

IDENTIFICATION INFORMATION LETTER TO CUSTOMER

Re: Property Identification Letter

Enclosed is a sample property identification letter. Pacific Realty Exchange, Inc. ("PRE") assumes no responsibility for your compliance with the 45-day identification requirement or the 180-day receipt requirement. Within 45 days after closing, you must identify in writing the replacement property to be received in your exchange. The property identified and received should have a value and equity equal to or greater than your old property. Gain will be recognized on your exchange by the amount that you trade down in either value or equity (whichever is greater). Further, if a related person (e.g., a parent, spouse, sibling, child, or related entity) sells the replacement property that you receive in the exchange, gain on your exchange will generally be taxable under §1031(f) of the Internal Revenue Code. These rules are important to consider when choosing properties to identify and receive in your exchange.

You may trade down in value and equity without recognizing gain only by the amount of exchange expenses. Exchange expenses include commissions, transfer tax, intermediary fees, escrow fees and similar costs. For example, if you use \$20,000 of your equity to pay commissions, the \$20,000 will not be taxable to you, and the value needed for your new property will be reduced by \$20,000. However, using your equity to pay other charges (such as new loan fees, prorated rents and other items that are not "exchange expenses") may cause you to recognize gain but only to that extent. If you desire, you may add cash to pay for these other charges to avoid recognition of any gain. You and your tax advisor are responsible for reviewing the closing statements to avoid recognition of all gain.

Your written identification must be sent to another party involved in the exchange within 45 days after the closing date of your old property. You must receive the replacement property by the earlier of the following dates: (i) the day that is 180 days after the date on which your old property was transferred; or (ii) the due date (including extensions) of your tax return for the year in which the old property was transferred. Thus, if you transfer your old property near the end of the year (e.g., after October 17 or 18), you must extend your tax return (due April 15 of the following year) to use the full 180-day period. If you file your tax return before acquiring the replacement property, your exchange will be fully taxable.

You may use the enclosed letter to identify replacement property under the "three-property rule." Most exchangers use the "three-property rule" because it is simple and certain. Under this rule, you may identify up to three properties of any fair market value and receive any one or more of the properties in completion of your exchange. You cannot identify more than three properties under this rule. If you receive property in the 45-day period, the property is treated as identified even if it is not designated in writing. Thus, if one property is received in the 45-day period, you may list only two more properties, and three properties will be "identified." If you intend to acquire only one of three alternative properties, you may specify that intention on the identification letter and your exchange will be considered completed when only that one property is received.

A similar identification letter may be used if you name more than three properties and rely on the "200% rule." You should indicate the fair market value of each identified property in such cases. The total fair market value of the identified properties cannot exceed 200% of the value of

the old property if you name more than three properties. Exchangers do not often use the "200% rule." For example, it is used when one large property is traded for four or more small properties, the total value of which does not exceed 200% of the value of the old property.

If you fail to identify properties in accordance with IRS rules, your exchange will be fully taxable. Be sure to mail or otherwise send an identification letter within 45 days after the closing date for your old property. You may fax your identification letter to us at (415) 753-1674. The IRS rules for identifying properties are contained in Treas. Reg. Section 1.1031(k)-1 and in the Instructions to IRS Form 8824. You and your tax advisor must review these rules.

Finally, you should realize that merely identifying a property will not cause further action on our part unless you provide additional information concerning the actual acquisition of the replacement property (e.g., a copy of the purchase contract, escrow information, preliminary title report). You or your agent must promptly provide this information to us in order for us to pay any deposits or prepare exchange documents for the replacement property.

If you have any questions, please do not hesitate to call us at (415) 759-1983.

Very truly yours,

PACIFIC REALTY EXCHANGE, INC.

A California Corporation

Enclosures: Sample property identification letter

Pacific Realty Exchange, Inc.
395 West Portal Avenue
San Francisco, CA 94127

By Fax: (415) 753-1674 or Mail or Personal Delivery

Re: Identification of Like-Kind Replacement Property

Gentlemen:

Pursuant to IRC Section 1031(a)(3)(A), this letter designates and identifies the replacement property to be received by the undersigned from Pacific Realty Exchange, Inc. (PRE) within 180 days after the transfer of the relinquished property. The relinquished property is commonly known as: _____

The identified property or properties shall be:

- 1.
- 2.
- 3.

The undersigned intends to acquire one or more of the identified properties as replacement property in the exchange pursuant to the Deferred Exchange Agreement with PRE. (If the undersigned intends to acquire only one of the identified properties, please specify this intention in writing and your exchange will be considered completed when one identified property is received.) The undersigned has received notice of the IRS rules relating to the identification and receipt requirements and assumes full responsibility for complying with these rules. All persons who are exchanging have signed this letter.

Signature: _____ Dated: _____

Print Name: _____

Signature: _____ Dated: _____

Print Name: _____