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EXCLUSIVE REPORTS

TIC Properties' purchase signals new breed of real estate investors

Kate Miller Morton

At \$141 a square foot, Greenville, S.C.-based TIC Properties LLC paid top dollar for two Cherry Road office buildings this month, but the corporation won't own the properties for long.

A national player in the booming tenant-in-common industry, TIC is already marketing its \$18.46 million purchase to individual investors who can buy a fractional interest in the 103,917-square-foot buildings.

Brandy Watson, vice president of marketing for TIC Properties, says the buildings occupied by Harrah's Entertainment, Inc., represent what most real estate investors currently seek: Class A buildings with a long-term national credit tenant on a triple net lease.

"We got our numbers to work right and saw it as a great investment opportunity," Watson says.

CB Richard Ellis vice president John Lamberson says the \$141 per square foot price is in line with what a lot of institutional buyers are paying for buildings of this type.

"People are really paying top dollar for single tenant assets with credit to back them," Lamberson says.

Tenant-in-common or fractional ownership programs allow individual investors to buy interests in commercial real estate, providing institutional investment grade opportunities for small investors. Minimum investments for TIC's tenant-in-common programs can be as little as \$150,000.

The investment model isn't new, but has become increasingly popular since March 2002 when the Internal Revenue Service issued guidelines for using such investments in 1031 Exchanges. A 1031 Exchange allows property owners to defer capital gains taxes on property sold by buying properties of equal or greater value within 225 days. Partnerships and purchases of stock do not qualify.

As a tenant-in-common sponsor, TIC Properties identifies and analyzes potential investment property,

arranges the financing and finds investors. Watson says investors are referred nationally from financial advisers, real estate brokers, attorneys, securities dealers and broker-dealer networks.

Lenders can cap the number of investors in a single property and the IRS prohibits more than 35 investors in properties qualifying for 1031 Exchanges. Watson says TIC Properties' packages typically involve about 13 investors.

Tom Morgan, area director for Trammell Crow Co.'s Memphis office, says TIC packages are unusual in Memphis, but that will likely change.

"There's no one aggressively packaging tenant-in-common deals locally today," Morgan says. "This concept is growing across the country, and I'm certain we'll see it become more prevalent here."

Tom McNearney, senior managing director at Trammell Crow Co. in Dallas, says tenant-in-common programs are becoming more and more common.

"It's happening everywhere," he says. "A year ago there were probably a dozen companies doing it. There are probably 50 to 100 now."

Watson says the boom in the industry stems from a lack of quality real estate investment opportunities for under \$3 million and the time restrictions of 1031 Exchanges: 45 days from sale of the initial property to identify the like-property and 180 days to close.

McNearney says time restrictions are a major reason 1031 Exchanges fall apart and believes tenant-in-common programs mitigate the risk.

"Tenant-in-common makes that easier because the people who are in this business are going in and doing due diligence on the property, buying it, warehousing it and then doing the 1031 Exchange," he says.

It also dramatically increases investment opportunities for individual investors looking to invest less than \$1 million in high-quality commercial real estate.

"Bottom line, it does open the field enormously to the number of properties you can potentially buy and the quality of the properties," McNearney says.

McNearney says the 15 requirements for IRS approval of 1031 Exchanges are arduous.

Unanimous approval is required for all major decisions such as financing, sale, and approval of management companies and leases. Profit sharing must be absolutely proportionate based on interest, and brokerage and management agreements must be renewed annually.

The Harrah's buildings were the first TIC Properties has purchased in Tennessee. Previous purchases have been in Alabama, Florida, Virginia, Michigan, South Carolina and North Carolina.

R. Brad Martin, chairman and CEO of Saks, Inc., purchased the 26-acre complex from Harrah's in 1999 as a private investment. The first office building was built by Holiday Inn, Inc., the former parent of Harrah's, in 1985. The second was built by Harrah's in 1995.

In a written statement, RBM Venture Co. president Scott Imorde said RBM Cherry Road Partners would continue to own and occupy the remaining 19 acres of the Oaksedge complex on Cherry Road, which includes a private mansion and pool house not included in the sale.

Harrah's will continue using the two office buildings as its Memphis Service Center, employing about 300 people. Harrah's signed 12-year and 17-year leases on the buildings in late 1999.

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