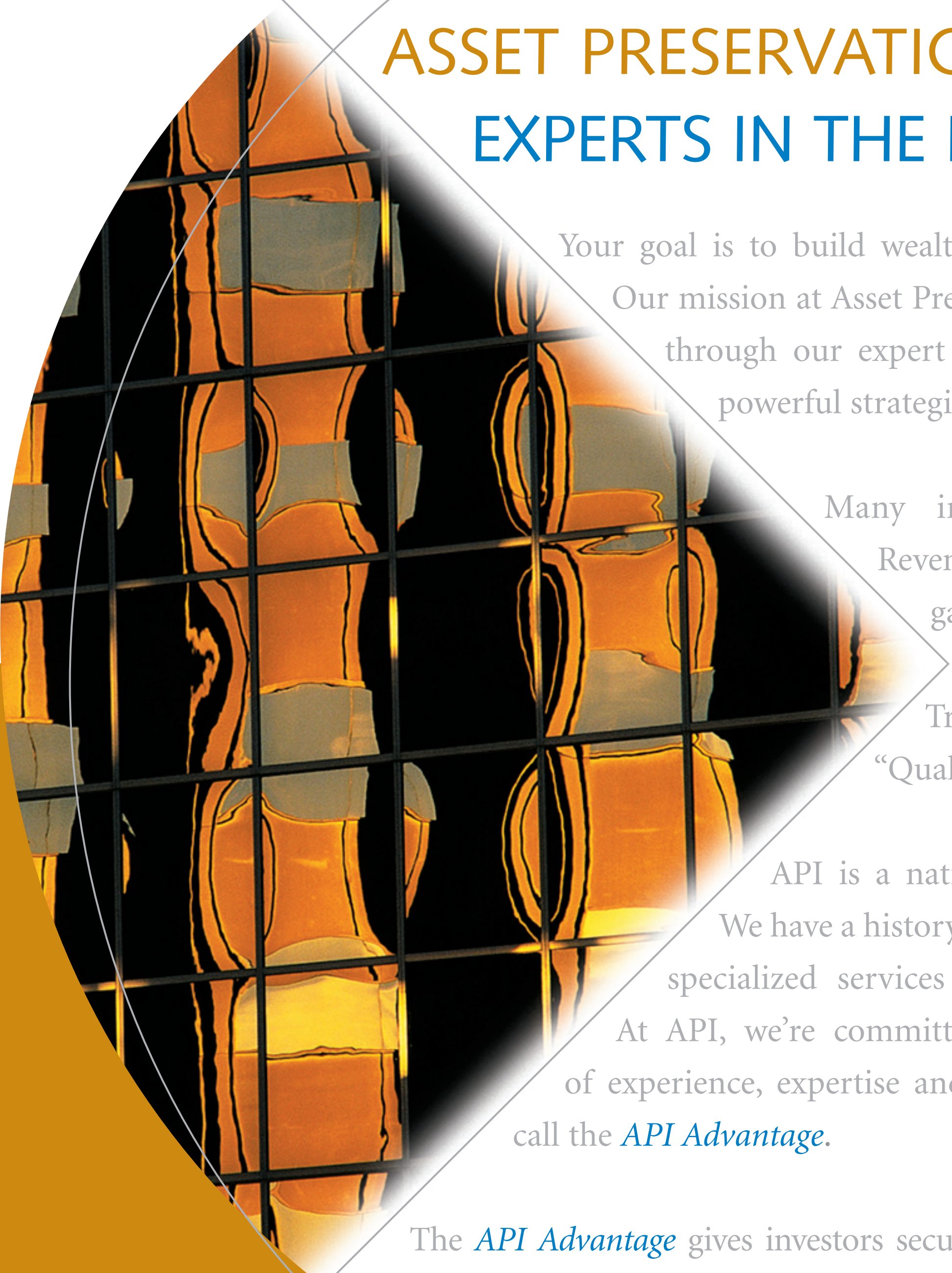
The goal of this brochure is to provide you with information about the benefits, the flexibility and the necessary steps of a Section 1031 Tax Deferred Exchange — and to demonstrate what a difference the *API Advantage* can make in the exchange process.

For more information about Asset Preservation, Inc., please call us at (800) 282-1031 or (866) 394-1031.

ASSET PRESERVATION, INC.

EXPERTS IN THE POWER OF EXCHANGE



Your goal is to build wealth by accumulating and protecting your assets. Our mission at Asset Preservation, Inc., (API) is to help you meet that goal through our expert knowledge of tax deferred property exchanges — powerful strategies for mitigating capital gain tax liability.

Many investors are becoming aware that the Internal Revenue Code (IRC) provides a vehicle for deferring capital gain taxes while disposing of investment property. This vehicle is the IRC Section 1031 Exchange. The U.S. Treasury Department has validated the services of a "Qualified Intermediary" to complete a tax deferred exchange.

API 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 taxation indefinitely. At API, we're committed to providing investors with the highest level of experience, expertise and security of funds in the industry — what we call the *API Advantage*.

The *API Advantage* gives investors secure access to the full power of exchanges, turning goals for financial growth and security into a very rewarding reality.

