

Marketing and Financing Tenant In Common (TIC) Properties

1. Types of Financing for TIC's

I. Group Loans

A. Group Loan, 2-4 units

1. Assumability
 - a. No Assumability
 - b. One Time Assumption
 - c. Unlimited Assumability
2. Shared Liability
3. Qualify as Full Doc or Stated Income
4. 80-10-10 or 75-15-10 Financing
5. Many available loan products
6. Residential Only

B. Group Loan, 5 or more units, and Mixed Use

1. Assumability
 - a. One Time Assumption
 - b. Unlimited Assumability
2. Shared Liability
3. Qualify as Full Doc
4. 75-10-15 Financing, or 80-20 for strong groups
5. 3 or 5 year fixed rates, then ARM

C. Problems with Group Loans

1. Joint and Several Liability
2. More Difficult to Market Units
 - a. Potential Equity Gap
 - b. Seller could force a refinance and bear the costs
 - c. Not all members may continue to qualify
 - d. Buyers involved with internal refinance process with existing TIC members can get turned off...personality clash

II. Individual "Fractional" Loans

A. Individual Loans, in buildings with (generally) up to 12 units

B. Up to approximately \$6,000,000 in loans per property

C. 75% owner occupancy required

D. Mixed use residential/commercial is OK

E. Up to 20% of the property can be commercial

F. Borrowers must qualify on a 'full-doc' basis

G. Limited Loan Options

1. 3 or 5 year fixed, then arm for a total term of 15 years
2. Prepay penalty for 4 years
3. Borrowers pay loan origination fee
4. No 30 year fixed rates, no 'zero point' loans
5. Higher rates than group loans
6. Full documentation only

H. Advantages with Fractional Loans

1. No shared loan liability
2. Simplifies Listing and sale process
3. Easier Resale...more liquid than with group loans
4. Loan is Assumable to qualified party
5. Loan can be resized at time of sale or refinance

2. Special Considerations for Realtors involved with TIC transactions

I. LISTING AGENTS

A. Early Paperwork: TIC-specific items to cover with Seller prior to marketing the property

1. Buildings with 5+ units (any combo of res & commercial) require a signed Opinion Letter from the DRE on whether or not a public report is required for the property
2. Public Report ("White Paper") is generally required when there are at least 5 residential units
3. Draft TIC Agreement
4. Draft Budget...HOA Dues
5. Project Description
6. Rolling Close vs. Simultaneous Close
7. Business Agreement between Bank and Seller
8. Select Title Company: ORTC, Fidelity, or First American

B. Structuring the Deal

1. Fractional vs. Group Loans (as stipulated in the Public Report for 5+ residential units)
2. Down Payment requirements (Bank Guidelines and Seller strategies)
3. Seller carry 2nds
4. Interest Rate Buy-Downs...between Bank and Seller
5. The Timetable...managing expectations
6. Prequalification: Buyers to submit paperwork to Mark Skolnick directly, within 5 days of acceptance
7. Is the Seller preparing for a 1031 exchange, or multiple exchanges due to sequential closings?

II. BUYER'S AGENTS

A. Questions you should ask the listing agent

1. How many units need to close initially?
2. How much existing debt is there?
3. Is the initial closing approved by the DRE (for 5+ units only)?
4. How many days should the contract be written?
5. Financing Contingency should be 30 days, depending on Bank's agreement with Seller (could be longer)
6. Will the Seller offer to buy down the rate?
7. Will Seller offer a credit for NRCC? (Bank allows for a 2% credit of PP)

B. Concerns for your Buyer

1. Know your Buyers' 'Full Doc' limits
2. Some buyers can't prove sufficient income and won't qualify, and should look at 2-4 unit group TIC deals or condos
3. When should buyers give notice to their landlord, if moving from a rental?

C. Length of Process...TIC process takes longer than SFRs and Condos!

CONCLUSION

TIC transactions tend to take more time and are generally more complicated than non-TIC deals, requiring more patience by all parties. This is an evolving niche, and the process is constantly improving. Managing Expectations of all players...the seller, the buyers, and their agents is essential to reducing the stress that builds whenever there are more people involved, each with a different set of preconceived expectations. The bottom line is that we are all helping to increase homeownership by creating more affordable housing through the TIC structure.

TIC's are not just for first time buyers; the TIC model has been validated across all price levels of the real estate spectrum, from million dollar luxury units down to entry level price points.

Other Services: We also provide purchase money loans to developers who are buying buildings to convert to TICs (up to 80% of their purchase price), and we will finance up to 75% of the conversion costs. We also finance all types of real estate; apartments, commercial, mixed use, automotive, religious, self storage, etc., and even SFR's and Condos!