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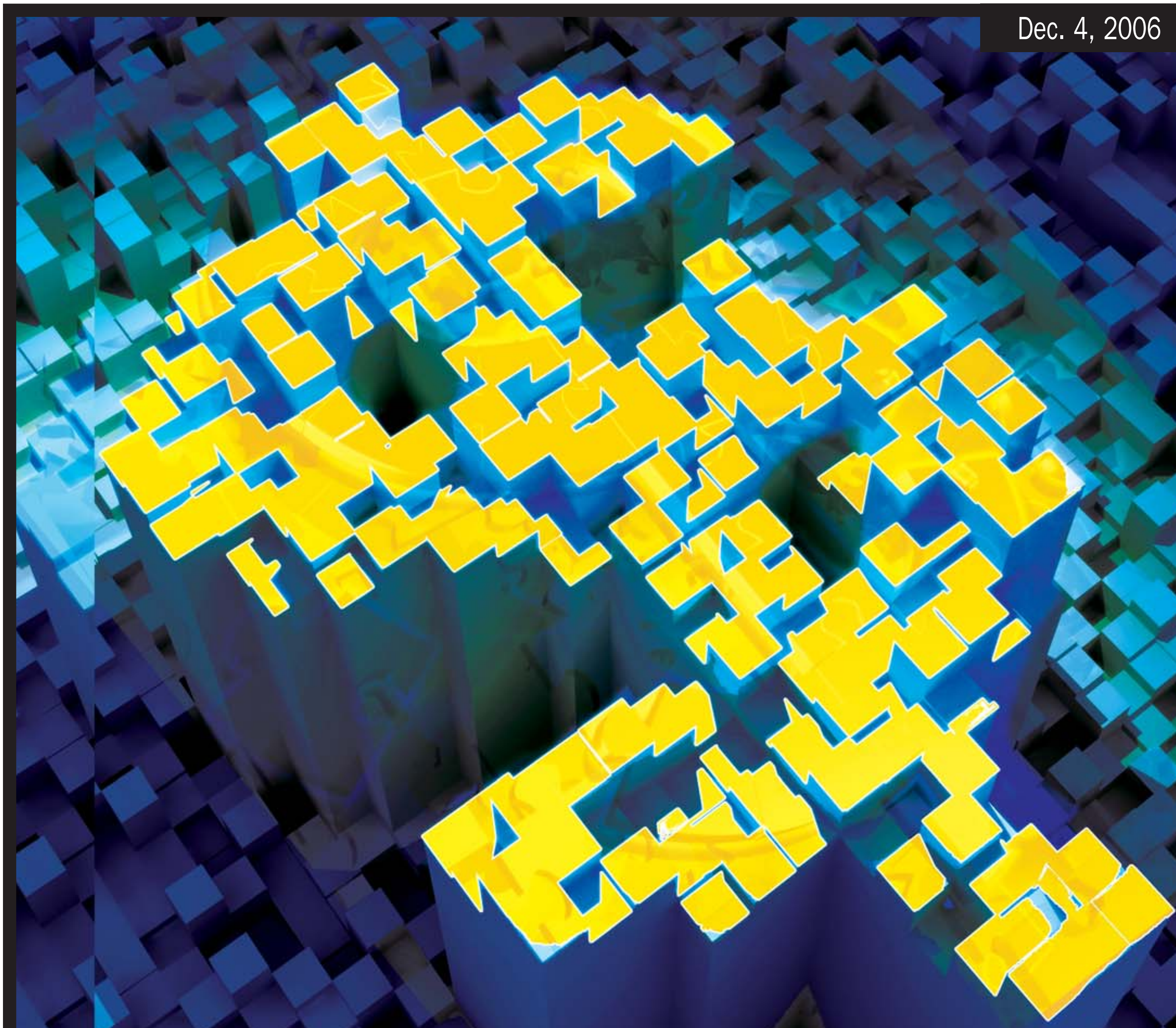

FRACTIONALIZED *but not* FRACTURED

Tenant-in-common investment breaks into the mainstream, but rapid growth presents new challenges and opportunities for this young, relatively-untested segment of the real estate industry

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ROUNDTABLE ■ TENANT IN COMMON

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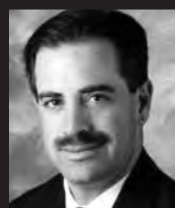
William H. Winn

With tenant-in-common players raising $1 billion in equity a quarter, the industry is bigger than ever before. That means there is more at stake for this emerging market, which faces stiffer tests than it has ever before.

This West Coast-based investment phenomenon has spread to markets throughout the country, but that expansion has attracted more regulatory scrutiny that may forcibly define TICs. At the same time, TIC investors have expanded their favored product types and market scope to become a viable competitor in almost every type of deal. Yet the track record for operational success is limited relative to other investment models. An entire industry has sprung up to execute and service this once-novel investment vehicle with more than 150 tenant-in-common association member companies in California alone.

Will these players have the foresight and liquidity necessary to respond to the demands of TIC investors as they react to larger changes in the real estate investment marketplace? What will happen when the TIC professionals is really put to the test?

The California Real Estate Journal gathered seven TIC experts to discuss the challenges and opportunities of the ever-evolving industry. Moderated by Editor Michael Gottlieb, the panel included:

WILLIAM L. EXETER, president and chief executive officer, Exeter 1031 Exchange Services LLC

MARK LEVINSON, partner in corporate securities and real estate, Alschuler Grossman, Stein & Kahan LLP

TROY SIMMONS, southwest regional vice president, Spectrus Real Estate Group/FOR1031

ROBERT "RUSTY" TWEED, president, Tweed Financial Services

STEVEN P. WEINSTEIN, president, Marketmaker Capital Corp.

TODD F. WILLIAMS, chief marketing officer, Argus Realty Investors

WILLIAM H. WINN, president, Passco Cos. LLC

Far from Equilibrium

CREJ: To start us off, what is the scope of the TIC industry today, and how far do you think it can grow?

TODD F. WILLIAMS: Omni Brokerage estimates that equity raised within TICs that sold as securities should be in the range of $4 billion, give or take a half-billion, by the end of 2006. That puts us just a little bit ahead of last year, which, although they estimated it at $4 billion, came in just around $3.2 billion. There's been a leveling off.

As far as how big we can go, I've always found it funny that these real estate seminars always have a forecast, and they're always rosy. For me, if the housing market slows down, and pricing continues to stay tough in the commercial market, and we do what we did last year, we're in pretty good shape. I wouldn't mind seeing it stay about the same, so it's an equilibrium that's been reached.

There might be a little push. We're starting to pick up a little steam as far as marketing outside of the West Coast, and a lot of folks are looking at selling real estate if they see their housing falling a little bit.

WILLIAM H. WINN: Since the overall 1031 volume is down recently, we believe the TIC transaction volume will grow more slowly, or potentially flatten out. The flattening out could occur if interest rates increase without a corresponding increase in cap rates, because the TIC investor is somewhat sensitive to the current yield and as cash-on-cash returns drop below 6 percent, there may be other viable investment alternatives, or some may elect to pay the tax.

Rising cap rates would stimulate TIC industry growth, assuming interest rates did not increase as quickly as the cap rates.

