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## Small Investors, Big Deals

### *Individual Investors Redeploying Equity into Larger Deals*

Small property investors who are pooling their tax-deferred exchanges have driven a growing number of institutional-sized property sales this year, such as the \$74.6 million sale of the Renaissance Tower in Sacramento.

1031 Exchange Options, a property exchange consultant in San Francisco, closed first quarter with its clients acquiring \$78 million in real estate on 63 successfully completed transactions. That compares to \$44 million in real estate with 41 transactions in its first quarter of 2003.

For 2004, 1031 Exchange Options expects to nearly triple its results, forecasting client investments in excess of \$750 million.

"More investors are just now coming to the knowledge of real estate co-ownership," said Cary Losson, founder and president of 1031 Exchange Options. "There is a lot more people being educated about the concept and therefore a lot more prospective investors."

"The property price line is ramping up," Losson added. "I think you will see the numbers getting larger and larger, quarter after quarter for the next two or three years."

These pooled investment funds, called Tenant-in-Common investments, or TICs, enable investors who sell an investment property to buy ownership interests in another property (or properties) instead of buying an entire "like-kind" property to qualify for an exchange and defer capital gains taxes on the sale.

By pooling the proceeds, TICs combine the tax and estate planning benefits available to investors through 1031 exchanges with the potential advantages of owning a share of an institutional-quality investment property. Investors receive their monthly distributions (after expenses) while giving up the maintenance and administration chores associated with managing property.

In a typical transaction, a "sponsor," such as Triple Net Properties, the buyer of Renaissance Tower, will identify and arrange to purchase an office building, shopping center or other investment property; raise equity by selling TIC interests to investors through a network of brokers such as 1031 Exchange Options; and arrange to borrow the rest of the purchase price from a lender.

"Since they are not going to be responsible for day-to-day management, investors can diversify geographically and by property type," said Christian Mirner, senior vice president real estate for 1031 Exchange Options. "So, investors are redeploying their equity into other markets across the country where the fundamentals are better."

The largest deal 1031 Exchange Options closed on in the quarter was the Renaissance Tower at 801 K St. in Sacramento. Triple Net Properties LLC acquired the property on behalf of the TIC investors of which there were 22. 1031 Exchange Options worked with clients representing approximately 20% of that group.

The total transaction price for exchange purposes, which includes property costs, all legal and transactions fees associated with the opportunity and cash reserves, was \$74.6 million or about \$222 per square foot. The building was 76% leased at time of purchase. The California Department of Conservation leases about 60% of the space through 2014.

CB Richard Ellis represented the buyer and the seller. Dave Doupe and Larry Krasner in Los Angeles represented the buyer, while Steve Hermann and Bob Gilley in San Francisco represented the seller, Los Angeles-based Oaktree Capital Management.

1031 Exchange Options also participated in the following transactions that went to closing in the first quarter.

Property Name: The Hamptons at Tampa Palms  
 Address: 15350 Amberly Drive  
 Location: Tampa, FL 33647  
 Size: 315 units  
 Transaction Price: \$39.2 million  
 \$124,444/unit  
 COE: 1/30/04

Property Name: Palermo Apartments  
 Address: 12235 Vance Jackson  
 Location: San Antonio, TX 78230  
 Size: 314 units  
 Transaction Price: \$26.49 million  
 \$84,347/unit  
 COE: 2/6/04

Property Name: West Bay Office Park  
 Location: Las Vegas, NV  
 Size: 107,650 sq ft  
 Transaction Price: \$26 million  
 \$241.52/sq ft  
 COE: 1/27/04

Property Name: Town Center Apartments  
 Location: Overland Park, KS  
 Size: 156 units  
 Transaction Price: \$19.4 million  
 \$124,359/unit  
 COE: 2/23/04

Property Name: Cyberonics  
 Address: 100 Cyberonics Drive  
 Location: Houston, TX  
 Size: 144,325 sq ft  
 Transaction Price: \$17 million  
 \$117.79/sq ft  
 COE: 3/16/04

Property Name: Arapahoe Business Center  
 Location: Englewood, CO  
 Size: 144,283 sq ft  
 Transaction Price: \$11.75 million  
 \$81.44/sq ft  
 COE: 1/30/04

Property Name: Siemens Corporate Training Center  
 Address: 1630 Corporate Court  
 Location: Irving, TX  
 Size: 67,146 sq ft  
 Transaction Price: \$8.4 million  
 \$125.10/sq ft  
 COE: 3/24/04