

## Pre-Selling Will Endanger the TIC Market

~Gary Beynon



Gary Beynon, Chairman and CEO

With deadlines approaching to identify quality replacement properties, time is "TIC, TIC, TIC-ing" away. Forty five days dwindles into a few hours. The pressure to ID can cause reps to scramble as they find the best property for their investors. Just when they locate the perfect match, they sadly learn the property is fully subscribed, and there is no room at the Inn. After one or two misses, this painful experience inspires creativity. Why not find TIC properties prior to approval and ID them before they hit the market? I cannot miss out on another ideal property for my investor.

This is pre-selling. To identify a property before it has undergone due diligence at the broker dealer level exposes the rep, the broker dealer, and most importantly, the investor to potential dangers, not the least of which is unplanned tax liability. Sure, nothing arouses the curiosity or whets the appetite of an investor like inside information about a TIC property coming to market. But pre-selling isn't the solution for this TIC market. To the contrary, it could be the nail in the proverbial TIC coffin.

So who's to blame and what can we do to change the process? First, everyone is to blame. Sponsors sensing a need to sell their property often rush out inappropriate information to measure the appetite for their latest deal. Reps in search of more TIC inventory become sleuths and find inside information about properties in the pipeline. Broker dealers need to fill their quota, I mean quiver, with TIC arrows to generate revenues. Lastly, investors pressure Reps for more options and are willing to take on increased closing risks.

We can change the process, but it will take all of us. Sponsors must work more closely with broker dealer due diligence officers to control the flow and timing of information. Selling group members must be treated equally and fairly to PPM and property availability. Reps must better educate their investors about the process and not offer properties that haven't completed the due diligence process and have a signed selling agreement. Properties should be made available on a first come, first serve basis and without allocation preferences. If we let pre-selling control the distribution, there soon may be no need for the TIC market. It is up to all of us to do our part. \*

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### POINTS OF INTEREST

- > OMNI welcomes new reps to the firm
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### IN THE SPOTLIGHT

#### New Reps

- > **Cathryn Low**  
San Diego, CA. (*Leahy Branch*)
- > **Sherman Jent**  
Westport, CN (*Olsen Branch*)
- > **Jefferson F. Riddell**  
Sarasota, FL (*Home Office*)
- > **Byron Meo**  
Pasadena, CA (*URW Office*)
- > **John Harvey, CPA, MBT**  
Irvine, CA (*Home Office*)

## Diversification Driving \$350 Billion of New Demand for Real Estate Securities

~Mark Quam

*Achieving diversification  
in tax-deferred exchanges  
makes good financial  
sense and can be done in  
a number of ways.*



Mark Quam, Principal of Dividend Capital

Everyone is talking about the overwhelming demand for tax-deferred real estate exchange products today. However, unless we understand the contributing factors behind this demand, we will not be able to provide appropriate investment alternatives to our clients. As an industry built upon providing tax-deferred real estate investments, it is essential we keep in mind that the replacement property alternatives we recommend will likely become an integral part of our clients' overall investment portfolios.

As we all know, portfolio diversification and proper asset allocation have been the keystone of sound financial planning for decades. In the past, most advisors have simply looked to stocks, bonds and cash to provide this diversification. The volatile markets of the last few years, however, have led many advisors and their clients to real estate as the proverbial fourth asset class. Investors are taking great strides to become truly diversified as a means of protecting themselves against volatility, and real estate securities are proving to be a critical part of their new and improved financial plans. This is clearly evidenced by a January 2004 UBS Global Equity Research and Gallop study, which indicates the following:

- There is the potential for \$350 billion of new demand for real estate securities
- 46% of investors expect to invest at least some portion of their portfolio in REIT securities by the end of 2004
- Investors over the age of 50 significantly increase their allocation to real estate
- The top 3 factors driving real estate investment among individuals are (1) diversification, (2) capital appreciation and (3) dividend yield

So how does this affect advisors providing tax-deferred real estate investment alternatives? After all, most individuals seeking to complete 1031 exchanges already have a large portion of their net worth invested in real estate. However, unless they own many properties in a variety of locations with multiple tenants, their real estate diversification—and perhaps their overall portfolio diversification—could be severely limited. To put things into perspective, imagine an investor who had 40% of his or her net worth tied up in IBM stock. Most advisors would consider this poor financial planning. Yet, 1031 exchangers, who hold as much as 40% of their net worth in a single investment property are not unheard of.