WILLIAM L. EXETER: We have a huge demand out there that we haven't even seen yet. I don't know what the dollar amount would be of the transactional volume, but from what we see historically, less than 10 percent of our investors actually buy into TICs. As education increases and more people get comfortable with TICs, they are going to buy them.

TROY SIMMONS: About a year ago we were teaching people what a tenant-in-common was. Now a lot of people know. Things have leveled off, there's not as dramatic an increase as it has been, but you're going to see a push as the education gets to the East Coast and with the baby boomers starting to retire. I've heard figures at TICA that it could go to $15 and $20 billion a year.

WINN: The market has significant growth potential because of the greater exposure and acceptance of the TIC investment structure in the eastern U.S.

MARK LEVINSON: There's already a healthy market awareness of TICs. The 1031 exchange structure is an accepted format and as institutions and individuals become more aware of the flexibility and benefits of this product, sales will expand.

ROBERT TWEED: We're seeing a lot of baby boomers, and I can almost play a tape recorder that says the same thing from every client that comes in my office. They're sick of

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tenant issues and they want to get out and do something different with the equity in their investment property.

Another big shift in the TIC business is that it's not just the smaller, mom-and-pop-type people with smaller properties that want to do TICs. We're now getting much larger clients, people with larger exchanges, such as an $8 million land deal or $10 million property wanting to do TICs.

'The typical investor profile has gradually changed in the last five years from a 65-plus mom-and-pop investor to a slightly younger investor, with a growing percentage of more sophisticated and experienced real estate investors, though the age still tends to be 60-plus on average. Also, the level of sophistication becomes greater as the minimum investment size increases. Passco usually has investment minimums of over $500,000, increasing the likelihood of increased investor experience.'

— WILLIAM H. WINN, Passco Companies LLC

SIMMONS: It's difficult to go out and find a good piece of property and do all that due diligence. With a TIC you get good sponsors that have the infrastructure — that's what they do for business, so why not just use their services? You're going to pay a little bit of a premium, but maybe not by the time you finish doing due diligence on 10 or 15 properties and flying all over the country. You may have saved some money.

EXETER: You have the time frame of the 45-day 1031 exchange period, too. In 45 days you can't do your own due diligence, it's just almost impossible. If the sponsor has done it all for you, it makes it a lot easier.

STEVEN WEINSTEIN: From our perspective, it's really moving upstream. The big Wall Street firms are looking at these kinds of clients as something they want to market, where it's been a specialty product for a smaller group of broker-dealers and broker-dealer networks in the past. That's going to drive more demand and make the bidding for the opportunity more competitive.

WILLIAMS: I've actually met with UBS PaineWebber and CitiGroup, some fairly large groups in New York. The biggest issue is that we can't create enough product for them if they were to send it down their distribution channel. Everybody still is very cautious about what happened in the late '80s with the limited partnerships and so forth. A lot of that was basically demand-driven. There was so much demand for those tax shelters that anything they put into the channel was basically gobbled up within seconds.

There's not an unlimited amount of good real estate deals. We can only put out what we can find, which is between eight and 10 deals a year. That's not going to cover it for the larger companies.

Driven by Demographics

CREJ: What are the demographics of the TIC investor now? Is it still baby boomers moving into less management-intensive properties, or are you starting to see another generation, or sophisticated larger investors looking for opportunities?

SIMMONS: Yes, we're seeing younger people, in their 30s and 40s, that are wanting to diversify their portfolio with real estate but don't want to be a landlord. They saw the brain damage that happened to their parents and they want nothing to do with that. Or the prices are so high, they can't afford negative cash flow until the appreciation catches up. A tenant-in-common deal provides the younger investor an opportunity to take up to 10 percent of their overall portfolio and put it into real estate without all the hassles that go along with it.

In addition, people are just starting to learn that they can use self-directed IRA money to purchase real estate. There are limitations to that, but there's some $4 trillion dollars' worth of money out there that is available to buy real estate.

WINN: The typical investor profile has gradually changed in the last five years from a 65-plus mom-and-pop investor to a slightly younger investor, with a growing percentage of more sophisticated and experienced real estate investors, though the age still tends to be 60-plus on average. Also, the level of sophistication becomes greater as the minimum investment size increases. Passco usually has investment minimums of over $500,000, increasing the likelihood of increased investor experience.

WILLIAMS: I was working for a qualified intermediary and transacting 1031 tax exchanges right about the time that TICs got started, so, 2001, 2002. There were only two companies doing it, and they marketed primarily to the qualified intermediaries because they were selling it as a security. They couldn't find many broker-dealers willing to sign off on it, so while they were trying to build that channel, they were talking to the QI saying, "If you've got clients that are falling out of an exchange and can't find anything else, give them this flier. Have them give us a call." So the first folks who bought into these essentially did so because they had fallen out of an exchange and thought this was a decent-enough option.

Fast forward to 2006, and less than 10 percent of the investors that come into our deals are failing in an exchange. They actually sold what they owned in order to do an exchange and in order to buy into our product. They've been led down the path of the planned TIC exchange.

EXETER: People started to ask what this was in 2000, 2001. Today they're asking which TIC sponsors I've worked with, and what their due diligence is like. They've been to seminars, even five times in a row, and they're asking sophisticated questions and trying to understand the TIC.

CREJ: How has this change affected what kinds of properties will be the target opportunities for TIC investment? It seems like TIC property selection has expanded dramatically in dollar amount, product type and locations.

WINN: Passco purchased large assets in a TIC structure, with the Puente Hills Mall in 2003 for $148 million. The $1.6 million minimum investment demonstrated the demand for larger, institutional-size assets by TIC investors.

Greater market acceptance by investors, their attorneys and CPAs of the TIC investment vehicle, especially after Rev Proc 2002-22 in 2002, and the lack of viable 1031 exchange property options for those investors seeking a 1031 exchange, all have driven demand in recent years.

TWEED: When we work with a client, we try to diversify. We encourage our clients to split the money up, and if they have enough equity, we can put them into three, maybe four TICs, where they would have an apartment complex in one, a retail shopping center in another, and then an office building and maybe a hotel. That way they are diversified, just like a stock portfolio.

WEINSTEIN: And you'd probably diversify them geographically if you had the opportunity, too, right?

TWEED: Yes. We try to pick different markets around the country that have good upside potential.

Selling the 'Steak'

EXETER: Probably one of the ancillary things driving the type of property is not necessarily the consumer or the change in demographics, but as the interest rates change, it's harder to provide the cash-flow results that investors are looking for. Sponsors are looking for other types of products that can provide a higher cash flow.

WEINSTEIN: Yes, but we're moving to a point where people aren't necessarily always going to be interested in cash flow. Some people just want the return at the end and will be comfortable with that and grow into the property. The industry has been focused on cash flow because that's been the audience they've been selling to, but that's shifting.

EXETER: Everybody sells the sizzle and not the steak. With the changing of the market, they need to look at the fundamentals of real property and not the interest rate.

SIMMONS: We started out with products that had triple-net leases only, and they provided assured monthly income. That was for somebody that was retiring, who needed that check. We've expanded our product offerings to include land deals where there's zero cash flow or land deals with a little bit of cash flow but high appreciation potential.

