

## Q&A – Sept 24 REISA Webinar

*Is there any "third party" analysis around the financial stability of the remaining 27 active sponsors?*

There are third party due diligence firms, such as Snyder-Kearney, FactRight and Mick & Associates, that provide information to broker-dealers. These reports generally include a financial review, but it is based on information provided by the sponsor and is not meant to be forensic in nature.

*Is anyone in the industry "rating" their liquidity, capitalization, etc...?*

S&P was trying to get a rating system going, but it wasn't finished. At this point, there is no rating available.

*Do you see much activity in rolling TICs up into REITs (public or private)?*

Some programs have come out to do this, but so far the success has been limited.

*How much as a percentage of the TIC purchase price should TI/LC/Capex reserves be?*

This can only be answered on a property by property basis, but the answer should be enough that under conservative assumptions that there would be enough to last the entire holding period, with some cushion, allowing for the fact that the NOI assumptions may not come to pass.

*It would be great to get a checklist or a spreadsheet that would enable us as reps to effectively and efficiently select a sponsor. Can you provide that to us?*

This is something that needs to come from the broker-dealer for compliance purposes.

*When are we going to get audited financial statements on the sponsors instead of third-party interpretations of limited data provided by aspiring sponsors?*

Audited financial statements are much more expensive and require more effort than they are worth to most private firms. If broker-dealers mandated audited financials, some sponsors would likely comply, but most would not and just wouldn't do business with those broker-dealers.

*How concerned should an investor be with the lack of ability to refinance a DST?*

It is only one of the concerns of a DST, and they need to be considered together. If the underwriting is conservative and the assumptions realistic, and the loan is long term (at least seven years and preferably 10) and low LTV (60% at most and preferably a lot less), then the refinance issue should be of moderate concern.

*What is the downside (if any) for a TIC investor who may have to switch to the DST vehicle in the future?*

I am not sure that I understand the question. A TIC investor that sells their TIC can exchange into any like-kind investment they want, including a DST. If the question is can a TIC structure be changed to a DST during the holding period, the answer might be yes, in theory, but I am not sure what the benefit would be and there would be costs and lender issues.

*Has the cost of syndication declined, such that a less expensive property would work for a TIC? If so, what's the minimum dollar for a TIC?*

The costs have not gone down, and in some cases have increased. However, some sponsors are willing to take less in the way of fees. Minimum size for a TIC property is generally at least \$5MM and most often above \$7-10MM, as the costs becomes too much as a percentage of equity for the deal to make sense.

*How about the secondary market for existing TIC properties? How to purchase them?*

There is no meaningful secondary market, and there are many issues that are of concern from a regulatory and legal perspective. Any attempt to sell into the secondary market should be done with the expectation of a major discount for many reasons, including lack of liquidity and due diligence data, etc.

*Why can't insurance be used to step in if the deal flounders, much the same as performance on debt instruments may be insured by the likes of Warren Buffet?*

It is an interesting idea, but the cost would be prohibitive.