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Legend

Taxpayer	=
Sub 1	=
Sub 2	=
LP	=
LLC 1	=
LLC 2	=
LLC 3	=
State A	=

State B =

Date 1 =

Date 2 =

Date 3 =

Date 4 =

Date 5 =

Date 6 =

Property A =

Property B =

a =

b =

c =

d =

Dear :

This letter responds to your April 1, 2011 request for rulings on certain federal income tax consequences of a proposed transaction. The information submitted in that request and later correspondence is summarized below.

Summary of Facts

Taxpayer, a domestic corporation formed under the laws of State A, terminated its status as a C corporation by electing to be taxed as a real estate investment trust (REIT) under Part II of subchapter M of Chapter 1 of the Code, effective Date 1 (the

"Conversion"). Taxpayer uses an overall accrual method of accounting and the calendar year as its taxable year.

Taxpayer owns LLC 1, a limited liability company formed under the laws of State B. LLC1 owns Sub 1, a taxable REIT subsidiary (within the meaning of section 856(l)) formed under the laws of State B and LLC 2, a limited liability company formed under the laws of State B. Sub 1 owns Sub 2, a limited liability company taxed as a C corporation and formed under the laws of State B. Sub 2 owns LLC 3, a limited liability company formed under the laws of State B. LLC 1 and LLC 2 hold all of the partnership interests in LP, a limited partnership formed under the laws of State B. Each of LLC 1, LLC 2, LP, and LLC 3 is disregarded for federal income tax purposes. At the time of the Conversion, Taxpayer had a net unrealized built-in gain (within the meaning of section 1374(d)(1)), and owned (directly or through one or more disregarded entities) Property A and Property B, each with an unrealized built-in gain.

Effective Date 2 and Date 4, respectively, LP sold Property A and Property B to LLC 3. As consideration for Property A, LLC 3 executed a series of c promissory notes with an aggregate principal amount of a (the "Date 2 Notes"). As consideration for Property B, LLC 3 executed a series of d promissory notes with an aggregate principal amount of b (the "Date 4 Notes," and collectively with the Date 2 Notes, the "Installment Notes"). The Installment Notes were issued at an arm's length interest rate, require quarterly interest payments, and are secured by first mortgages on Property A or Property B. The Date 2 Notes provide for a single payment of principal at maturity on Date 5. The Date 4 Notes provide for a single payment of principal at maturity on Date 6. The terms of the Installment Notes allow LLC 3 to prepay principal amounts, in whole or in part (along with any accrued but unpaid interest and a payment, if applicable, intended to compensate the holder for (i) the acceleration of the holder's income tax liability, if any, resulting from the prepayment and (ii) the appreciation in value of the Installment Notes resulting from a decline in prevailing interest rates). Interest payments have been made in accordance with the terms of the Installment Notes; no principal payments have been made as of the date of this letter. Taxpayer reports its gain from the sales of Property A and Property B on the installment method pursuant to section 453.

Taxpayer intends to cause LLC 3 to prepay some or all of the principal outstanding on the Installment Notes in Taxpayer's taxable year beginning in 20 (the "Prepayment"), and will report a corresponding portion of its aggregate gain from the sales of Property A and Property B (including the aggregate built-in gain in Property A and Property B at the time of the Conversion) under the installment method in that taxable year. Taxpayer's recognition period (within the meaning of section 1374(d)(7)(A)) with respect to Property A and Property B commenced upon the Conversion on Date 1, and as such the fifth year in the recognition period ended on Date 3.

Representations

1. The Taxpayer will have only one taxable year beginning in 20 (the "Taxpayer's 20 Taxable Year").

2. Effective Date 1, the Taxpayer elected under part II of subchapter M of Chapter 1 of the Code to be taxed as a REIT. Since its Date 1 election, Taxpayer has continuously maintained its REIT status.

3. At the time of the Conversion, the Taxpayer had a net unrealized built-in gain (within the meaning of Treas. Reg. § 1.337(d)-7(b)(1)(i) and section 1374(d)(1)); at that time, the Taxpayer (directly or through one or more disregarded entities) owned Property A and Property B, and there was an unrealized built-in gain in each of Property A and Property B.

4. The Taxpayer did not elect deemed sale treatment under Treas. Reg. § 1.337(d)-7(c), and did not recognize gain with respect to Property A or Property B, in connection with the Conversion.