You're going to have more people and more types of people with different investment goals. You may have somebody that's getting close to retirement, 55 or 60 years old but not quite

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there, and they still need to create wealth with $700,000 or $800,000. You don't put them all into one building. You may peel off $100,000 or $150,000 and put it into land that's going to appreciate significantly in three years, and let the other stuff do the cash flow.

'About a year ago we were teaching people what a tenant-in-common was. Now a lot of people know. Things have leveled off, there's not as dramatic an increase as it has been, but you're going to see a push as the education gets to the East Coast and with the baby boomers starting to retire. I've heard figures at TICA that it could go to $15 and $20 billion a year.'

— TROY SIMMONS, Spectrus Real Estate Group/ FOR1031

WEINSTEIN: Don't you think, as things progress — right now we're focused on single buildings, single piece of land, single piece of property — but we're going to get to a point where there's going to be a broad array of properties within a single investment or there's going to be a bunch of investments that point to a bunch of different properties?

LEVINSON: Right. For one of our clients we recently completed a couple of different transactions that incorporated multiple improved parcels within the transaction. Those offerings were well received by TIC investors and the client fount that to be a very successful marketing approach. As time goes on, we'll probably see more clients that are looking at different product types, whether that's retail or office and so on, within one transaction.

WILLIAMS: It's been done before, quite a while ago. A lot of folks associate CB Richard Ellis with U.S. Advisors, but prior to that affiliation they affiliated with a guy named Duke Runnels, and Mike Franklin, who owned a company called FORT Properties. FORT stood for Fractional Ownership of Real Property Tenants-in-Common. They went out and found four or five properties, put them together in what they called a Fort or Fort 2, and an investor took title to each of those five properties as a TIC, so they bought into a small portfolio.

We've done deals similarly, with two unrelated properties and five buildings total, and we've wrapped them up into one exchange. The biggest issue when you start bunching up properties becomes identification rules. We've certainly done it, and it does pan out well for the transaction because you pick up a little diversification inside your own investment.

LEVINSON: We had one client who, within one of those, had a building that was part net lease and part had an upside potential. With respect to the comparables in the area, once they leased that space, the property would probably have a good 8 or 9 percent appreciation within a short period of time.

EXETER: It is a great way to diversify, but the identification issue is really the key. Most of the clients that come to us trying to buy a pool of properties consider that to be one property. That's the way they identify it.

It's a huge risk because advisers aren't counseling them to sit down and look at the properties underlying the overall transaction and determine whether it truly is one property or, more likely, it's multiple properties and would fall under the 200 percent rule.

LEVINSON: Right. That's an issue of a promoter qualifying their investor and doing their own appropriate due diligence to provide solid advice to a client.

Cash Flow Versus IRR

CREJ: TIC investors on both sides of the transaction today are looking at different outcomes than were initially intended. Increasingly, the question is about cash flow and internal rate of return. What kinds of yields are TICs providing? How are these expectations changing? And how are we meeting investor expectations?

WILLIAMS: When we got into this business, we were buying deals in the 9 percent cap rate range and financing in the mid-6 percent range. We had 250 to 300 points of positive leverage. We had deals that had cash flows.

People forget that whatever investment modeling numbers Argus puts out, we're selling against all the other companies. I might have the best property out there and it's all 6s, but there's going to be a bunch of other properties out there that might have 7s and 8s. Obviously, each property is different. There's going to be a different risk level.

WINN: In Passco's case, recent transactions have ranged from 5.75 percent to 6.5 percent first-year cash-on-cash return for Class A assets. These returns are attainable in many U.S. markets.

Returns have trended down from 8 percent-plus, three to four years ago, as cap rates compressed and interest rates rose. The cash return projections are based on the underlying rent, expenses and resulting net operating income using Argus.

WILLIAMS: Six is about the lowest cash flow that you can put to market outside of maybe a land deal, and some people will land-bank and realize there's not going to be a cash flow. Anytime we've come out with anything under 6, it's a difficult sell. We literally would walk away from a transaction, even if it had tremendous upside potential and an IRR that would beat everything else on the map, if it didn't have a good 6 percent cash flow up front. We just know when we put it in the market it's going to be extremely difficult to sell.

It's hard to guess total returns when you're looking at selling five to 10 years out. You don't know what the interest rate or cap rate environment is going to be. You're guessing at what your NOI might be. But we're trying to manage investor expectations and say, if we sell at a 150-basis-point cap rate above what we bought it for, in a conservatively grown net operating income, maybe 11 percent, give or take a point.

TWEED: Our clients are looking at between 3 and 4 percent cash flow off their duplex or small multifamily property, so there has to be an incentive for them to leave that property and go to a TIC. The incentive would be a higher cash flow and also the ease of management. It needs to be 6 percent or north of that to make it attractive for somebody to move their money.

SIMMONS: What is funny, though, is that you'll talk to somebody and they'll ask what the returns are and you'll say 6 percent and they say, "I can get a T-bill for that." Then you start drilling it down with them and you find out that their actual cash flow on the property they are managing right now is about 2 percent.

TWEED: I hear that all the time. I sit down with a person and they're thinking of the rent they were getting when they first bought the property.

SIMMONS: They've got all this dormant equity, and then they look at you and say, "This is too good to be true." Then you say, "I'm offering you real estate that pays 6 percent."

TWEED: The investor doesn't understand that the numbers work much differently in most TICs than in their smaller rental property. When you get into larger properties, as we do in TICs, economies of scale work in your favor. It's a whole different ball game with a $40 million property versus an $800,000 property.

SIMMONS: We've done a couple below six, even with great upside. Those properties actually should make the investors a lot of money, but they do stay on the shelf longer.

TWEED: They're looking for income. They're sitting there thinking, "I've had this property for 15, 20, 25 years. I've got a lot of equity in it. Now is the time to turn that equity to work for me and retire."

The bulk of the people I'm dealing with are not so concerned about the upside potential as they are of the safety of the principal and a good income that is greater than what they are getting today.

CREJ: Are there challenges going forward if sponsors are needing to show a 6 percent cash flow?

EXETER: Sponsors are beginning to do all sorts of creative financial engineering, especially with the financing vehicles, to prop up that cash flow so it looks good and they can sell the property. We're going to find some of those transactions unraveling over the next couple of years.

WILLIAMS: We all share a concern in that, if a certain amount of TICs goes south, it's going to harm the industry. Folks know that a higher cash flow on paper will sell better than a lower cash flow. What people need to remember is these are not bonds and they're not guaranteed. Each sponsor puts together their own paperwork, and they're trying to sell a product, so

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there's an inherent bias in the PPMs.

WINN: The key is full disclosure in the offering documents of what structures are used, so that the investor can make an informed decision.

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— TODD F. WILLIAMS, Argus Realty Investors

WEINSTEIN: As the demand moves eastward and more people want to come into these deals, you're going to see new kinds of sponsors coming up with new kinds of products for people who aren't the profile of what we've been selling to up until now. A company like yours, Todd, is going to have a really platinum reputation for delivering that 6, or even 8 percent cash flow, plus a return at the end.