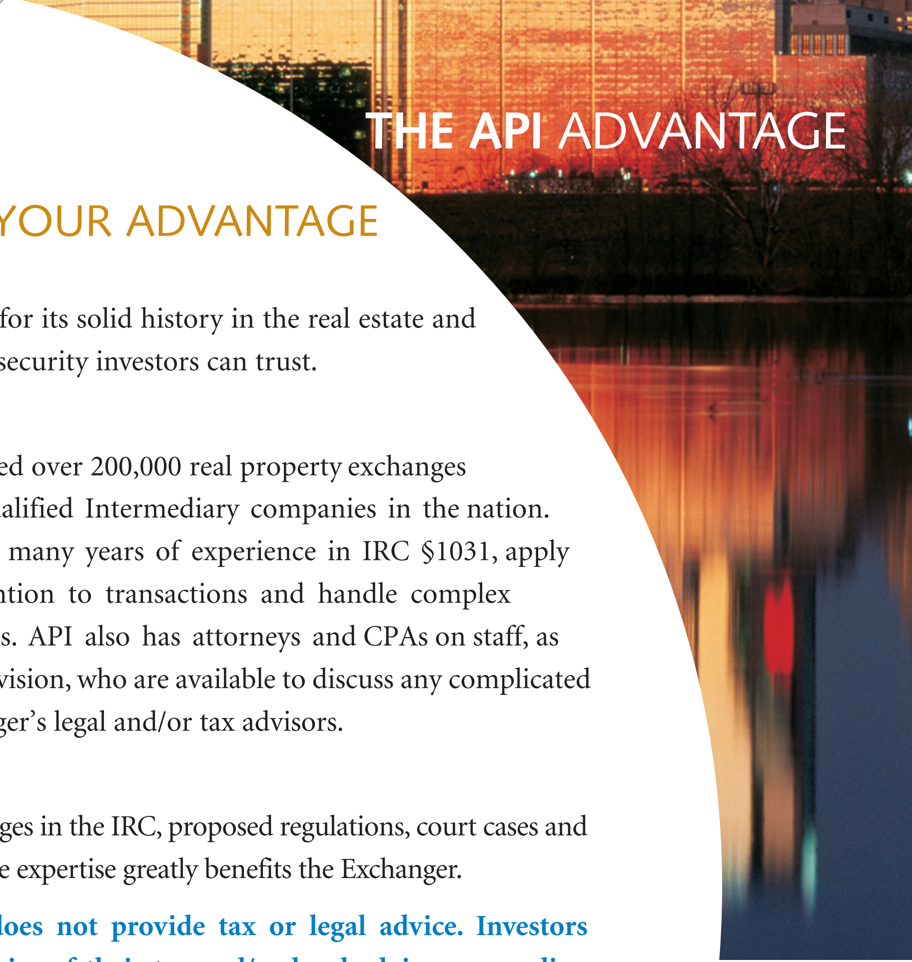
QUALIFIED INTERMEDIARIES: THE CENTER OF EXCHANGE

In 1921, tax deferred exchanges were introduced. Since that time many significant tax law changes have taken place, the most significant being the Final Treasury Regulations of 1991, which defined the role of the "Qualified Intermediary" and streamlined the exchange process. Today, knowledgeable investors seek an experienced "Qualified Intermediary" to handle exchanges. The use of a Qualified Intermediary significantly reduces transactional stress by assuring the proper execution of required documentation. Qualified Intermediaries provide a vast array of options so that investors have access to the full power of exchanges.

Many investors are surprised to discover that the Qualified Intermediary industry is not nationally regulated. Consequently, the careful selection of the Qualified Intermediary is essential to ensure the highest levels of expertise and security of funds.

API provides the key services of a Qualified Intermediary as defined and required by the IRC and Treasury Regulations.

- API is a Qualified Intermediary pursuant to IRC §1031
- API confers with each Exchanger's attorney and/or tax advisor and forwards legal documentation, as requested, so that the IRC §1031 rules and regulations are thoroughly understood
- API prepares the necessary documentation — Exchange Agreement, Assignment(s), Notice of Assignment(s), Qualified Exchange Account Form, Security of Funds Instruments and Instructions to each Closer/Escrow Officer — and oversees each closing to assist in proper §1031 procedures
- API, via the proper exchange documentation, consummates the sale of the relinquished property and the purchase of the replacement property
- API holds and protects the exchange proceeds on behalf of the Exchanger until funds are needed to purchase the replacement property
- API provides guidance, information and critical timelines throughout the entire exchange



USE API'S POWER OF EXCHANGE TO YOUR ADVANTAGE

As a subsidiary of Stewart Title Company, recognized nationally for its solid history in the real estate and title industry, API has experience and expertise which provides security investors can trust.

EXPERIENCE

Established in 1990, API has successfully facilitated over 200,000 real property exchanges and is recognized as one of the leading Qualified Intermediary companies in the nation. API's Senior Exchange Counselors, with many years of experience in IRC §1031, apply their expertise and personalized attention to transactions and handle complex improvement and reverse exchanges. API also has attorneys and CPAs on staff, as well as a dedicated Commercial Division, who are available to discuss any complicated exchange issues with the Exchanger's legal and/or tax advisors.

EXPERTISE

API continually monitors changes in the IRC, proposed regulations, court cases and letter rulings. This cutting edge expertise greatly benefits the Exchanger.

Asset Preservation, Inc., does not provide tax or legal advice. Investors should always seek the advice of their tax and/or legal advisors regarding their specific situation.

Many of America's most respected national real estate organizations, commercial brokerages, state bars and accounting associations look to API for professional training.

SECURITY

As Qualified Intermediary, API receives and holds the proceeds on behalf of the Exchanger until funds are needed to purchase the replacement property. Security of the exchange proceeds is our foremost concern, as exemplified by the additional security measures of our program. Here are a few highlights of the API Advantage:

- Through a "Letter of Assurance," Stewart Title Company provides a Third Party Guarantee (a safe harbor under the 1991 Treasury Rules and Regulations), that "assures" the performance of API. Stewart Title Company is a wholly owned subsidiary of Stewart Information Services Corporation *(NYSE: STC).*
- A "Qualified Exchange Account" is established for each Exchanger. Exchanger may require a notarized signature for the movement of funds.
- Fidelity bond insurance coverage
- Errors and omissions insurance
- API maintains alliances with highly rated financial institutions for its Qualified Exchange accounts.

