

THE MIDWEST'S REAL ESTATE SOURCE

HEARTLAND REAL ESTATE BUSINESS



MINNESOTA • ILLINOIS • INDIANA • IOWA • KANSAS • MICHIGAN
MISSOURI • MISSOURI • NEBRASKA • OHIO • WISCONSIN



HOME ARCHIVES SUBSCRIBE AD SPECS ADVERTISE PAST ISSUES CONTACT US

RESOURCES

FEATURE ARTICLE, OCTOBER 2005

LETTERS OF ACCEPTANCE

The TIC industry gains the confidence of lenders and investors through a combination of the right deals and hard work.

Chris Thorn

During the past few years, the TIC industry has been growing in a number of ways. The investor pool is becoming more crowded as more and varying properties are being presented as TIC options. What started as a West Coast trend is more frequently showing up in East Coast deals. But the most important area of growth may not be something as tangible as statistics or a headcount of recent TIC deals. Instead, the most valued asset of the TIC community may be its growing level of acceptance within the real estate industry, including major lenders.

"One big change has been how the lending community perceives TICs," says Will Obeid, president of New York-based Gemini Real Estate Advisors. "A few years ago, lenders did not want to do a TIC deal." The lending institutions balked at the multiple borrower issues and their subsequent risks by imposing a 10- to 15-basis point "TIC premium" in spreads. As lenders became more comfortable with the TIC structure and determined that the industry was here to stay, the TIC premium has disappeared.

"We've worked very hard collectively as an industry to get lender's comfortable with TICs and to mitigate their risk while retaining the integrity of the structure," Obeid says.

Another group that has shown increased acceptance of TICs, as evidenced by the high volume of dollars chasing product, are investors. "More investors are accepting TICs as a primary choice of investment vehicle rather than an investment of last resort," says Jordan Kanter, Esq., vice president, regional director of 1031 Exchange Services in LandAmerica's Orlando office. Previously, investors would only consider TICs as a last resort in the waning hours of the 45-day deadline for 1031 exchanges. But as the structure has gained acceptance, investors have become more aware of and enticed by the inherent benefits of TIC structure.

The passive ownership of institutional-grade property is a TIC's most attractive quality. The average investor, who is around 65 and has gained wealth through the real estate industry, is interested in using the tax benefits of a 1031 exchange to keep his money in real estate while shedding a management-intensive property.

"There are no day-to-day headaches," says Adam Bryan, vice president and corporate sales director with Los Angeles-based SCI Real Estate Investments. "The business model makes sense — especially for older 1031 exchangers who don't really want to deal with managing another property."

The TIC structure also may allow the investor to convert his previous equity into a revenue stream, although the process may require giving up the optimum return on a property for a steady one, since TICs are not necessarily the highest yielding real estate assets and carry the cost of outside management.

"The big benefit is passive cash-flow," says Scott Saunders, senior vice president with Granite Bay, California-based Asset Preservation, Inc. "TICs are perfect for someone who owns and manages 10 single-family rentals around town. They exchange into a TIC and gain a property with professional management, a monthly check and stable tenants for the next 8 or so years."

TICs also provide investors with varying but equally attractive options for diversifying their money geographically or in the amounts or types of properties in which they invest.

[Search Heartland Property Listings](#)

[Requirements for News Sections](#)

[City Highlights and Snapshots](#)

[Middle Market Highlights](#)

[Editorial Calendar](#)

[Upcoming Resource Guides](#)

[Search Real Estate Jobs](#)

[Search](#)



[Today's Real Estate News](#)

"The biggest advantage is the opportunity to buy a fractional interest in a high-quality real estate asset," Obeid says. "Most investors are taking a portfolio theory approach to real estate." TIC investors are now being offered properties in retail, multifamily, industrial, office and hospitality sectors, as well as less common investment properties like marinas and golf courses. Even oil and gas fields are attracting investor dollars. With all of these options, it's easy for investors to diversify their dollars into a few different properties instead of betting it all on a single location.

"Would you rather own a 5 percent interest in a Sam's Club-anchored center," Obeid asks, "or be the sole owner of a Taco Bell in the middle of nowhere?"

Another testament to the acceptance of TICs is the growing willingness of investors to remove their dollars from their local markets, which they are the most familiar with, and spread out geographically across the nation.

"As long as properties have stable and credit-worthy tenants and have good cash flow, the property's location is not as important," Saunders says. Instead, investors emphasize the property's occupancy level, level of income and lease terms. "The market is evolving. People are more comfortable going out of their geographic regions," Saunders says. This diversification has been integral to the TIC boom.

"The desire, ability, and validity for 1031 investors to diversify their real estate investments among a variety of TIC programs has fueled the growth of this increasingly popular investment vehicle," Obeid says. But once an investor accepts the benefits of the TIC structure, he still has some challenges to face when choosing a property.

And that process starts with cutting through the hype, according to Obeid. Since TIC investors are bombarded with information, it might be tough for investors to discern between a legitimate investment and a questionable property.

"The TIC market has seen phenomenal growth in a short time period, and as a result, a proliferation of offerings have come to market that have not been appropriately vetted. Moreover, these types of properties are heavily promoted by aggressive sales and marketing personnel," Kanter says. "The investor has to find solid real estate transactions with sound fundamentals." To combat deceptive deals, Kanter encourages all investors to have their legal advisors carefully scrutinize the fundamentals of the offering. Obeid agrees that the easiest way to do this is for an investor to align with leading broker/dealer firms that are licensed for TIC deals.

Another concern for investors isn't about entering the right deal but how to exit.

"The Number 1 risk right now is exit strategy," Saunders says. "How do I get out of this deal with a bunch of people I don't know?" There is not a great answer to that question." Although he indicates that he has seen unique solutions to that concern, such as Denver-based Dividend Capital Exchange's program that converts TIC shares to shares in the company's REIT.

Kanter agrees that exit strategy is an issue since no formal secondary market currently exists for TICs. "Liquidity is a potential issue for some," he says. "Especially since the present market conditions are leading more people to adopt a short-term investment mentality, something that is not necessarily reconcilable with a TIC investment."

But when investors accept the nature of the TIC vehicle, including the depth and breadth of research by industry professionals to ascertain the appropriate time frame for maximizing investment profitability, quick liquidity stops being a concern.

Overall, the next few years should prove to be good ones for the TIC industry. "Currently, I see no signs of demand letting up, and I suspect that as long as good quality offerings come to market, there will be continued demand for them," Kanter says.

Although Bryan anticipates a "cooling" of the market, he still sees an ample supply of investors searching for product. "The aging population and the common sense of this business model virtually assures us of a continued strong TIC market," he says.

And acceptance throughout the industry will be the key to this strength.

"As the industry grows, TICs will become an increasingly common way to own real estate," Obeid says. "We're where the REIT industry was 20 years ago; we've got good product and we're on the right track, but the industry is just finding its feet."

FRANCE
PUBLICATIONS, INC.

3500 Piedmont Road
Suite 415
Atlanta, Georgia 30305
TEL: 404-832-8262
FAX: 404-832-8260

©2005 France Publications, Inc. Duplication or reproduction of this article not permitted without authorization from France Publications, Inc. For information on reprints of this article contact Barbara Sherer at (630) 554-6054.