You're going to see some other pockets develop where those people are really the platinum developers of land in transition, or they know the bridge is coming across there and they're going to be able to pick up those properties and develop those. As the market demand grows, the properties that are being offered will change. It doesn't mean the old ones aren't going to keep going, but there's going to be something else coming up.

WILLIAMS: I don't mind innovation in property type. I do mind innovation in property underwriting. That's the issue. We as a company have stuck to one type of real estate. When this industry started, there was basically multifamily, retail and office. Throw industrial in there, but now we're seeing things like golf courses —

EXETER: Hotels.

SIMMONS: Managed care.

WILLIAMS: Yes. Those are all fine, so long as the economics can support the returns. As an industry, we've seen more innovation in underwriting than we have in property type.

Applied Fundamentals

CREJ: To what extent are real estate fundamentals shaping the market for TICs?

TWEED: Real estate, whether it's in a TIC or a REIT or a partnership or an individual buyer, the same fundamentals apply. When guys in my position present TICs to investors, we have to be very cognizant of the quality of the deal. I hired a full-time property analyst just to go through PPMs and talk to TIC sponsors and find the pros and cons of all the different properties, so we can adjust the risk level of the investor to the risk level of the property we're presenting to them.

WILLIAMS: Five or six years ago, when the industry had three or four players, nobody dealt with the tertiary markets. Everything was core. You were buying in Phoenix, Las Vegas, San Diego and Los Angeles. That's what we used to pitch. If I pulled the old presentations of the three major players back in 2001, the only thing anybody would go after is core metropolitan markets. Everybody was looking for stabilized or fully stabilized properties. The idea was, the only appropriate type of property for a TIC was one with as limited risk as possible.

As the cap rates came down further and further in those particular markets and newer sponsors came in, the chase began for yield, and the only way you're going to find higher cap rates is to either go outside of your core metropolitan markets or get into a little bit of a riskier class of assets.

Today, stuff is being offered in cities that I've never personally heard of. That's just literally a drive for yield. I mean, you're going to pay a different rate for an apartment building in the middle of Kentucky than you are for an office building in the middle of Los Angeles. Do they have the same risk level? Not necessarily. Is it good or bad? I'm not saying it's necessarily bad, but it's yield that is driving product type and location.

SIMMONS: I'm not necessarily convinced that the cap rates reflect the risk involved in a lot of those. Five years ago, a Class A property might have been a 9 cap and a Class C a 13 or 14 cap — you had a good spread there. Now you're looking at a Class A at 6 and a Class C at 8. You've got some of these higher-risk investments, like hotels, golf courses or managed care, and they're at 9 caps. It's hard to justify. It seems to me that there's a lot more risk and the caps don't reflect it.

WILLIAMS: When there's such a rush to get into real estate, the cap rate differential that usually spreads risk starts to narrow. People are paying the same price for a good, solid asset and for something with a great deal of risk. A lot of times, we are dealing with folks that are not that savvy, so they don't know how to differentiate risk between two different TIC deals. That's where working with a well-trained, well-educated financial adviser is essential. If you sit two PPMs in front of somebody and one says 6 percent and one says 8 percent, and they both have a shiny glass building, the person is going to say, "I'll take the 8."

Setting Standards

CREJ: In real estate in general, along with Wall Street's influx, we've seen an improvement in documentation to speed up execution. How standardized and of what quality are the documents in the TIC transaction today? Is there room for improvement?

WILLIAMS: I wouldn't say they're standardized. There's no legal requirement that a PPM be used in a Reg. D offering. We follow public offering protocol and utilize the PPM literally.

LEVINSON: There certainly has to be some disclosure. The real standard is, at the end of the day, whether the promoter provided information in a clear and coherent fashion so that an investor was able to make an informed investment decision and not come back disgruntled and feel tricked if a transaction becomes troubled.

WEINSTEIN: If you're a buyer, you have to do the due diligence and stand by the outside third-party law firm that said, "Yes."

LEVINSON: An outside third party due diligence consultant is hired often in the case of a broker-dealer, to be an independent reviewer and satisfy the broker-dealer's due diligence requirement to have reasonably investigated facts in connection with the syndication offering materials. That is in addition to the practical requirements for the other people selling the transaction.

WEINSTEIN: It's completely possible that there are sponsors who play with the numbers, which ultimately hurts the industry. It's very much of a *caveat emptor* situation.

Somewhere down the road, we'll get to a real, standardized rating system that you could go to, to check a stock if you're going to buy it. You'd be able to understand if a given property was something that met your risk tolerance.

LEVINSON: The issue mostly impacts the reputation of the sponsor and what the sponsor is doing to create an opportunity for investors to look at objective investment criteria.

SIMMONS: In an ideal world that's great, but I sense that this is anecdotal.

LEVINSON: Correct.

SIMMONS: I've seen deals where the sponsor is projecting 4 percent per year rental growth rates and 50 percent of the property is one tenant in a fixed-rate lease. So they're going to get all that growth from the mom-and-pops that are there, or they're forecasting 4 percent vacancy rates over the next 10 years, and currently it's 12. How does Ma and Pa Kettle know if 4 or 6 or 8 percent is good for Kansas City or Atlanta?

LEVINSON: That information should come from the demographic discussion that would be in the offering materials. It should come from a third party. We look for consistency between the appraisal and the book, and our associates run the numbers as if they were investing in the transaction.

WILLIAMS: This discussion is premature. I'm not aware of any deals in which a TIC sponsor has been sued and held up to the PPM, looking at the PPM as the parachute on a re-entry vehicle on a rocket. We can sit around the table and discuss how it's supposed to work and how good, but until it comes back down safely to Earth we won't necessarily know.

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One of these days a sale will go to court, and the sponsor will introduce the PPM into evidence. Then, 12 people, who have no idea what a PPM is or what real estate is, are going to make the decision as to whether the information you've put in there was sufficient to advise the investor of the risk and the benefits. Experts will testify that the 4 percent market rate growth is ridiculous in this particular marketplace, and the firm will be held accountable for their actions.

'We're moving to a point where people aren't necessarily always going to be interested in cash flow. Some people just want the return at the end and will be comfortable with that and grow into the property. The industry has been focused on cash flow because that's been the audience they've been selling to, but that's shifting.'

— STEVEN P. WEINSTEIN, Marketmaker Capital Corp.

LEVINSON: Having been involved in the securities business, I've seen a lot of securities litigation over prospectuses, private placement and generally, in deals gone bad. It's not an entirely theoretical discussion when I look at a confidential private placement memorandum, because I'm looking at it from the perspective of having defended clients that have. There's plenty of case law out there.

WILLIAMS: A good sponsor and a good law firm will draft the book looking forward, saying not even "if" but "when" this is litigated, at some point, can these withstand the challenges that we know are going to come?

LEVINSON: Correct.

WILLIAMS: We'll see as the market matures.

TWEED: For us, we get familiar with certain sponsors, and we get to trust their numbers. If we look at a couple of the deals they've done, we will feel going forward other deals they present to us are going to have reasonable assumptions also. So there's definitely something to be said for the reputation of a sponsor.

EXETER: Investor due diligence is key, and not just seminars and education, but going and kicking the tires, visiting the property. I don't think most of them do that.