THE POWER TO PROTECT, GROW AND DIVERSIFY

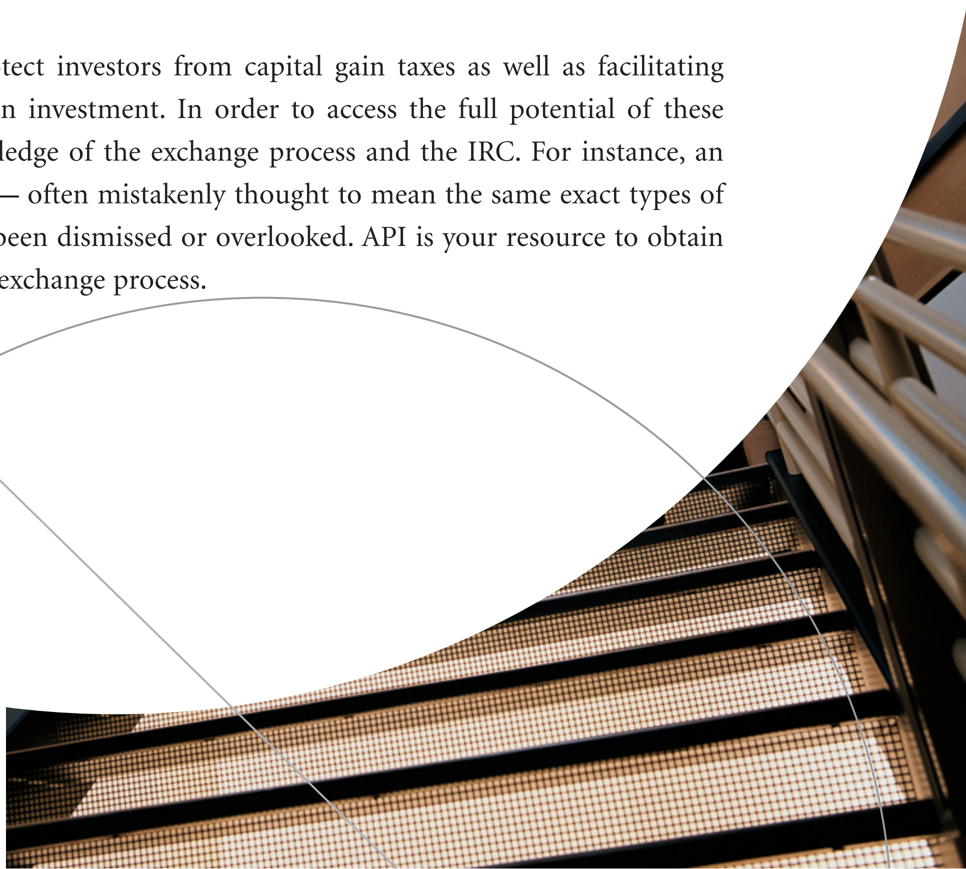
Thanks to IRC §1031, a properly structured exchange allows an investor to sell a property, to reinvest the proceeds in a new property and to defer all capital gain taxes. IRC §1031 (a)(1) states:

> *"No gain or loss shall be recognized on the exchange of property held for productive use in a trade or business or for investment, if such property is exchanged solely for property of like-kind which is to be held either for productive use in a trade or business or for investment."*

To understand the powerful protection an exchange offers, consider the following example:

- An investor has a $200,000 capital gain and incurs a tax liability of approximately $70,000 in combined taxes (depreciation recapture, federal and state capital gain taxes) when the property is sold. Only $130,000 remains to reinvest in another property.
- Assuming a 25% down payment and a 75% loan-to-value ratio, the seller would only be able to purchase a $520,000 new property.
- If the same investor chose to exchange, however, he or she would be able to reinvest the entire $200,000 of equity in the purchase of $800,000 in real estate, assuming the same down payment and loan-to-value ratios.

As the above example demonstrates, exchanges protect investors from capital gain taxes as well as facilitating significant portfolio growth and increased return on investment. In order to access the full potential of these benefits, it is crucial to have a comprehensive knowledge of the exchange process and the IRC. For instance, an accurate understanding of the key term "like-kind" — often mistakenly thought to mean the same exact types of property — can reveal possibilities that might have been dismissed or overlooked. API is your resource to obtain accurate and thorough information about the entire exchange process.



THE POWER OF FLEXIBILITY

Pursuant to IRC §1031, capital gain tax deferment requires the exchange of “like-kind” relinquished property for other “like-kind” replacement property. Contrary to the commonly held misconception that exchanged properties must be of the exact same type — for example, that bare land be exchanged for bare land or an income property be exchanged for another income property — the actual definition of “like-kind” is far more empowering in its flexibility. Any real property held for investment or real property used in a trade or business can be exchanged for any other real property held for investment or real property used in a trade or business.

POTENTIAL “LIKE-KIND” PROPERTY EXCHANGES AND BENEFITS

RELINQUISHED PROPERTY	exchanged for	REPLACEMENT PROPERTY	BENEFIT
Non-income producing land		Triple net leased property	Cash flow
High-equity property		Highly leveraged property	Leverage/Increased rate of return
Multiple rentals		Single user commercial	Management relief
Commercial property		Industrial and apartments	Diversification
Multiple property types		Single property type	Consolidation

EXCHANGE: FIVE POWERFUL STRATEGIES

THE FIVE TYPES OF EXCHANGES:

THE DELAYED EXCHANGE

A delayed exchange is the most common exchange format, providing investors the flexibility of up to a maximum of 180 days to purchase a replacement property. The use of a Qualified Intermediary is required to complete a valid delayed exchange. The Qualified Intermediary prepares the necessary exchange documents to assist the Exchanger with meeting the many detailed requirements of the Code, as well as avoiding numerous destructive pitfalls.

SALE OF THE RELINQUISHED PROPERTY

Prior to closing the sale of the relinquished property, the Exchanger enters into the Exchange Agreement with API. Pursuant to the Exchange Agreement, an Assignment is executed prior to closing, and API assumes the Exchanger's Purchase and Sale agreement. API instructs the closing/escrow officer or closing attorney to directly deed the property from the Exchanger to the buyer. Proceeds are transferred directly to the Qualified Intermediary, thereby protecting the Exchanger from actual or constructive receipt of funds. Please note: IRC §1031 regulations mandate restrictions on the Exchanger's ability to access exchange proceeds at any time. Please consult with an API Exchange Counselor for more details on these restrictions.

