



Housing bust equals tenant-in-common opportunities for real estate investors

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It seems that the "housing bubble" has finally burst in many markets, much to the chagrin of house flippers and amateur real estate "experts." For years now real estate agents and mortgage brokers have told us that residential real estate would never come down and many believed them. They refinanced their homes to buy second homes. They put money down on pre-construction properties so that they could flip them when completed. They sold the house they could afford to buy a house that they could not. They took out interest only negatively amortizing loans so that they could buy more house. They took out second and third mortgages to finance vacations, cars and boats because they knew that their houses would always bail them out. Then the unthinkable happened and the music stopped which has left many looking for a chair.

For those who exercised caution and prudence in their real estate investments an opportunity still exists to exit the residential market with some sizable capital gains in tact. Many of you purchased real estate that made sense long before the unprecedented run up in value. You bought homes and duplexes that had a positive cash flow. You sought out undervalued property in strong rental markets. You diversified your real estate holdings into states that were less susceptible to the wild swings experienced on the coasts. In effect some of you were real estate investors, not real estate speculators. You see, there is a difference between an investor and a speculator. An investor buys property that will pay for itself over time, a speculator is betting that time itself will pay for the property. Today the speculator may not be able to sell his property for more than he paid for it but the investor most certainly can.

For investors who have enjoyed both positive cash flow and appreciation during the last real estate cycle that would like to "lock in" their gains before prices slip any further, options still exist. One of those options is a still strong tenant-in-common market. A tenant-in-common or TIC investment allows an investor to sell their highly appreciated real estate before the value slips any further, to defer the capital gains tax by utilizing a 1031 exchange and to reinvest their proceeds into a larger, professionally managed commercial asset that may provide a more predictable cash flow. For investors interested in tenant-in-common options, you should seek the advice of a licensed financial advisor because TICs are best sold as a security. You can find a licensed TIC expert by going to the Tenant In Common Association website at www.ticassoc.org.

Todd Williams, Esq. is the chief marketing officer for Argus Real Estate Investors, San Clemente, Calif. The close of the second quarter of 2007 provided a measure of relief for the tenant-in-common (TIC) industry. After two slightly stagnant quarters the industry bounced back with an increase of over \$100 million during the quarter with a total equity raise of \$875 million. The numbers alone do

not tell the whole story, how the numbers come together reflects the true dynamic nature of the TIC industry.

A number of interesting factors helped shape the economic upturn in the second quarter. The retail, oil / gas, and office segments were the big winners with percentage increases while multifamily, industrial and hospitality segments saw a decrease in equity.

The second quarter provided an unprecedented surge in the retail segment. There was an 89% increase in equity closed from the previous quarter. The industry has never seen so much retail product on the street at one time. It has been my experience that retail has always been the TIC investor's preferred asset type, but historically it has only represented a moderate segment of available equity in the TIC market.

TIC investors' interest in retail is driven by many factors, but often the simple familiarity of big box tenant names provides a perceived comfort of ownership in a more tangible asset. For that same reason, it has been more difficult for TIC sponsors to acquire and structure TIC retail programs that would fall within the cash-on-cash "bulls-eye" that is almost mandated by the TIC industry. As such, there has been a wider menu of retail types represented to the TIC community.

The second quarter's increase in equity was not only driven by the retail segment but by a very strong finish in the office segment. It experienced an 18% increase in equity closed for a total of \$444 million. The office segment continues to be the "bread & butter" of TIC sponsors and the TIC industry. While there was an increase in the amount of equity closed the average days on market also increased from 104 to 129 days, due to a number of lingering programs with syndications times of over a year closing in the second quarter of 2007.

In general, there is more velocity and shorter syndication times across all asset types as some of the TIC programs that struggled to close came off the market. The second quarter represents a changing of the guards as it closed out the last of the programs that subscribed to the TIC acquisition philosophy that bigger was better. Bigger acquisitions meant larger raises and minimums and in turn longer syndications times. In my opinion, the marketplace has become more agile with "smarter" acquisitions that have resulted in smaller minimums and shorter syndication times. In the past, minimum investments averaging in the \$500,000 plus range have dropped to an average of \$375,000.

There has been an increase in program availability, but it has come from a wider sampling of TIC sponsors. Of the 62 closed TIC programs by 42 sponsors, only one sponsor closed more than three transactions. Many of the larger more established sponsors experienced a slower quarter, but the difference was made up by smaller or newer sponsors closing transactions. Regardless of the sponsor size, the ability to react to real time market trends is critical in today's marketplace.

The third quarter will continue to be unpredictable with the recent turmoil in the debt markets. It is having immediate ramifications with sponsor pipeline transactions. We are receiving feedback from sponsors who are reevaluating or hesitating to bring on new product, hoping to ride out the storm. We are not seeing disruption of investor equity needs whose real estate transactions are not directly correlated to the institutional debt markets. As of 9/13/07 the marketplace has been averaging about 50 properties available to potential TIC investors. Over the coming months that average will drop, but we believe that it will not drop to historic levels of years past. It will be interesting to see how the market reacts as deal flow decreases from sponsors, I believe that we will continue to see shorter syndication times as broker/dealers and registered reps chase fewer deals.

This article is an excerpt from TICTalk Newsletter that is published quarterly by OMNI Consulting & Research. To read the full article as well as others and see all the corresponding charts and graphs referenced in the article please go to www.omniticconsulting.com. The TICTalk newsletter has tracked and disseminates transactional and statistical volume and trends of the Securitized Tenant-in-Common Industry surveying over 70 TIC sponsors since 2001. TICTalk is a free subscription available to industry professionals. 2007 OMNI Consulting & Research an affiliate of OMNI Brokerage, INC. - Member FINRA/SIPC.

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