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Regulatory Discussion Is Focus of TIC Forum

By [Barbara Jarvie](#)

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NEW YORK CITY-Tenant-in-Common transactions are not "two-bit players anymore," Louis Rogers, president of Triple Net Properties LLC, said while comparing TICs to REITs during the first annual Tenant-in-Common Transactions Forum held here. He said over the past five years, TIC properties have greatly increased in quality. Challenges TICs face in the coming year include regulatory environment changes.

"Regulators don't understand us and are putting us under the microscope," Rogers said. "TICs will always be a hybrid of real estate and securities." He said the industry wants to be compliant. "We will follow rules. Tell us in advance and we'll comply. This is a transitional period when we're all learning and coming to grips with the regulatory environment."

While Richard B. Chess of Futurelaw Inc. agrees that there is more regulatory activity, he noted that "while we're growing, we're still small potatoes." He expects regulatory action will have minor impact on TIC transactions and that Wall Street firms will get in on the action at the million-dollar level. "There will be new competition and a secondary market." Chess moderated a forum on the growth of the TIC market.

Kevin Gannon, managing director of Robert A. Stanger & Co., said that the market is seeing a high concentration among a few sponsors with the top 10 accounting for 95% of the transactions. Those in the top ten include CNL, Inland, Wells and WP Carey.

"There's opportunity in chaos," noted broker/dealer Scott Friel, vice president of QA3 Financial, adding that his firm sees growing opportunity in the 1031-exchange environment.

"We're in the middle of a brouhaha with real estate and securities industries," said Rob Hannah, president and CEO of TSG Real Estate LLC. "There's a lot of confusion now. The eventual conclusion will allow our industry to grow rapidly." With the Baby Boomer generation facing retirement starting in 2010, the panel members expect TIC transactions to become even more attractive to consumers.

In a panel dealing with new initiatives for the coming year, Russ Colvin, president of Mammoth Equities Capital Group LLC, pointed out that the rising costs of construction materials such as steel, concrete and copper will have an impact on transactions.

"Replacement costs have gone up significantly over just the last year." Richard Previdi, president of NPV/Direct Invest LLC, agreed. "Replacement costs are up 25%." As an example, he said Phase I of a development has a \$100 replacement cost, while Phase II has a \$125 replacement cost.

Colvin also noted changes in the tenant environment. "Today's credit tenant may not be tomorrow's credit tenant." He cited Kmart and Enron as examples of former credit tenants. The two-day TIC Forum was sponsored by Information Management Network.

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JE Robert's
Deborah Harmon

"We've looked at billions of dollars of office and just didn't feel that we'd see the appropriate returns for the level of risk."

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