IDENTIFICATION OF REPLACEMENT PROPERTY

The Exchanger must properly identify potential replacement properties within 45 calendar days. API provides the Exchanger with the specific identification requirements, one of which is that the identification must be made in writing and the property must be unambiguously described. The three rules of identification are:

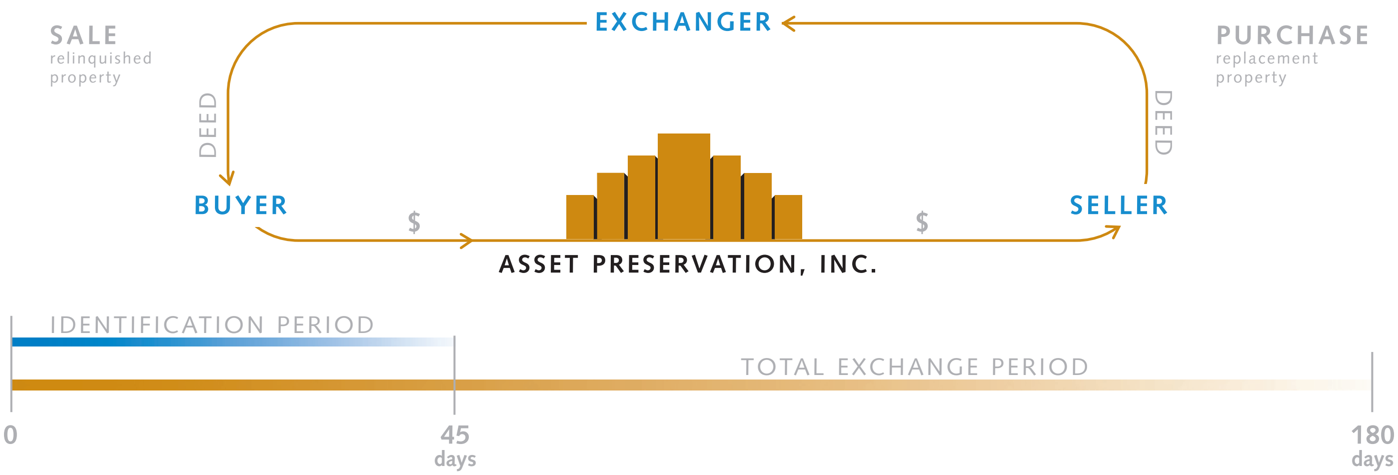
Three Property Rule: An Exchanger may identify a maximum of three (3) replacement properties, without regard to the fair market value of the properties.

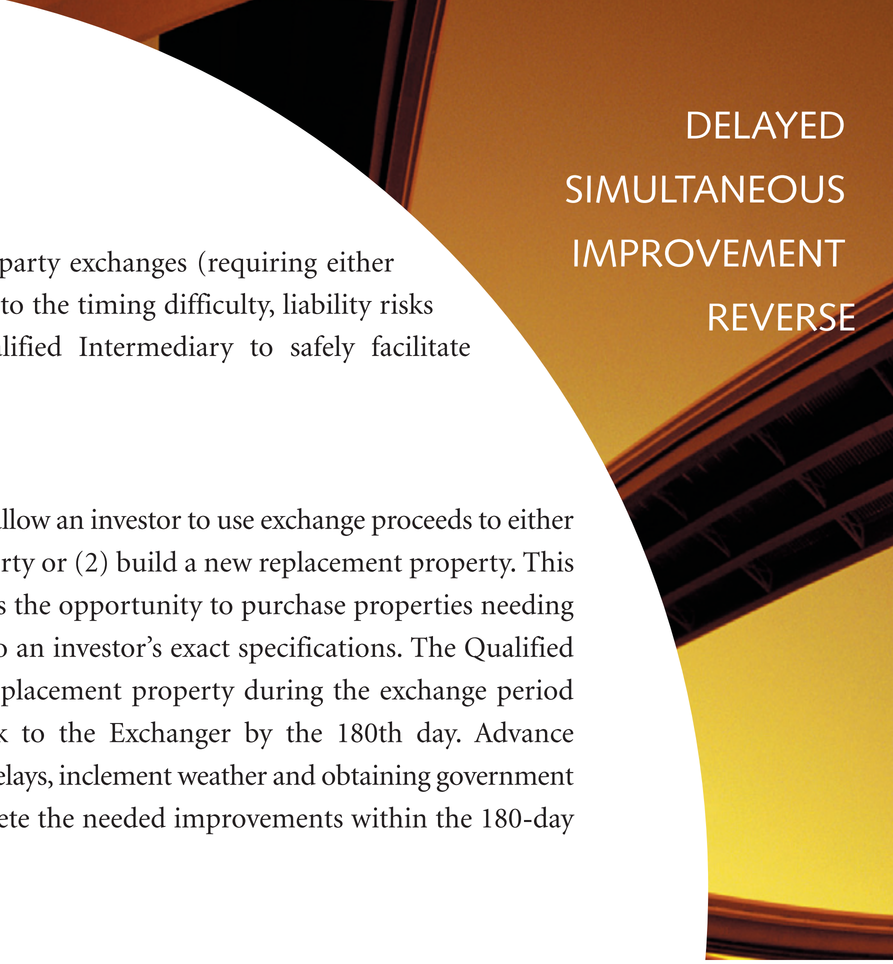
Two-Hundred Percent Rule: The Exchanger may identify any number of properties as long as the aggregate fair market value does not exceed two-hundred percent (200%) of the aggregate fair market value of the relinquished property.

Ninety-Five Percent Exception: The Exchanger may identify any number of properties without regard to the combined fair market value, as long as the properties acquired amount to at least ninety-five percent (95%) of the fair market value of all identified properties.

