



TIC MARKET WATCH

4th Quarter Newsletter '06



1031 PROPERTY WATCH
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TIC MARKET WATCH

1031PROPERTYWATCH QTR. NEWS



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I am often asked the question, "Is the commercial real estate market experiencing a bubble?" I think this might be the case for a number of residential markets around the country. Bend, Oregon for example is a small community in central Oregon which is seeing \$300 per square foot for 30 to 40 year-old homes that mill workers use to find affordable. That is an approximate 300% increase from just a couple of years ago when I lived there. Consequently families can not afford them anymore because outside investment speculators

have bid up prices to record highs.

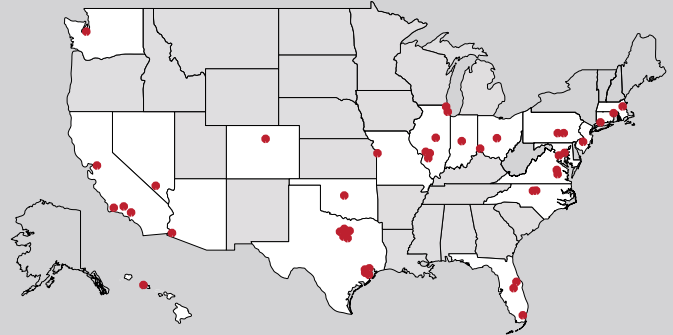
However, I don't see that happening with institutional commercial real estate assets across the country. To illustrate, take a look at the graphs in this newsletter. I have offset the 12 month linear average with the 24 month moving average for Cap Rates. What you will see is that the linear graph for Cap Rates has actually increased slightly over the last 12 months. If we were in a bubble you would expect to see Cap Rates drop off sharply as prices spike upwards. That has not occurred in either the 12 month or 24 month windows.

I think the reason for this is that institutions and TIC sponsors recognized that their clients demand a reasonable high monthly return or cash flow from their investment. That is not possible if you over pay for the property, so the demand for cash flow can act as a lid on prices that may prevent bubbles.

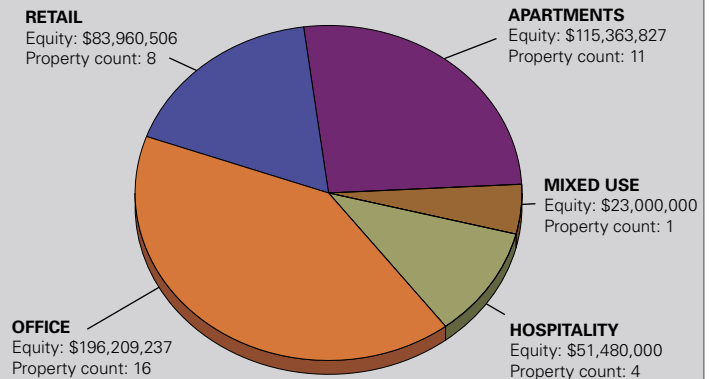
Looking at cash flow, yields have come down but the decrease has decelerated over the last 12 months. All things being equal, I think we will see these general prices and returns stabilized over the next year. Our challenge is going to be picking out the better assets, not from a pricing perspective but from a quality perspective. I believe prices are going to tighten up around the averages so it will come down to understanding the property's quality and location in making the right decisions. With yields compressing the way they are, it also means it will be important not to chase returns.

Today, the average cash on cash return of TIC properties is 6.59% for offices, apartments and retail centers. Given the 10 year US Treasury is yielding 4.77% the spread represents the average risk premium for TIC offerings.