LEVINSON: They can take comfort that there are a number of levels in due diligence. They don't have to simply rely on the promoter. There's that third party due diligence consultant that evaluates the project and financial underpinnings of the offerings, there's the lender doing their own project and financial due diligence, and there are probably three or four other levels that get looked at.

EXETER: It's certainly true of the quality sponsors and brokers. As a qualified intermediary, we have seen some sponsors and brokers whose PPMs and disclosure would just scare the bejesus out of you.

SIMMONS: You've probably seen more than anybody at this table.

Transaction Costs in Context

CREJ: In a market with lower cap rates and a limit on reasonable returns, what are the trends in transaction costs?

SIMMONS: The lenders all went to a seminar somewhere and they all got in the same room, and all of a sudden they all charge the same fees for the same thing, overnight. For a long time they were fighting even putting loans on TICs, but now they realize the industry is big enough and there's a way to make money so there's a profit center. You're looking at increased lender costs and then you're looking at some legal fees to set up LLCs for the individual investors or owners.

WINN: Generally, the sponsor fees have trended down over the years under the security platform. Securities law firms that prepare the offering documents have been able to reduce fees as a result of increased volume. Loan document legal costs are down on both sides because most of the lenders have template TIC loan documents that require less negotiation.

LEVINSON: We have seen clients lower their fees, adjust to certain higher costs in other areas, and agree to a given fee when reserves are overfunded. Those reserves go back to the TIC in some way or don't necessarily go back to the third party.

WILLIAMS: I remember when we first started in this industry, I was literally kicked out of a commercial broker's office because they thought I was bringing in a competitor. I went in to speak on 1031 and TIC, and I brought in somebody from the sponsor. We were just about manhandled out of the room. They thought they'd be losing clients to the TIC industry.

Five years later, they don't look at us as a competitor so much as a buyer of real estate. These guys are listing it and selling it, and certainly they should be friends with us for that reason. They might have a client that they can't place that they can put in, as well.

What the commercial industry didn't realize was that, with a TIC, you can buy a property at market value, mark it up a couple percent, and turn around and sell it immediately. They couldn't do it, so they thought we were taking advantage of investors.

When we're trying to describe how a load works on a piece of commercial real estate that's sold off as a TIC, the best analogy I came up with is Hertz Rent-A-Car. If you're Hertz, and you want to buy 5,000 Ford Tauruses, you go directly to Ford and they might charge you $7,000 a car for them. You're not going to pay the marketing or shipping costs. If I personally want to buy a Ford Taurus, I've got to go to the dealer, and I will pay $15,000 for the exact same car. I'm going to pay the dealer's cost and the shipping and the marketing and the salesman's commissions and so forth.

Did I overpay for the car? The answer is no, because I'm a retail buyer. That's what I have access to.

The TIC industry has essentially done the same thing for cash flowing commercial real estate. We've taken that asset class, broken it up into bite-size pieces, and made it available to the smaller investor, for a fee. That fee is reasonable, so long as the expectations of all parties involved are met. That means if the investor is expecting a 6 and he gets a 6, then he's good. If the registered representative that is selling the property is expecting a commission of 7 percent of equity and he receives that, he's happy. If the sponsor makes whatever it is they have in the deal, he's happy. All three sides have to coexist. You take one out of there and it falls.

From our cost standpoint, so long as all three things can be met and it's profitable for us, we're involved in the industry. We're not benevolent in that we're doing this just for fun.

By the time we syndicate and sell a property to 35 investors, they're going to pay about 6 or 7 percent more for the property than we did, and that's going to cover the costs to the sponsor, the legal work to put together the syndication, and the securities professional that sells the interest.

Then the reality becomes, can the property outgrow a 6 or 7 percent premium such that these folks can exit the property after receiving their cash flow? Of the 36 deals we've done at this point, we've turned six and we've exceeded pro formas on them, so the math works.

TWEED: We've seen a lot of TIC deals we've sold to clients where the sponsor bought below market. By the time you add your load on it, it was at or maybe just a little bit above the regular market price. So the load didn't make that property overvalued that much, not enough to kill the deal.

EXETER: The investors really have to look at it from the standpoint that they don't have a huge acquisition team of highly skilled professionals who know what they're doing, so they're paying a price for one. It certainly takes the risk out of that 45-day period. They don't have to do the due diligence. It's already done. They just say yea or nay.

CREJ: Has the TIC transaction process become more streamlined? What factors have either helped or inhibited that?

WINN: Inhibitors are the lenders' requirement for each TIC to hold their undivided interest in the property in a Delaware bankruptcy remote limited liability company, the cost of $200-$1,500 per year to maintain this LLC, the loan servicers not providing good "service," and the transfer provisions of the loan documents. It makes it somewhat cumbersome for TIC investors to sell their undivided interest prior to the whole property being sold.

The TIC investment is illiquid and sold as an illiquid investment. It is no more illiquid than any "non TIC" real estate investment.

TWEED: There's a lot more inventory today, which makes it much easier for everybody. Two,

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three years ago we would have clients that we promoted to and tied to some property, and by the time they came around to being in cash, there's no inventory to talk to them about.

'TICA is trying to come out with a best-practices statement, and most are trying to implement and live by the best practices. The other side of the coin is that the market has done so well, the smaller providers are jumping in at the fringe. That concerns me. They don't follow the best practices, and that will harm the industry.'

— WILLIAM L. EXETER, Exeter 1031 Exchange Services LLC

Today there's maybe 60 to 80 TIC deals available at any point in time. It's easier to pick the appropriate property for the client when they're ready to buy.

SIMMONS: It's not an industry question so much as a proprietary question. Successful companies will build an infrastructure for speed. They'll have an operations department with escrow built into it and everything else, so that when somebody is ready to close they can do it.

I mean, we've literally done it in three days. It's not something that we'd like to have happen all the time, but you can do it that quickly, and most of the sponsors here can do that.

EXETER: It's also an industry question. Three or four years ago, you had escrow officers who weren't used to closing 35 investors. From the title company to the escrow company to the qualified intermediary, they've streamlined it and it really does flow much smoother. It's easier to do a TIC transaction.

SIMMONS: We've done about 120 properties in the last two years. We've got a couple of title and escrow companies across the street from our headquarters and they know what we have to do. They want to do business with us, they know what it takes, so we're able to do that.

WINN: Increased familiarity by escrow officers, lenders, attorneys and registered reps has caused the process to be much smoother for investors. Pre-negotiated loan documents are common, which saves time, money and lowers the risk of poorly structured docs.

LEVINSON: For every transaction, there's a host of different documents, and every TIC investor probably has to deal with 30 pieces of paper. When that's multiplied by 10 or 20 or 30, it's an enormous amount of paper, setting aside the financing documents and the property acquisition documents on the first leg.

We're constantly hearing clients ask how we can streamline the documents. We worked toward creating a number of mechanisms to accomplish that, including exploring Internet and virtual document rooms, making it available for people to move paper around the country. We're looking into electronic signatures, and we're constantly trying to simplify that process. For every set of 30 documents that I mentioned per tenant-in-common investor, the lender wants their copy, the sponsor wants their copy, the TIC wants their copy. You're talking five times 30 — 150 pages per client.