PURCHASE OF THE REPLACEMENT PROPERTY

The Exchanger has a total of 180 calendar days from closing of the relinquished property, or their tax filing date, whichever is earlier, to acquire "like-kind" replacement properties. Prior to closing on the replacement property, the Exchanger assigns the Purchase and Sale Agreement to the Qualified Intermediary. After the Assignment is executed, the exchange is completed when the Qualified Intermediary purchases the replacement property with the exchange proceeds and transfers it back to the Exchanger by a direct deed from the seller.





THE SIMULTANEOUS EXCHANGE

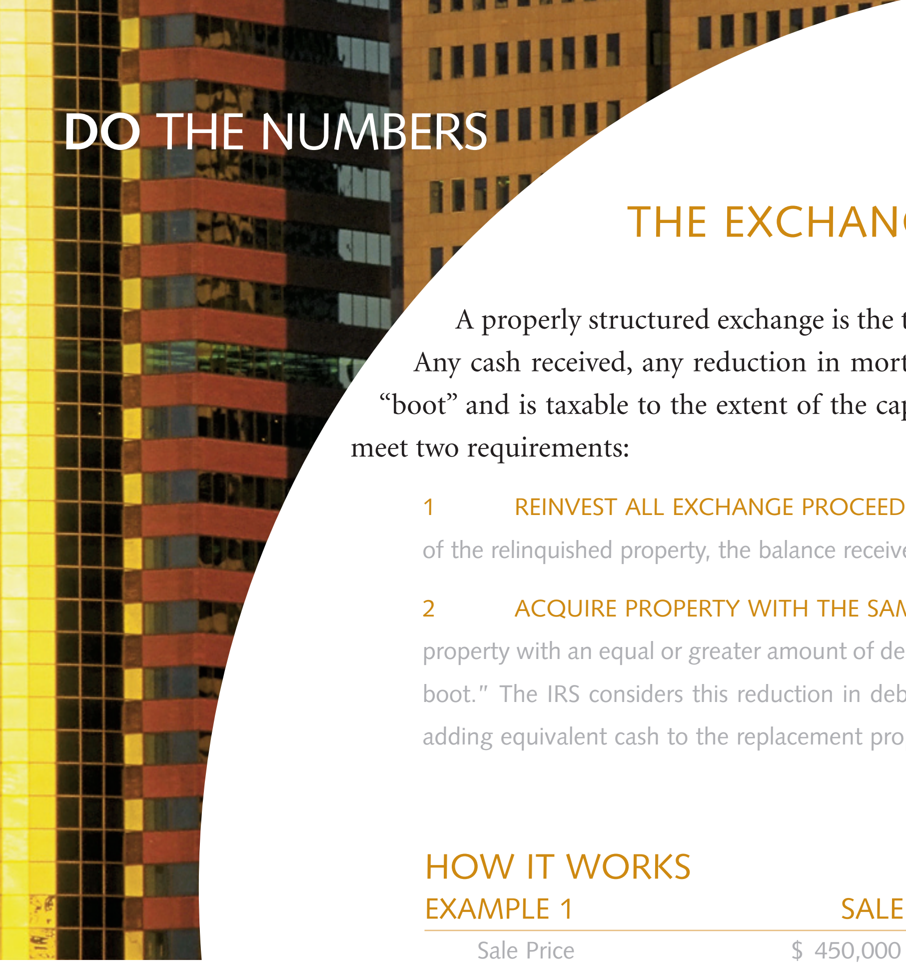
Simultaneous two-party trades ("swaps") and complicated three-party exchanges (requiring either buyer or seller to act as the "accommodating party") are rare due to the timing difficulty, liability risks and potential complications. Most investors today use a Qualified Intermediary to safely facilitate a simultaneous exchange.

THE IMPROVEMENT EXCHANGE

Improvement (build-to-suit or construction) exchanges allow an investor to use exchange proceeds to either (1) make improvements to a new replacement property or (2) build a new replacement property. This variation is extremely popular because it provides the opportunity to purchase properties needing renovation or to acquire bare land and build to an investor's exact specifications. The Qualified Intermediary makes improvements to the replacement property during the exchange period and transfers the improved property back to the Exchanger by the 180th day. Advance planning is essential; normal construction delays, inclement weather and obtaining government permits can make it a challenge to complete the needed improvements within the 180-day exchange period.

THE REVERSE EXCHANGE

A reverse exchange is the purchase of the replacement property prior to closing on the relinquished property. An investor may need to consider a reverse exchange in a seller's market, where properties are selling quickly and inventory is scarce. The most common variation (often called "parking the replacement property") involves the Qualified Intermediary first purchasing the replacement property. When the relinquished property is sold at a later date, the Qualified Intermediary completes the exchange by deeding the replacement property back to the Exchanger. It is especially crucial that the Qualified Intermediary has in-depth knowledge of the steps and precautions necessary in these complex transactions. Working with an investor's tax advisors and attorneys, API draws upon substantial experience with reverse exchanges to help lead the investor safely through a minefield of potential hazards. Call API to receive our reverse exchange brochure.



THE EXCHANGE EQUATION: 100% TAX DEFERRAL

A properly structured exchange is the transfer of property for property, thus deferring capital gain taxes. Any cash received, any reduction in mortgage or any other non-like-kind property received is considered "boot" and is taxable to the extent of the capital gain. To fully defer all capital gain taxes, an Exchanger must meet two requirements:

1 REINVEST ALL EXCHANGE PROCEEDS — If an Exchanger does not reinvest all exchange proceeds from the sale of the relinquished property, the balance received is considered "cash boot," and gain may be recognized on that amount.

2 ACQUIRE PROPERTY WITH THE SAME OR GREATER DEBT — If an Exchanger does not acquire a replacement property with an equal or greater amount of debt, he or she is relieved of a debt obligation, which is considered "mortgage boot." The IRS considers this reduction in debt a benefit to the Exchanger; therefore, it is taxable, unless it is offset by adding equivalent cash to the replacement property purchase.

