



## What a Load

One of the most discussed and a disputed aspect of investing in a tenant in common offering is the 'load' or cost and fees associated with the investment. Without question, there are substantial costs inherent to a TIC investment. The real question, however, is what comprises the load and whether those costs are greater than an investor would incur when buying a property by themselves (a 'sole-ownership' property); and, if those costs are higher, are they justified by the overall package that an investor is acquiring.

One very important point is that the net cash on cash returns projected in a TIC offering are net of all of these costs, or load, while they must be deducted from a sole-ownership property in order to compare apples to apples. For example, if a TIC offering projects a cash on cash return of 6.50% and has costs totaling 8% of the property value, the cash on cash return is still 6.50%. But, in a similar sole-ownership property, if the costs were 8% of the property value, the return would be reduced by a corresponding amount (simplistically speaking it would be reduced down to about 5.85%).

When discussing load, we need to first agree as to what is included. It is generally accepted that there are two levels to load; those costs that directly relate to the acquisition of any property (TIC or sole-owner) and those that would not normally be incurred in a sole-ownership purchase. In the first category, we can include costs such as legal counsel for negotiation and review of contracts, loan documents, etc. We would also expect to incur costs for third-party due diligence (such as an appraisal, property condition report, environmental report, etc.) We would expect to pay for any costs associated with the loan (such as documents preparation and lender legal costs). And, we would expect to pay the costs of escrow and title insurance. Finally, we would expect to pay the cost of creating any entity (such as a LLC) necessary to hold title to the property.

We might not, however, expect to pay an acquisition fee to the sponsor (seller), nor would we expect to pay carrying costs for inventorying the property. We would probably never pay for securities related costs, fees or due diligence if buying the property by ourselves and so those costs should be considered to be an additional cost. Commissions are one of the big sticking points when discussing load. On the one hand, when we buy a property by ourselves, we might expect the seller to pay any commissions. But, the money for those payments actually comes from the buyer, so it could be argued that, indirectly, the buyer pays the commission. In our analysis, we will consider commissions to be an additional cost, but we will also compare typical commissions in a TIC offering with typical real estate commissions for a similarly sized deal.

We also have to remember that load is partially dependent on the amount of leverage in an offering. While, with positive leverage, a sponsor can increase the cash on cash returns by increasing the amount of debt, the greater the debt on any given property, the less equity is required. Given that many of the costs in a TIC offering are fixed (it costs approximately the same for a tax opinion for large offering as it does for a small one), the less equity being raised, the larger the load as a percent of equity. So, a sponsor may choose to use lower leverage in order to have a larger amount of equity across which to spread the load. Those sponsors are doubly benefited because lower leverage is often seen as being more conservative...lower load and more conservatively levered is usually viewed as being a good thing in the TIC world. We do not consider reserves taken from the mortgage proceeds and held by the lender to be a component of load, as these reserves are not deducted from the equity and remain an asset belonging to the investors, until they are spent, used to pay down the loan, or otherwise distributed to the investors.

We have analyzed a number of recent TIC offerings to determine the amount of the average load in a TIC deal and to see where this amount deviates from offering to offering. We have also looked at the

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components of load to determine the relative size of each component and how they vary from offering to offering.

The costs, or loads associated with a TIC offering are typically disclosed in a ‘Sources & Uses’ table, or in a ‘Compensation of the Sponsor and its Affiliates’ narrative section in the offering memorandum, or private placement memorandum (PPM). Regardless of whether the load is expressed in a table or in a narrative manner, we can convert the numbers to a simple table. A typical sources & uses table would look like this:

<b>ESTIMATED USE OF FUNDS</b>		Percentage of Gross Proceeds
<b>Estimated Gross Offering</b>	<b>\$15,000,000</b>	100.00%
Organization & Offering Expenses	225,000	1.50%
Sales Commissions	1,050,000	7.00%
Marketing & Due Diligence	375,000	2.50%
<b>Subtotal</b>	<b>1,650,000</b>	<b>11.00%</b>
\$ Available for Investment	\$13,350,000	89.00%
Loan Fees and Costs	450,000	3.00%
Acquisition Fee	1,050,000	7.00%
Reserves*	150,000	1.00%
Closing & Carrying Costs	450,000	3.00%
<b>Subtotal</b>	<b>2,100,000</b>	<b>14.00%</b>
Down Payment for Property	11,250,000	75.00%
<b>Total Costs &amp; Fees</b>	<b>\$3,750,000</b>	<b>25.00%</b>
<b>Total Gross Offering</b>	<b>\$15,000,000</b>	<b>100.00%</b>

\*Reserves taken from equity are sometimes included in load calculations, even though they remain an asset belonging to the investors until they are actually spent. If these equity reserves were not included in example, the load would equal 24% of equity. Reserves taken from the mortgage proceeds and held by the lender are not deducted from equity and are, therefore, not a component of load. However, lender held reserves may be substantial and may represent a significant portion of the overall capitalization of the offering.

The total load in this example is \$3,750,000, or 25.00% of the gross equity offering. If we assume that the equity equals 40% of the total capitalized price, then the loan is assumed to be \$22,500,000 and the total capitalized price is assumed to be \$37,500,000. The load equals 10.00% of the total capitalized price in this example.

We recently completed a detailed analysis of 62 TIC offerings from 21 sponsors. The offerings that we analyzed were seeking to raise over \$800,000,000 of equity, combined with over \$1,400,000,000 of debt, for total capitalization of more than \$2,000,000,000. In order to keep our analysis consistent, we excluded any master lease TIC or DST (Delaware Statutory Trust) offerings from our review and we also excluded properties that were sold from the sponsor’s inventory, as we can not accurately determine the markup above the sponsors original purchase price for those properties.

Overall, we found that the average TIC load (not including reserves from equity) equals approximately 24.60% of the equity offering (25.90% if reserves from equity are included). Of the offerings studied, we found a low load of slightly over 16.00% and a high load of slightly under 38.00%. We identified the following averages for the different individual line items that make up the total load:

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Line Item	Average	Low	High
Organization & Offering	1.45%	0.00%	5.60%
Sales Commissions	7.50%	6.35%	10.00%
Marketing & Due Diligence	1.80%	0.00%	3.40%
Loan Fees & Costs	3.00%	0.85%	7.45%
Acquisition Fees	7.65%	3.65%	17.75%
Closing & Carrying Costs	2.55%	1.00%	5.70%
Other Costs	0.65%	0.00%	6.60%

As the reader can see, there is great variability as to the amount of total load as well as to its components (the individual line items in a TIC offering sources & uses table). In addition, it is sometimes necessary to 'read between the lines' or at least the footnotes, in order to determine the full amount of compensation to the sponsor. Some sponsors agree to pay the seller their net price, but then have the seller add a commission to that price, which is paid back to the sponsor. This way, they can reduce the apparent amount of the sponsor acquisition fee, while still getting a 'full' amount. As with all things in TIC-land, the devil is in the details and we would caution a reader to carefully examine all of the numbers to make sure that the sponsor is not inflating various line items in order to increase their profit.

It is our experience that if you account for the legal, lending-related and closing costs associated with a typical sole-owner acquisition, the typical TIC offering adds from 5.00% to 7.00% to the total purchase price of the property. We believe that this range typically represents a fair value to the investors. They are able to acquire a better quality, higher cash-flowing property than they could on their own and the sponsor makes a fair return for the time, cost, risk and trouble of completing a TIC offering. Make sure that you and your representative fully understand the load of any offering that you are considering so that you do not feel like you have been over-loaded in your purchase of a TIC interest.

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