WINN: In the early years, 1994-2003, TICs would need to sign a complete set of all documents, including loan documents. Today, some sponsors, including Passco, buy 100 percent of the property first, and then sell the TIC interests, which results in a partial ownership interest transfer from sponsor to investor using an assumption agreement. The volume and complexity of the documents requiring investor signatures is dramatically reduced.

WILLIAMS: Take-down speed was a lot more important five years ago than it is today, because at that time we were raising all the equity in order to close on the property. Most of the companies weren't buying it first; they put it in escrow, and if you didn't raise the capital necessary to buy that property, you lost that particular deal. Once you put a property under contract, you might have a contract with 30 days' due diligence, 30 days' escrow and a 30-day extension. That's your window to get the book done, out and money raised. It was very, very difficult to deal.

The first guy that walked into a lender and said, "I'd like a $50 million loan on behalf of 35 people that I don't know yet, how soon can we get that paperwork drawn up?" the lender probably looked up and said, "You're nuts." Now, I get letters from lenders saying they do TIC loans. Now lenders have the underwriting criteria and the product in place for us.

Just by virtue of the industry maturing, we're getting faster. But most of us larger sponsors now have the ability to take the property down ourselves. We're not under the gun, so to speak, to close within 30 days and raise all that money. We've also given ourselves a little breathing room.

WEINSTEIN: We've heard that story from smaller sponsors, that they've got to take down the property, get their senior loan in place, get their mezzanine loan in place, raise their equity, and it all has to happen by next Tuesday. They have to create this perfect storm that's going to get their deal to happen or it's a bust. So we came out with a product for smaller sponsors to help them separate those pieces and get it under control, make some fix ups and go to market. Because, honest to God, how is the industry going to survive if you have busted deals all over the place?

WILLIAMS: The original lenders didn't like these deals, so they wouldn't give you a mezzanine piece to close it. It was only those few sponsors that have been in long enough to have a long track record to prove they could do it that could get access.

Once you get large enough, you get a credit facility and you can raise some of your own funds. That's a big topic in the industry right now — how the smaller sponsors are going to fare when it's taking longer to raise equity.

Flight to Quality Sponsorship

CREJ: Would you say the quality of sponsorship is better today than it was before?

LEVINSON: Through the Tenant-In-Common Association and other organizations, there is a genuine commitment by the vast majority of the participants to high operational and ethical standards.

EXETER: TICA is trying to come out with a best-practices statement, and most are trying to implement and live by the best practices. The other side of the coin is that the market has done so well, the smaller providers are jumping in at the fringe. That concerns me. They don't follow the best practices, and that will harm the industry.

WINN: Securities sponsors are being challenged by the NASD, the Tenant-In-Common Association best-practices memo, third-party TIC due diligence firms hired by broker-dealers, broker-dealer due diligence officers and registered reps. Real estate TICs have adopted parts of the TICA best-practices memo. If they are members of TICA, there may be some scrutiny by real estate agents. But there are no independent due diligence firms or officers scrutinizing them.

SIMMONS: When you go from three or four sponsors to 12 to 80 in three years, that makes me nervous. I'm not going to sit here and say, there's all these bad things happening. It's just the numbers thing.

WINN: We have seen a lot of ignorance out there in how to properly structure and underwrite a TIC transaction. Some new firms think because they have managed real estate for institutions, they can do the same for TICs. This is not the case.

In the TIC world, we plan for no capital calls during the hold period and a stable cash-on-cash return, thus managing the cash. In the institutional world, cash-on-cash returns can fluctuate and there is a mechanism for capital calls. The result has been more TIC investment options both in quantity and property type.

WILLIAMS: Here's the thing that's interesting about our industry versus any other industry right now. Some properties have gone somewhat south, but nothing huge that's blown up and made the cover of anything, and everybody is so talking about when it's going to happen. Yet we don't hold the stock market, mutual funds, anything else to that same level of scrutiny. If there's 2,000 mutual funds on the stock exchange and if 1,500 of them are good, nobody is saying there's something wrong with mutual funds. Same thing with the stock market. We're the one industry that is holding ourselves to this level, of no mistakes allowed.

SIMMONS: Investors hold us to an even higher standard than the standard to which they hold themselves.

WILLIAMS: I have a great story for that.

I sent plaques to all our investors, with a pic-

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ture of the property and location and amount invested, and an investor called me back directly. He says, "Hey, I wanted to thank you for the plaque. First of all, I hope that didn't come out of the operating expenses of the property." I said, "No, it didn't." He said, "Secondly, I'll be hanging that plaque on my wall when your property is performing as promised."

I called my property-management guys. "How is this property doing? I mean, did something happen here?" They said, "No. Cash flow is currently at 7 percent." Then I went back into the archives, got the PPM, and it said in year three the property would be doing 7.1. This guy was *that* ticked off about a 0.1 percent differential.

'The bulk of the people I'm dealing with are not so concerned about the upside potential as they are of the safety of the principal and a good income that is greater than what they are getting today.'

— ROBERT "RUSTY" TWEED, Tweed Financial Services

TWEED: The people we're dealing with, they've all had bad experiences with property management or being involved in some partnership or lost money in the stock market. They've made the decision to manage their own properties for most of their life. When they come to the point in life where they want to do the tenant-in-common property, they're giving up the control that they've had for many, many years.

WEINSTEIN: About the caliber of the people coming into the market, it's like everything else, you've got some great and some not so great. I was at a TICA meeting in Las Vegas and I met people with the credentials that you would want to find in any white shoe firm, any top-notch brokerage house, lots of ivy hanging from their resumes and experience coming from some of the really big banks and brokerage houses. We're very impressed with the quality of people in there.

When Good Deals Go Bad

CREJ: In the isolated handful of examples of a TIC deal that went bad, what happened to the investors? What happened to their investment?

TWEED: We've done 60 TIC deals. Out of those, two have been underperforming. Now, on a percentage basis that's pretty amazing for any type of investment.

What happened on one of those deals was a REIT had gotten in the TIC business and the deal was underperforming quite a bit, so luckily, the sponsor offered to buy out the tenant-in-common owners.

The other property had an issue with one of the tenants giving up their lease and leaving. It didn't create a horrible problem, they got new tenants in there, but because they had to use the reserves for tenant improvements, cash flow is going to be soft for about six months while they replenish the reserves.

It brings home this whole point of diversification. All the clients that we're dealing with, we make sure they have enough liquidity and enough other investments that if one of the TIC deals doesn't perform like it's supposed to, they're not going to be left in the lurch.

WINN: We have seen some properties not meet their projected cash on cash return or overall returns. We hear that some deals may have been or are in more difficulty. With the number of TIC-owned properties, some properties would be expected not to perform as planned, which is not any different than other forms of real estate ownership.

CREJ: What should we be watching for with regard to regulatory and legislative scrutiny of the market? Is there anyone watching out for the industry or lobbying on its behalf in Washington D.C.?

LEVINSON: The Tenant-In-Common Association has engaged a lobbying firm in Washington.

There's been a suggestion that there are similarities to the '80s. The difference is that the transactions in syndications of the '80s were based upon taking deductions that might not have existed, or deduction on monies not paid. Today these transactions emphasize the economics of the transaction and are simply executing on what has been a traditional tax-favored 1031 exchange policy for many years. It doesn't seem to me that this industry is going to be threatened in the long run.