HOW IT WORKS

EXAMPLE 1	SALE		PURCHASE	BOOT
Sale Price	$ 450,000	Purchase Price	$ 600,000	
minus Debt	– $ 200,000	New Debt	$ 380,000	0
minus Cost of Sale	– $ 30,000			
Exchange Proceeds	= $ 220,000	Down Payment	$ 220,000	0

Analysis: Since the Exchanger acquired $180,000 more debt and reinvested all the net equity, the exchange is fully tax deferred.

EXAMPLE 2	SALE		PURCHASE	BOOT
Sale Price	$ 450,000	Purchase Price	$ 360,000	
minus Debt	– $ 200,000	New Debt	$ 160,000	$40,000
minus Cost of Sale	– $ 30,000			
Exchange Proceeds	= $ 220,000	Down Payment	$ 200,000	$20,000
Total Boot				$60,000

Analysis: Since the Exchanger only acquired property with $160,000 of debt, there is $40,000 of mortgage boot. Additionally, the Exchanger did not reinvest $20,000 of the net equity, which results in $20,000 of cash boot. The combined amounts ($40,000 + $20,000) equate to $60,000 in boot, which is taxable.

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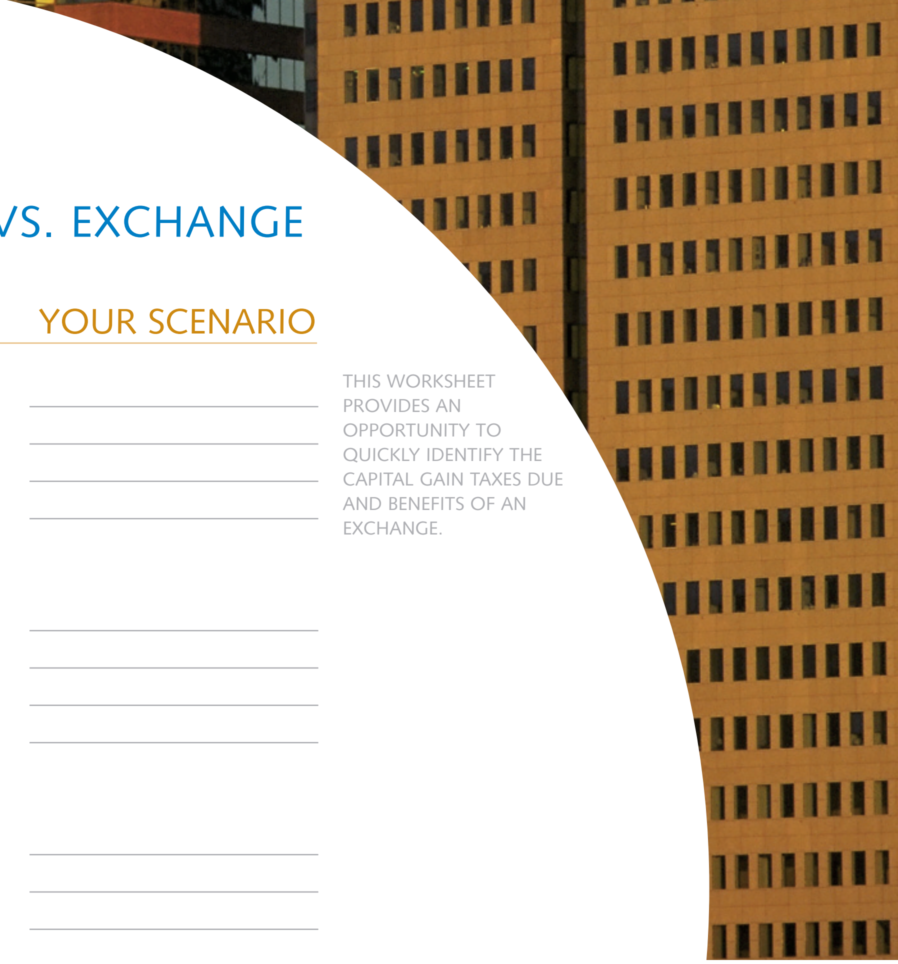


CAPITAL GAIN CALCULATION: SALE VS. EXCHANGE

THIS WORKSHEET PROVIDES AN OPPORTUNITY TO QUICKLY IDENTIFY THE CAPITAL GAIN TAXES DUE AND BENEFITS OF AN EXCHANGE.

	EXAMPLE	YOUR SCENARIO
1. CALCULATE NET ADJUSTED BASIS		
Original Purchase Price	$ 150,000	______
plus Improvements	+ $ 30,000	______
minus Depreciation	– $ 75,000	______
= NET ADJUSTED BASIS	$ 105,000	______
2. CALCULATE CAPITAL GAIN		
Sales Price	$ 375,000	______
minus Net Adjusted Basis	– $ 105,000	______
minus Cost of Sale	– $ 25,000	______
= CAPITAL GAIN	$ 245,000	______
3. CALCULATE CAPITAL GAIN TAX DUE		
Recaptured Depreciation[1] (25%)	$ 18,750	______
plus Federal Capital Gain[2] (15%)	+ $ 25,500	______
plus State Tax[3] (CA 9.3%)	+ $ 22,785	______
= TOTAL TAX DUE	$ 67,035	______
4. CALCULATE AFTER-TAX EQUITY		
Sales Price	$ 375,000	______
minus Cost of Sale	– $ 25,000	______
minus Loan Balances	– $ 120,000	______
= GROSS EQUITY	$ 230,000	______
minus Capital Gain Taxes Due	– $ 67,035	______
= AFTER-TAX EQUITY	$ 162,965	______
5. ANALYZE REINVESTMENT — SALE		
After-Tax Equity x 4	= $ 651,860	______
6. ANALYZE REINVESTMENT — EXCHANGE		
Capital Gain Taxes Due	0	______
Gross Equity = Net Equity	$ 230,000	______
Gross Equity x 4	= $ 920,000	______

BASED ON A 25% DOWN PAYMENT, CALCULATE PURCHASE BASED UPON A SALE, USING AFTER-TAX EQUITY.