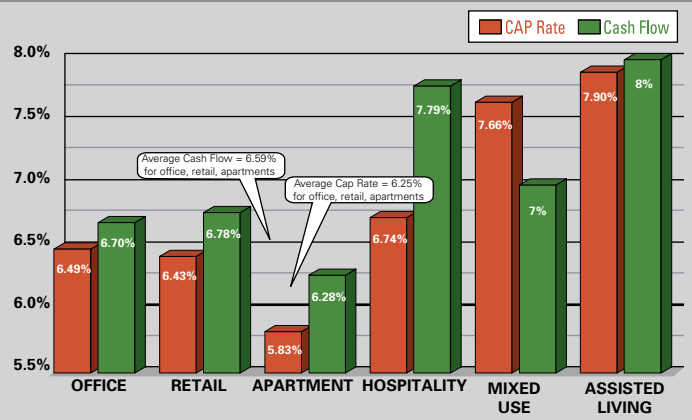
TIC PROPERTY LOCATIONS – 4TH QTR '06



SECTOR ALLOCATION – 4TH QTR '06

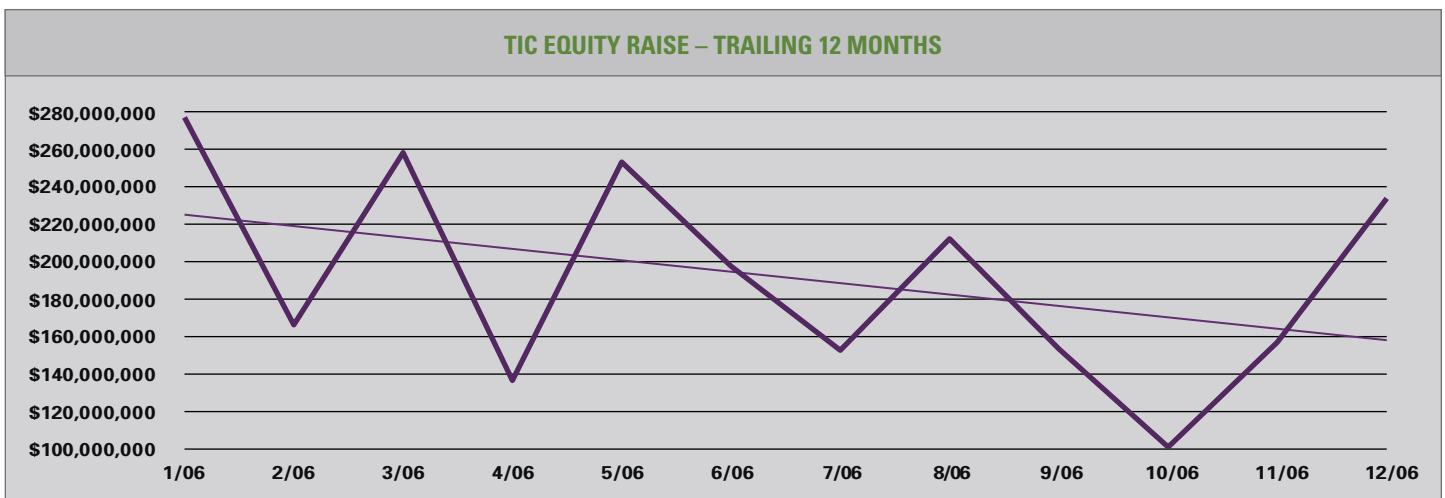
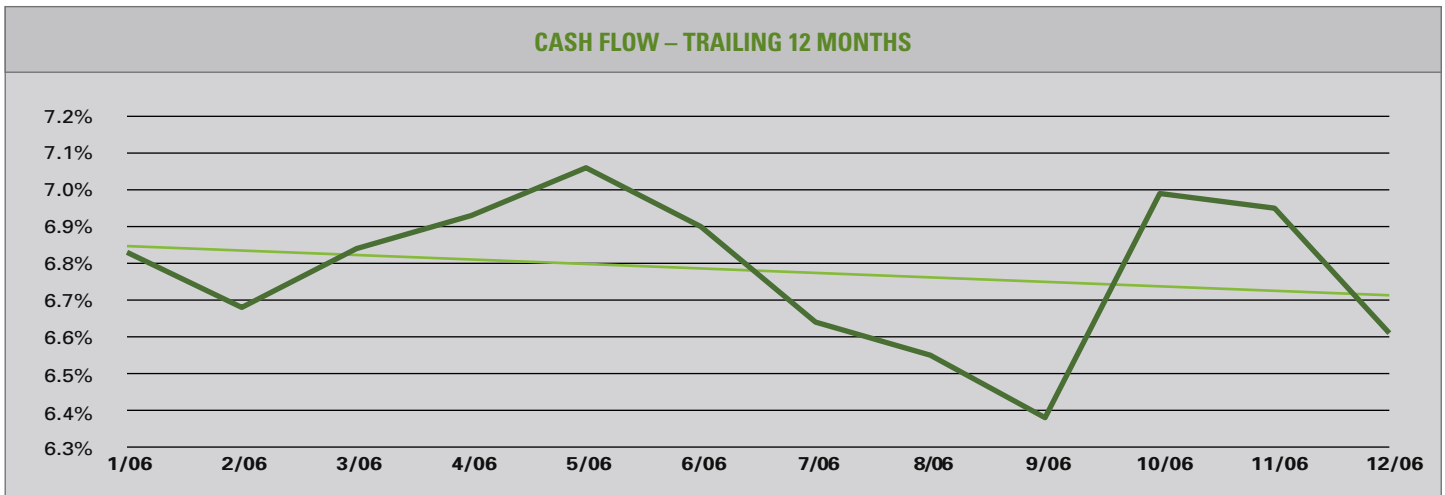
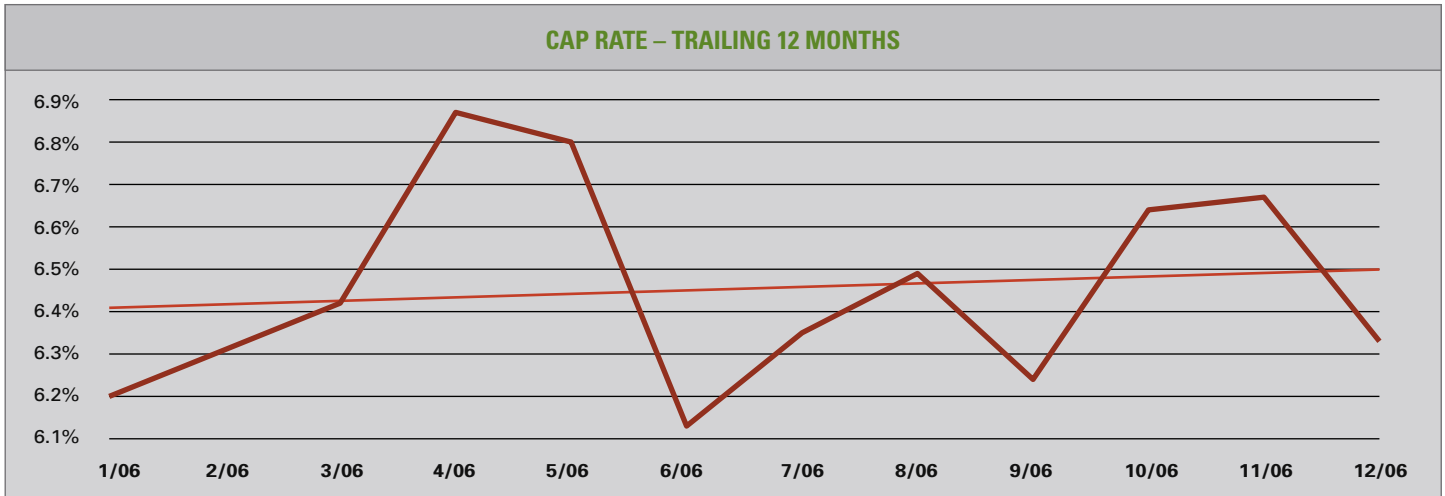


CAP RATE & CASH FLOW COMPARISON – 4TH QTR '06



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New research available for the informed TIC investor:

- Industry Research
- Property Research
- TIC Concepts
- Risks
- Sensitivity Analysis
- Frequently Asked Questions
- Sponsor 5 Star Ranking
- Historical Property Examples
- Current Properties
- Sponsor Bio
- Sponsor Watch (see picture to right)



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Tom