WILLIAMS: The legislators are looking at TICs right now as a revenue generator. This year, in an attempt to balance the budget, someone threw in a line item that would have eliminated people's ability to roll a 1031 into a TIC. They thought it would add a billion dollars to the budget. It's the simplistic view, that if we just eliminate TICs that those people would have paid taxes at 25 percent, and we would have collected that billion dollars. Reality says, if most people can't do TICs they won't sell. A billion dollars is back off the table.

WEINSTEIN: And that's a huge incentive for the government to keep the real estate market moving. People are willing to pay retail or retail plus for properties. That sure helps the overall real estate industry.

WILLIAMS: Yes, the industry is mobilized. The National Association of Realtors, which is one of the most powerful lobbies in the United States, doesn't want to see anything happen to 1031. 1031 keeps real estate flowing and moving and assists the economy. They're meeting with the Senate Finance Committee. They've hired one of the top five CPA firms in the country. They've hired lobbyists in order to get the access to speak to those folks.

We were able to get the legislators to take that line item off the table this time, only because it never went through in a discussion. Are we a little nervous about that? Sure.

End of the Cycle

CREJ: We are starting to see the early TIC investors reach the end of the cycle. Are TIC pioneers looking to come back into another TIC opportunity?

SIMMONS: People that got in for a reason, their expectations have been met on the few properties that have gone full cycle, and they're just going back in and doing it again.

If you went into a TIC because you hated your tenants, you had little cash flow and you didn't want to pay taxes, and then you got the cash flow, you doubled or tripled your monthly income and you eliminated being a landlord, why wouldn't you do it again?

WILLIAMS: One of my favorite sayings, and it applies so perfectly to TICs, is: Happiness is expectations minus reality. So long as you've met those — the reality of their investment meets their expectations, they're going to be happy. We've turned over six properties, and probably 90 percent-plus of our investors came back with us. The remainder went into other TIC deals. I can't think of anybody that just went back outside. They had a fairly favorable experience.

SIMMONS: If you're 65 years old and you invested in a TIC deal and your expectations were met five years ago, and now you're 70, I can't imagine anybody saying, "Boy, I really miss those good-ol' landlord days when I would go deal with my tenants."

WILLIAMS: If you polled the industry on guys that had full-cycle deals, it gets in the high 90s, the percentage that stayed within TICs. Some of them just cashed out.

WINN: Our experience is that 99 percent of the investors stay in the transaction until the property as a whole is sold. Passco has had 12 transactions go full cycle in the last 5 years.

The typical property hold period has been 3 to 6 years historically. Looking forward, it will be 7 to 10 years. In general, we are seeing about 80 percent reinvestment into a 1031 exchange opportunities and about 20 percent choose to pay the tax.

SIMMONS: The only ones that I know of personally where they've cashed out has been a death in the family and the kids just wanted the cash.

EXETER: We find most of our clients, once they're in TICs they pretty much stay in TICS. Very few go out.

Innovation In a New Industry

CREJ: Let's look at innovations coming to

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the TIC industry. Would you say TIC-financed development is on the horizon?

WILLIAMS: It's not something that we've done. I foresee more value-added transactions. People are looking for greater returns than what the marketplace can deliver right now. Value-added deals can be either repositioning an asset or buying an asset that is not stabilized and leasing it up. Both of those things require quite a bit of money.

The problem in a TIC deal is, when you combine that need with an exchange, you're going to end up with taxable consequences. If you hold money back out of an equity raise and that money doesn't go into the sticks and bricks of the exchange, but rather to pay taxes on it, most folks are unwilling to get involved in that transaction. You'd almost have to create a bifurcated investment whereby you had an exchange into the property, and folks added let's say $200,000 dollars into an account. Typically, these deals have zero cash flow upfront, but hopefully a higher total return on the back end.

We'd like to do it. The investor that's typically being led to our table is just not savvy enough for it — even though we might be able to provide 20, 25 percent yearly returns. When it's all said and done, most folks are just not going to get it.

'Having been involved in the securities business, I've seen a lot of securities litigation over prospectuses, private placement and generally, in deals gone bad. It's not an entirely theoretical discussion when I look at a confidential private placement memorandum, because I'm looking at it from the perspective of having defended clients that have. There's plenty of case law out there.'

— WILLIAM MARK LEVINSON, Alschuler Grossman Stein & Kahan LLP

EXETER: That may change as the demographics change. More sophisticated people are coming into the TIC market. They're younger folks who are looking to invest, so they may drive that at some point in time. Right now, it's a more conservative demographic base.

WEINSTEIN: We're seeing some people doing some things that, unfortunately, we can't talk about at this point because they're still proprietary. Within that envelope — of 35 investors, and so many dollars they can commit, and real estate-related — we're seeing people pushing the bounds. Some really smart lawyers are thinking about, if we push a little more air into that envelope, can we make sure it doesn't pop, and still drive business into the marketplace? You just have to stand back and watch, and a year or two from now say, "Why didn't we think of that?"

SIMMONS: We're actually offering a real estate development deal, but it's with non-1031 money. It's pure equity. There are some questions about, if you're buying the land, can you 1031 on the back end? Probably, but at the same time, we want to keep it nice and clean and the easiest way to do it is non-1031 on the front, non-1031 on the back. It's an investment that's going to make you 20, 25 percent annualized returns.

WILLIAMS: The TIC industry does not necessarily need to be stretched. There are ways to get into those investments and do those types of investments. TIC may not be the vehicle for it. We can certainly put together partnerships or other structures in order to do that.

Final Thoughts

CREJ: What will drive the next wave in the TIC industry and help it grow?

LEVINSON: The continued creativity of the participants in the marketplace and the sponsors and syndicators.

WINN: Innovation requires a foundation of knowledge. In order to practice in the TIC arena people need to develop skills and experience. Skills are best obtained by hiring qualified leaders, managers and staff who have worked in the TIC environment. Also, selecting the correct advisors who have experience real estate transactions along with tax and securities attorneys that understand the nuances of TICs is critical.

SIMMONS: It's what drives innovation in any industry: the market. When your customers no longer like what you want, or you see another market segment or a channel that says, I would like this particular product, if you could tweak it slightly, that's what's going to happen. The sponsors that have their ears close to the market will respond.

WEINSTEIN: Demand is going to cause new sponsors to come in and old sponsors to do different things. There's an awful lot of brain power going at the problem right now. We are dedicating a lot of energy and capital to this market, and launching new products, such as Syndicator Exchange, that is directed to this industry, because we think it's a huge opportunity all around.

WILLIAMS: I'll take the opposite position and say that quality is what's going to drive growth going forward. When we start throwing words around like "creativity" and "innovation," what does it mean? There's not much more we can do. It's dirt, dirt and steel. I mean, there's not much more we can do with it. We can't change its location. We can't change anything about it. We can only change the way it's underwritten and sold.

We're not going to be an interest rate or a cap rate environment, in which bad deals are going to be saved by cap rate compression. There have been quite a few deals that had cap rates not drop. They've been underwater right now and they've been in cash call. By virtue of buying during a rising tide, they're able to sell and still call it a success.