BASED ON A 25% DOWN PAYMENT, CALCULATE PURCHASE WITH AN EXCHANGE, USING THE ENTIRE GROSS EQUITY.

NOTES: [1]25% x $75,000=$18,750 • [2]15% x $170,000=$25,500 • [3]9.3% x $245,000 = $22,785

KNOWLEDGE IS POWER

MANY QUESTIONS

Yes, it would be nice if we could easily answer every exchange-related question in this brochure. The truth is — that simply isn't possible.

Must the names on the deeds be the same for both properties?

Can I perform an exchange if I recently refinanced the relinquished property and how long must I be in title to the replacement property before I can refinance it?

What costs on the settlement statement can be deducted from the exchange proceeds?

How long should a rental house be rented before converting back into a primary residence?

Can I do an exchange if I use my property partially as a residence and partially as a rental?

In an improvement exchange, does the construction need to be completed within 180 days?

What are the time limits involved in a reverse exchange?

How long must a property be held to qualify for an exchange?

What options are available if I currently own an interest in a partnership?

What happens if I can't acquire any of the properties I identified?

Can a lease be considered "like-kind" property?

Where is the money invested while in possession of the Qualified Intermediary?

What happens if I'm an out-of-state seller and the state requires withholding?

Does the Qualified Intermediary provide the earnest money deposit?

Can I exchange into stock or shares of a real estate-related company?

Will an exchange increase my chances of an audit?

What restrictions are placed on accessing proceeds during the exchange period?

ONE ANSWER

Call Asset Preservation, Inc.
(800) 282-1031 or (866) 394-1031

COMMON EXCHANGE TERMINOLOGY

ACTUAL OR CONSTRUCTIVE RECEIPT	Access to or control of the exchange proceeds
BOOT	Non "like-kind" properties: cash received or debt relief
DIRECT DEEDING	Direct transfer of title
EXCHANGE PERIOD	A maximum of 180 days for completion of the exchange
EXCHANGER	Property owner performing a tax deferred exchange; taxpayer
IDENTIFICATION PERIOD	A 45-day period for identification of replacement properties
QUALIFIED INTERMEDIARY	The entity that facilitates an exchange; accommodator
RELINQUISHED PROPERTY	The property being sold; Phase I or down-leg property
REPLACEMENT PROPERTY	The property being purchased; Phase II or up-leg property

WHAT'S THE FIRST STEP?

1. Always discuss a §1031 tax deferred exchange with your tax and/or legal advisors.

2. Call API for a free consultation at any time and definitely before closing on the relinquished property. The following information is needed to begin preparing the exchange documents:

   A) The name, address and telephone number of the Exchanger; and

   B) The closer/processor or closing attorney's name, address, telephone number and file number.

   We will prepare all necessary exchange documentation and will coordinate with the closer/processor or the closing attorney, the Exchanger's real estate agent/broker and his or her tax and/or legal advisors.

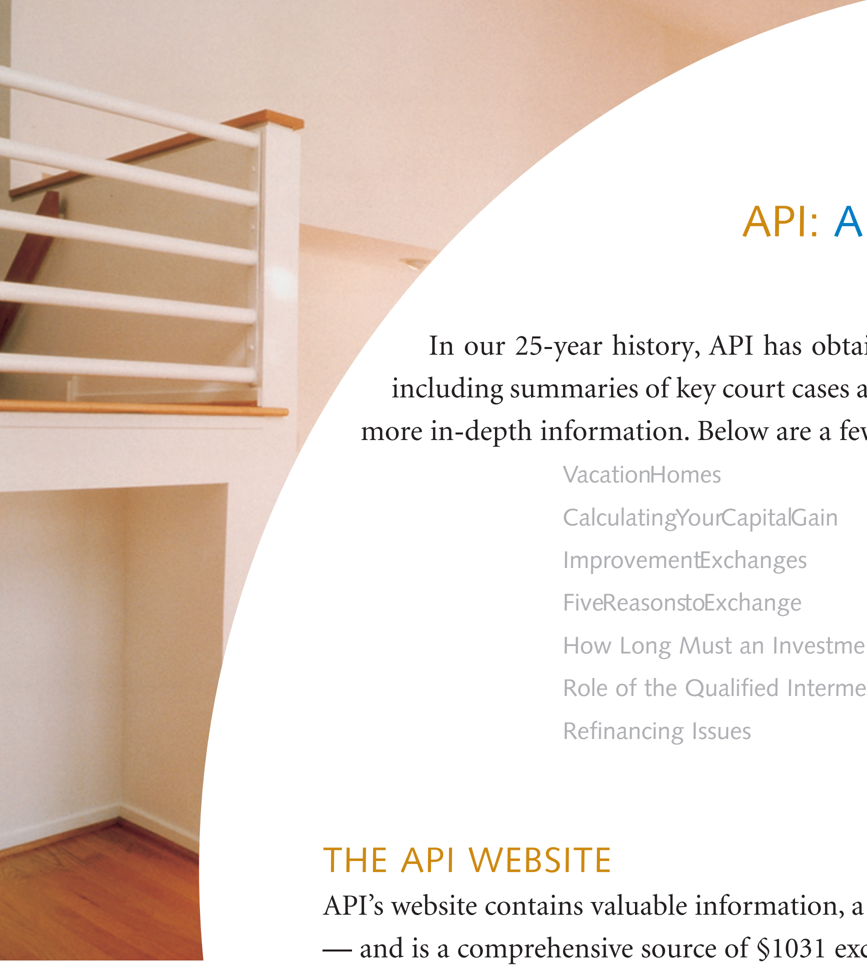
3. Include verbiage establishing the intent to affect a §1031 tax deferred exchange in the Purchase and Sale Agreement. The following are examples:

   SALE OF RELINQUISHED PROPERTY

   "Buyer is aware that Seller intends to perform an IRC §1031 tax deferred exchange. Seller requests Buyer's cooperation in such an exchange and agrees to hold Buyer harmless from any and all claims, liabilities, costs, or delays in time resulting from such an exchange. Buyer agrees to an assignment of this contract to Asset Preservation, Inc., by the Seller."

