

WESTERN REAL ESTATE BUSINESS™

JANUARY 2008

TIC-TOCK AROUND THE CLOCK

SCI Real Estate Investments goes full cycle on prime TIC investment in Albuquerque, New Mexico.

In 2004, Los Angeles-based SCI Real Estate Investments was approached by a group of investors regarding a luxury multifamily community located in Albuquerque.

Located in the Far Northeast Heights submarket of the city, Broadstone Heights fit the mold of SCI's investment strategy. The property offered luxury units at a below-market rent within a highly desirable and expanding market of Albuquerque. Coupled with a strong barrier to entry and an influx of corporate development, Broadstone Heights became the right property at the right time.

"We took a look at the asset and we started to become very familiar with Albuquerque as a growing demographic market and a supply-constraint market," says Andrew Van Tuyle, chief operating officer of SCI.

Co-investing with a group of 18 investors, SCI purchased Broadstone Heights in 2004 for approximately \$21 million as a TIC (tenant-in-common) transaction. The Class A property consists of 18 two-story and six three-story residential buildings offering 216 luxury apartment units. Situated convenient to neighborhood shopping centers, restaurants and schools, the property also features a resort-style swimming pool, a leasing office/clubhouse, a resident business center, a conference room and a state-of-the-art fitness center.

Adam Bryan, senior vice president and corporate sales director at SCI,

explains that Broadstone Heights was the ideal opportunity for SCI's clients — "Our clients are typically 65 to 75 years old with a net worth of \$5 million, retired and living off of investment income, and looking for stable investments."

Investing in Broadstone Heights proved profitable for SCI and its investors — offering a stable cash flow of approximately 8 percent and a bottom line return of 106 percent when the asset was sold in June 2007. The company saw the full-cycle process of TIC transactions when it sold the property in another TIC transaction for approximately \$32 million earlier this year.

Although SCI has seen a few full-cycle transactions, Broadstone Heights stands out in the company's history as a strong example of the benefits of Revenue Procedure 2002-22. With the advent of the IRS' issuances in 2002, investors coming out of 1031 exchanges are now able pool funds to acquire much larger assets. Typically, 1031-exchange investors average \$450,000 in capital for investment, explains Van Tuyle. In the open market, individual investors would have to buy two, three or four units instead of high-quality Class A institutional assets.

"A transaction like [Broadstone Heights] really proves the validity of the tenant-in-common world because all of these individuals are now able to take their 1031 [exchange] and pull it together with others to acquire an asset that, frankly for a long, long time before

2002, was not available to the everyday individual investor. Now they're in a position where they can take advantage of [high-end assets] to get a strong cash-on-cash return and also benefit in the backend," says Van Tuyle.

Although a successful TIC investment depends on a variety of aspects coming to together at the right time, Bryan notes that first and foremost a successful transaction must hit the projected cash flow, as most investors are cash-flow driven. Secondly, Bryan states that investors are interested in capital appreciation emphasizing the future worth of the assets.

"We almost sell, in a way, on the stability of the capital opposed to the appreciation of the capital — meaning you want a safe and stable investment before you want one that will offer a big return," says Bryan. "As is the case with Broadstone Heights, if you're an astute buyer you might be able to get in at the right time."

Since acquiring Broadstone Heights, SCI and its investors have continued to profit from the expanding Albuquerque market with the acquisition of two other Albuquerque properties. With strong returns and a 72 percent client retention rate, SCI Real Estate Investments' investment strategy of acquiring upscale institutional assets in stable cities associated with conservative cash flow is paying off for the company and its clients.

— Amy Bigley