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An abundance of due diligence information available for TIC properties

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Tenant in Common (TIC) investments are fractional interests in institutional grade commercial properties generally valued in the \$10 million - \$100 million range. The property is managed by the property sponsor and provides a monthly cash flow to the investor. The ready availability and relief from direct property management makes TIC properties increasingly popular as replacement property for a 1031 exchange. There is an abundance of information disclosed for these properties that are not readily available for an investor evaluating purchase of a sole ownership property within the narrow 45 day identification window.

The great majority of TIC investments are structured as securities under the jurisdiction of the SEC. Complete disclosure of risks is a critical requirement of securities products with severe civil and criminal liabilities for fraud and misrepresentation. The Private Placement Memorandum (PPM) provides a 20-page comprehensive itemization, discussion, and consequences of risk factors. Many of the risk factors are generic, but the ones to pay attention to are specific to the property and the area, e.g. tenants, lease expirations/terms, environmental, property condition, competitive properties.

There are also additional due diligence reports written by independent third parties. The reports are generally prepared for the bank providing the financing. The Appraisal Report states a dollar value appraisal for the property and gives a wealth of information about the area demographics, employer and employment statistics, population and household growth, and competitive properties. The Phase I Environmental Report presents results of a walk through evaluation and database search identifying any environmental conditions that may need a further phase II evaluation. The Property Condition Report provides a comprehensive assessment of the physical structure of the property and an estimate of potential future capital expenses. These three reports would be the responsibility of the individual investor if he were evaluating sole ownership property but are standard for TIC properties.

This comprehensive information is evaluated by a number of organizations even before the investor.

The property sponsor, the bank, the securities broker/dealer organization, and the individual securities representative each perform their own level of due diligence. Although each investor needs to evaluate all this information himself, it's very helpful to have an experienced TIC adviser guide the investor through the information.

Reserves provide risk mitigation against fluctuations in cash flow. Up front and monthly amounts are set aside to fund future capital expenses as identified in the Property Condition Report. Reserves are also set aside for tenant improvement and leasing commission costs for replacing tenants that do not renew. These expenses are drawn from the reserve rather than investor cash flow. These reserves mitigate the risk of large expenses reducing the monthly cash flow to

investors. An investor buying a sole ownership property may not have the foresight to place money in reserve for these contingencies, but with TIC investments these reserves are standard operating procedure.

The PPM provides financial projections and assumptions to support projected income. Historical financial information on the property is also available to validate projections. For a sole ownership property, financial projections would need to be developed by the investor himself, and historical data may not be readily available.

The PPM also provides biographies of the property sponsor management and performance of prior sponsor TIC properties. There are also now several independent consulting groups that produce comprehensive due diligence reports on sponsors and specific TIC properties.

The abundance of disclosure information and levels of due diligence review with TIC investments provide advantages over an investor doing it all on their own with a sole ownership property.

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