   PURCHASE OF REPLACEMENT PROPERTY

   "Seller is aware that Buyer intends to perform an IRC §1031 tax deferred exchange. Buyer requests Seller's cooperation in such an exchange and agrees to hold Seller harmless from any and all claims, liabilities, costs, or delays in time resulting from such an exchange. Seller agrees to an assignment of this contract to Asset Preservation, Inc., by the Buyer."



API: A POWERFUL SOURCE OF INFORMATION

In our 25-year history, API has obtained virtually everything written on the subject of §1031 exchanges, including summaries of key court cases and private letter rulings. Call us toll-free or visit our website to obtain more in-depth information. Below are a few of the many topics available to you:

- Vacation Homes
- Calculating Your Capital Gain
- Improvement Exchanges
- Five Reasons to Exchange
- How Long Must an Investment Property Be Held
- Role of the Qualified Intermediary
- Refinancing Issues
- Seller Financing
- Stages of an Exchange
- Reverse Exchanges
- Farm and Ranch Exchanges
- Related Party Issues
- Requirements for Full Deferral
- Holding Title to Real Property

THE API WEBSITE

API's website contains valuable information, a capital gain tax calculator, a 45/180-day calculator and resource links — and is a comprehensive source of §1031 exchange and investment information.

VISIT: apiexchange.com

ALSO, VISIT: stewart.com

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NATIONWIDE OFFICES: Located strategically throughout the United States.

MEMBER: FEDERATION OF EXCHANGE ACCOMMODATORS

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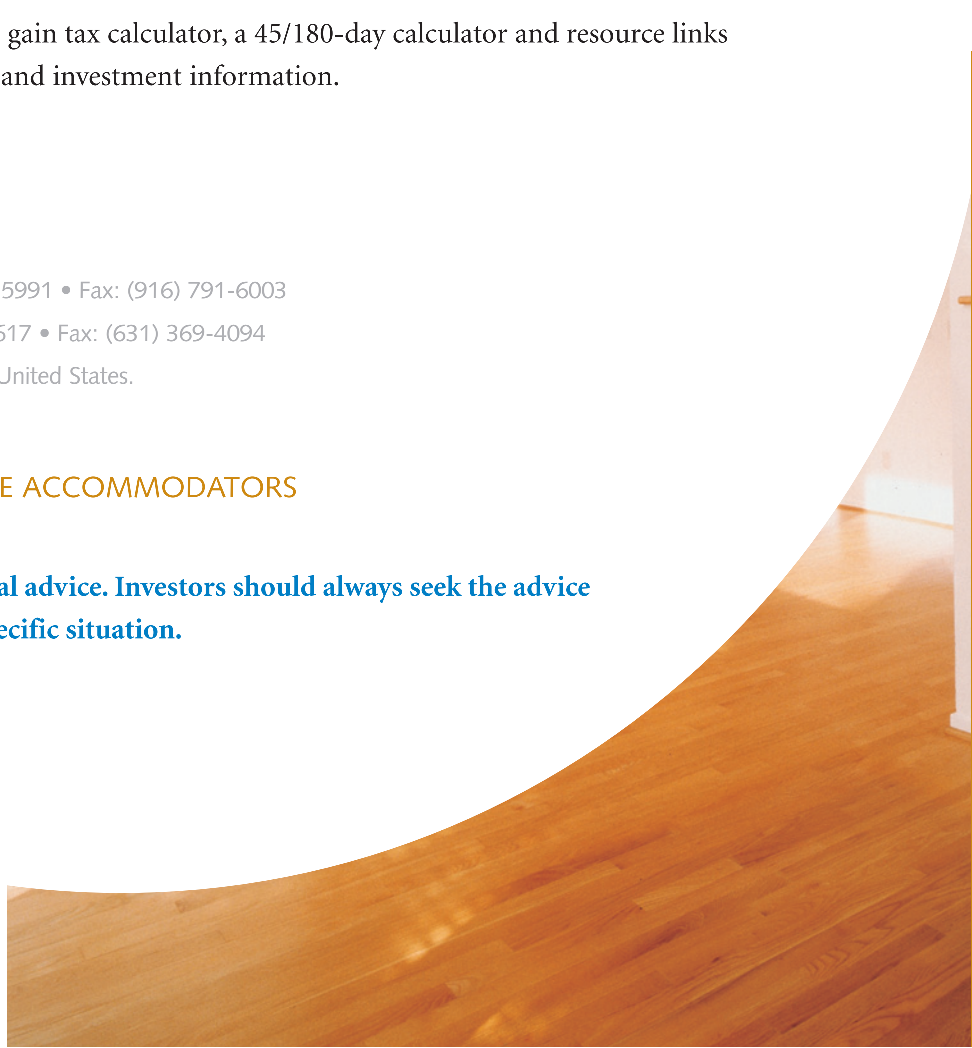

ASSET PRESERVATION®
INCORPORATED

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Federation of Exchange Accommodators Member

Rev. 10/04

OUR PARENT COMPANY: STEWART TITLE COMPANY

Stewart Title Company and Asset Preservation, Inc., are proud to be part of the Stewart Information Services Corp. (*NYSE: STC*) family of companies. For more than 100 years, Stewart has brought security and value to the real estate industry.

- Stewart is a technology-driven, strategically competitive global real estate information company that provides electronic commerce solutions and the full complement of services needed for a real estate settlement.
- Issuing locations nationwide.
- Services include title insurance, title reports, flood determinations, collateral assessments, document preparation, credit reports, surveys and field services.
- Stewart also improves profitability and performance by bringing added value to post-closing through diversified mortgage management services.

Through its "Letter of Assurance" backing Asset Preservation, Inc., Stewart Title Company provides security for your tax deferred exchange needs. API and Stewart Title are nationwide to help you meet your goals.

Visit stewart.com and apiexchange.com.

OUR VISION:

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

stewart

SANCTITY OF CONTRACT