5. The Taxpayer (directly or through one or more disregarded entities) continuously owned Property A and Property B from the time of the Conversion until Date 2 and Date 4, respectively.

6. LP sold Property A and Property B to LLC 3 in exchange for the Installment Notes, and the purchase price and terms of the Installment Notes were consistent with arms' length terms.

7. The Installment Notes constitute indebtedness for federal income tax purposes.

8. The Taxpayer is reporting the gain from the sale of its properties in exchange for the Installment Notes on the installment method under section 453. Prior to the Taxpayer's 20 Taxable Year the Taxpayer has not recognized any of the built-in gain from the sale of Property A or Property B.

9. For the Taxpayer's 20 Taxable Year, the aggregate recognized built-in gain (including any gain recognized as a result of the prepayment of some or all of the principal outstanding on the Installment Notes in the Taxpayer's 20 Taxable Year) will not be completely offset by one or more of the following: recognized built-in loss, net operating loss, capital loss, or other loss from the taxable year or carried over from another taxable year.

10. For the Taxpayer's 2011 Taxable Year, the pre-limitation amount (within the meaning of Treas. Reg. § 1.1374-2(a)(1)) will not be limited by the taxable income limitation (section 1374(d)(2)(A)(ii), Treas. Reg. §§ 1.1374-2(a)(2), and 1.1374-4(h)(2)), and no portion of the recognized built-in gain resulting from the

Prepayment will be treated as if it was reported in a subsequent taxable year (section 1374(d)(2)(B)) and Treas. Reg. § 1.1374-4(h)(3)).

11. For the Taxpayer's 20 Taxable Year, Taxpayer's net unrealized built-in gain (within the meaning of Treas. Reg. § 1.337(d)-7(b)(1)(i) and section 1374(d)(1)) will exceed the amount of net recognized built-in gain (within the meaning of section 1374(d)(2) and Treas. Reg. § 1.1374-2(a)). As such, none of the net recognized built-in gain will be limited by Taxpayer's net unrealized built-in gain pursuant to section 1374(c)(2).

Rulings

Based solely on the information submitted and the representations set forth above, we rule as follows:

1. Provided the Taxpayer receives the Prepayment during the Taxpayer's 20 Taxable Year, the recognized built-in gain resulting from the Prepayment will be included in calculating Taxpayer's net recognized built-in gain for the Taxpayer's 20 Taxable Year.

2. Pursuant to section 1374(d)(7)(B)(ii), no tax will be imposed on the portion of the Taxpayer's net recognized built-in gain for the Taxpayer's 20 Taxable Year that is attributable to the Prepayment.

Caveats

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter. In particular, no opinion is expressed or implied regarding:

(i) whether Taxpayer qualifies as a REIT under part II of subchapter M of Chapter 1 of the Code;

(ii) whether Sub 1 qualifies as a taxable REIT subsidiary under part II of subchapter M of Chapter 1 of the Code;

(iii) whether LP, LLC 1, LLC 2, or LLC 3 qualify as disregarded entities under Treas. Reg. §§ 301.7701-1, *et seq*.;

(iv) the value of Property A, Property B, or the Installment Notes on any date;

(v) the application of the installment method under section 453;

(vi) the amount or, where applicable, existence of Taxpayer's net unrealized built-in gain, realized built-in gain, realized built-in loss, net realized built-in gain, taxable income as determined by section 1375(b)(1)(B), net operating loss, capital loss, minimum tax credit, or business tax credit carried over from pre-Conversion taxable years; and

(vii) the treatment of payments between Taxpayer and Sub 1 for purposes of section 857(b)(7).

The rulings contained in this letter are based upon information and representations submitted by the taxpayer and accompanied by a penalty of perjury statement executed by an appropriate party. This office has not verified any of the material submitted in support of the request for rulings. Verification of the information, representations, and other data may be required as part of the audit process.

Procedural Statements

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) provides that it may not be used or cited as precedent.

A copy of this letter must be attached to any income tax return to which it is relevant. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their return that provides the date and control number of the letter ruling.

In accordance with the power of attorney on file in this office, a copy of this ruling letter will be sent to the taxpayer and other authorized representatives.

Sincerely,

_Maury Passman_____

Maury Passman
Assistant to the Branch Chief, Branch 1
Office of Associate Chief Counsel (Corporate)