This question is best asked two years from now. If a good portion of the deals go bad, and we can see a commonality between them, then they're going to eliminate that from the market segment, and the surviving companies will be the ones with quality assets.

SIMMONS: I know what you're saying as far as innovation and creativity, but the innovation comes in products, good-quality products that are different. Most people think TICs, and they think it's multifamily, it's retail, it's office, whatever it is, as opposed to ground leases or a land-banking program or something like that, where it's a different product for a different need. As long as the quality is there.

EXETER: One of the next big waves in innovation is going to stem from demand. As we have more product out there, and more investors that hold this product, there's going to be a secondary market. I don't know how we will deal with it.

TWEED: We're still early in the game, but two, three, four years ago that turned out to be a big plus.

WILLIAMS: That's a hot-button issue because one of the primary things the legislature was talking about when they were looking at TICS was, "This stuff looks like a security. If it can be bought and sold like a security, then it shouldn't be a function of 1031."

One of the issues was liquidity. They said land has always been considered illiquid. I don't think we'll ever get to that point, and the reason becomes the lenders. If these were all-cash deals, people could just sell them easily. The lender is the one that's going to require an assumption, and assumptions take time and that person that's buying it is going to have to be underwritten and it's going to cost money.

If we ever got to the point where all 35 investors could go out and get their own loan or the loan is actually split into 35 pieces, so if one guy sold, a new guy could just come in and reapply for a new loan with any bank that he wanted, then maybe you've got a liquidity feature.

TWEED: You've got to understand, the people we're dealing with are already taking a big leap from a duplex or a four-plex into a 16-story office building. We already have a lot of complexity for them to grasp to start with. Getting any more innovative is a big leap. Truthfully, we want good quality deals that people can rely on and get their cash flow and count on it, and that's going to create the growth in the industry.

CREJ: Gentlemen, it is clear that from the discussion today that the TIC industry has grown and matured in a significant way and this discussion should resolve some of the misgivings of the naysayers.

Thank you for an insightful discussion.

SPONSOR BIOGRAPHIES

WILLIAM L. EXETER

William L. Exeter is president and chief executive officer of **EXETER 1031 EXCHANGE SERVICES LLC**. Exeter has been in the financial services industry since 1980 and is celebrating 21 years in the 1031 exchange services industry. He has administered more than 60,000 1031 exchanges during his career and is one of the founding members of the Federation of Exchange Accommodators. Exeter has written and lectured extensively on 1031 exchanges and on tenant-in-common (TIC) Properties as like-kind replacement property options and has written an extensive educational 1031 exchange Web site at www.exeterco.com. In addition, he is a frequent guest expert on "The Financial Advisers" money talk radio show on AM News Radio 600 KOGO San Diego and on the "Inside Business" radio show on AM Radio 1000 KCEO San Diego.

MARK LEVINSON

Mark Levinson is a partner with **ALSCHULER GROSSMAN STEIN & KAHAN** and chairs the firm's Finance Group. With more than 20 years of practice, Levinson has structured and closed numerous complex business and financing arrangements for clients in the real estate, financing and securities industry. His expertise has proven effective for clients involved in bringing to the market tenant-in-common real estate syndication programs.

Levinson routinely provides corporate counsel to public and mid-market companies across a wide range of industries, financial institutions, underwriters, indenture trustees and municipal issuers. These complex transactions often require expertise in derivative product financial arrangements including interest rate swap agreements. Levinson has particular experience in securities default and loan default matters.

TROY SIMMONS

Troy Simmons is the Southwest regional vice president for **SPECTRUS REAL ESTATE GROUP**. Based in Los Angeles, he is responsible for developing and maintaining Spectrus Group's position as the leading provider of quality, diversified real estate investments in the Arizona, Colorado, Hawaii, Nevada, New Mexico, Southern California and Utah markets.

Prior to joining Spectrus, Simmons worked in the residential construction industry where he was responsible for marketing and new product development at the world's largest roof tile manufacturer. He successfully launched multiple new and revolutionary products while receiving several patents.

Simmons' professional experience also includes work as a senior executive at Knox Co. where he established the marketing department and directed sales to achieve 17 consecutive quarters of increasing sales and profit goals.

ROBERT "RUSTY" TWEED

Robert "Rusty" Tweed is president and founder of **TWEED FINANCIAL SERVICES INC.**, an independent, comprehensive financial planning firm based in San Marino.

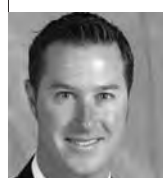
Tweed is a certified estate adviser and prominent member of the Board of Advisers of the National Association of Financial and Estate Planners and an associate member of the Tenants-In-Common Association. Tweed has assisted more than 700 clients to set up appropriate trust structures and settled more than 50 estates. As a specialist in retirement investment planning, he manages in excess of $100 million for hundreds of clients in the Los Angeles and San Gabriel Valley areas, utilizing individual portfolios, managed accounts, REITs, tenant-in-common offerings, 1031 exchanges, real estate limited liability corporations and private trusts.

STEVEN P. WEINSTEIN

Steven P. Weinstein formed Marketmaker Capital in 2002 to provide financing for and acquiring middle-market companies. From this foundation, he formed **MARKETMAKER FUNDING** with a specific focus on financial structuring for TIC transactions. Weinstein has 20 years of executive management experience in all aspects of corporate governance in global companies such as Reuters; growth companies such as Magnacom, an early entrant into the unified messaging space; and venture-backed start-ups, such as Salsa Systems, a wireless software developer. He has led numerous corporate acquisitions and financings.

TODD F. WILLIAMS

Todd F. Williams, born in 1970, is the vice president and director of marketing and communications and director of TIC offerings for **ARGUS REALTY INVESTORS LP.** He joined Argus in May 2004. Williams is an attorney specializing in 1031 tenant in common tax exchanges. Prior to joining Argus, Williams was the assistant vice-president of Investment Property Exchange Service Inc., a national qualified intermediary directly affiliated with Fidelity and Chicago Title. Williams is a frequent speaker and panel expert on the subject of 1031 exchanges and conducts continuing education seminars for attorneys, CPAs and real estate professionals. He has a diverse background, that includes being a founding partner in the Law Offices of Rojo, Williams, Schlegel and Moyers, where his practice included real estate, civil and criminal litigation as well as corporate and business formation. In addition, Williams is a licensed real estate broker in California and has owned and operated a successful mortgage and escrow company and is registered with series 22 and 63 securities licenses as a member of the NASD/SIPC.



WILLIAM H. WINN

William H. Winn is president of **PASSCO COS. LLC**, one of the West Coast's leading real estate operating companies. Passco specializes in providing superior real estate investment and tenant-in-common 1031 Tax Exchange opportunities in a broad range of income-producing properties throughout the Continental United States and Hawaii. Passco acquires and/or develops large-scale shopping and entertainment centers and regional malls, neighborhood retail centers, multifamily complexes and multi-tenant industrial business parks.

Today, the company's portfolio of assets under management and development consists of more than 8.2 million square feet. Passco is credited with pioneering the TIC ownership structure and continues to use it to acquire landmark retail and multifamily assets across the country.

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