Achieving diversification in tax-deferred exchanges makes good financial sense and can be done in a number of ways. A client can invest in multiple replacement properties—perhaps even with multiple sponsors. Additionally, a client can invest in a diversified REIT portfolio utilizing an IRC Section 721 UPREIT exchange. Regardless of the method employed, registered representatives have much to gain by ensuring that their clients' assets are adequately protected and that their investment objectives are met. ✱

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## Call and Report

~Joe Atkin



Joe Atkin, *Due Diligence Analyst*

We've made our calls and we are ready to report. Gathering this information is not an easy task but it is important for us to know what is happening in this market. Most of you are probably not surprised to learn that the TIC industry continues to grow, but what about the future? What are the real statistics?

The amount of TIC equity raise in the 2nd Quarter of 2004 increased from \$290.3 MM to \$347.4 MM, a 19.7% increase from 1st Quarter. To date, there has been \$637.7 MM raised, which represents 84.3% of the equity raised in 2003.

Our statistics shows that projections remain optimistic but their margin of error is improving. In the 1st quarter of 2004, the margin of error was 39.4% compared to 36.6% in the 2nd quarter. This is a positive sign; however, the difference remains substantially higher than normal. As a point of interest, the 3rd quarter projection is currently \$749.6 MM. Using a 36% margin of error, we expect actual equity raised to be approximately \$479.7 MM, which is still a 38% increase from the 2nd quarter! Sorry about all of these statistics, this is the "Numbers Nerd" side of me getting excited.

This is a unique time in the real estate market. Investors are becoming more selective. As interest rates begin to rise, cap rates remain low. Finding properties with favorable returns to investors will become more difficult. The situation we are in is much different than last year, where interest rates were dropping and cap rates and returns were increasing. This new trend is difficult to manage and is requiring Sponsors to search harder for better financing and acquisitions. It remains critically important for us to carefully analyze the assumptions, projections, and realities of available properties in order to help clients find sound investments.

We are moving towards market equilibrium. Over the past couple of years, we have seen a large gap between supply and demand; however, this gap appears to be shrinking. With new sponsors entering the market and existing sponsors increasing their production, the supply is finally catching up with demand. This awaited equilibrium will make the TIC industry more secure: bad deals will be rejected, good deals will be demanded, and the TIC industry will be here to stay. ✱

## ACKNOWLEDGMENTS

OMNI Brokerage consultants and employees are knowledgeable about the 1031 replacement property industry. They have extensive experience in real estate investing and are licensed securities professionals. OMNI is pleased to recognize the following consultants and employees of the firm for their recent accomplishments.

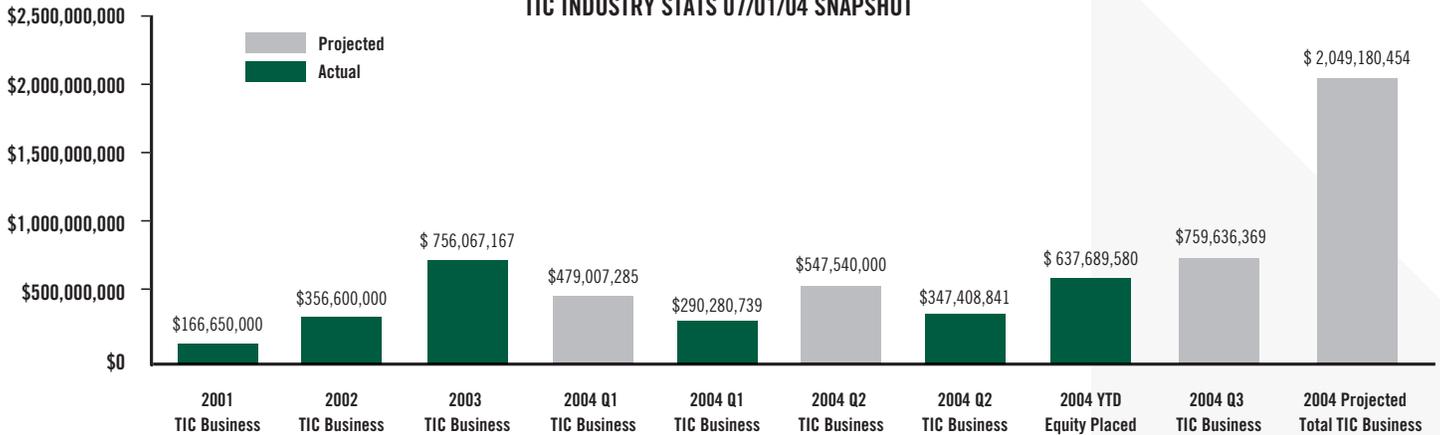
### Reps passing securities exams

- > **JR Broadbent**  
*series 24*
- > **Jesse Thomas**  
*series 24*
- > **Todd Kinsel**  
*series 24*
- > **Andy Papp**  
*series 24*
- > **Warren Thomas**  
*series 7*
- > **Cathryn Low**  
*series 22 & 63*
- > **Peter Banos**  
*series 22 & 63*
- > **Clifford Price**  
*series 22*

## NEW EMPLOYEES

- > **David Laga**  
*Due Diligence Analyst*
- > **Trent Broderick**  
*Due Diligence Analyst*

### TIC INDUSTRY STATS 07/01/04 SNAPSHOT



Snapshot of the TIC industry dated 7/1/04. The equity shown is "pure" TIC equity meaning no LLC monies are included. Equity included in each year is from properties that actually "Closed" in that year, not properties that were "Fully Subscribed".

2001 Sponsors who did TIC Business	2002 Sponsors who did TIC Business	2003 Sponsors who did TIC Business	2004 Sponsors surveyed
AEI American Capital Argus Colton Co. DBSI Evergreen Passco RK Properties, Inc. Triple Net	AEI American Capital Argus CB Richard Ellis Colton Co. DBSI Evergreen Hartman Inland McFarlan Passco RK Properties US Advisor Wells Triple Net	Adler AEI American Capital Argus Behringer Harvard Cabot-Parkway CB Richard Ellis Colton Co. DBSI Evergreen Inland McFarlan Passco RK Properties SCI Tax Strategies Group TIC Properties Triple Net US Advisor Wells	Adler AEI American Capital Argus Ashforth Paradigm Behringer Harvard Blue Rock Cabot-Parkway Capital Equity Group FORT Properties Cole Colton Co. DBSI Dividend Capital Evergreen Gemini Geneva Gibraltar Griffin Hartman Inland IPA McFarlan Mammoth Meridian Passco Rainier RK Properties RM Crowe Sagebrush Realty SCI Tax Strategies Group TIC Properties Triple Net US Advisor Wells Western America
<b>TOTAL: 9</b>	<b>TOTAL: 15</b>	<b>TOTAL: 20</b>	<b>TOTAL: 37</b>

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# OMNI Corporate

OMNI Brokerage, Inc. has acquired a nationwide team of TIC professionals. With a wealth of industry experience, each individual offers resourcefulness to our alliances and clients. When you interface with an OMNI Brokerage investment advisor, you receive the best 1031 replacement property advice from professionals who live and breathe this complex and ever changing industry.

OMNI currently has TIC Investment Advisors in the following locations:

 <b>Arizona</b> Scottsdale	 <b>Florida</b> Fort Meyers Palm Beach Sarasota	 <b>Montana</b> Bozeman
 <b>California</b> Irvine Pasadena Sacramento Santa Cruz San Diego San Francisco	 <b>Georgia</b> Atlanta	 <b>New Jersey</b> Jersey City
 <b>Colorado</b> Denver	 <b>Hawaii</b> Honolulu	 <b>Texas</b> Austin
 <b>Connecticut</b> Westport	 <b>Illinois</b> Chicago Mendota	 <b>Utah</b> Salt Lake City Provo
	 <b>Minnesota</b> Minneapolis	 <b>Washington</b> Bellevue

OMNI news is published by OMNI Brokerage, Inc., in Salt Lake City, UT. We welcome any suggestions you may have. Please contact Taylor Garrett, OMNI News Editor, at [tgarrett@omni1031.com](mailto:tgarrett@omni1031.com) with any ideas or comments.

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