



# TIC MARKET WATCH

3rd Quarter Newsletter '08



**SponsorWatch Book**  
Volume 3 Available in Nov. '08



**1031 PROPERTY WATCH**  
*providing a better view*



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CEO & Principal  
1031PropertyWatch

## How did we get into this mess?

Most of us believe the credit crisis developed behind the housing boom of 2001 to 2007 and the unbridled use of Alt-A or subprime loans. This simply allowed borrowers with lower credit quality to borrow money that, historically, was not available to them. It served as one of the major demand drivers behind the bull market. Having said that, why did banks feel comfortable lowering their lending standards and why were they willing to take on so much risk?

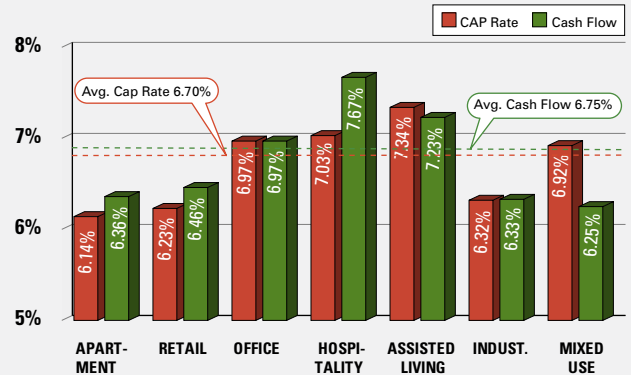
Enter "Credit Default Swaps" (CDS). The CDS market played a critical role in the unfolding financial crisis by providing an "insurance" on mortgages that helped transfer the risk away from the lender, giving them the confidence to lend to people they might not otherwise lend to. It could be argued that if used soberly, CDS contracts serve a very useful function and help financial markets to efficiently transfer credit risk. Since they are contracts rather than securities or insurance, CDS's are easy to create. Often these contracts are done in a one-minute phone conversation or an instant message. Two fundamental aspects of the CDS market are that it is unregulated and that almost nothing is disclosed publicly. The market behind these contracts peaked in 2007 at \$62 trillion and at the end of June 2008 was at \$54.6 trillion.\* Noting the obvious: this is a lot of money. I'm not trying to be political, but I think it is worth mentioning that in 2000, Congress, with the support of Federal Reserve Chairman Greenspan and Treasury Secretary Lawrence Summers, passed a bill prohibiting all federal and most state regulation of CDS and other derivatives.\*

Here is the problem. You don't have to own a mortgage to buy a CDS on it - anyone can place a bet on whether a bond will fail. Christopher Whalen, a managing director of Institutional Risk Analytics said, "To be generous, you could call it an unregulated, uncapitalized insurance market. But really, you would call it a gaming contract."\* The point that I'm trying to make is that people with no money were insuring risks they could not back up. All they had to do was go out of business. Game over. In 2003 Warren Buffett famously called these kind of derivatives "financial weapons of mass destruction."\* Personally, I believe this problem represents a fundamental flaw in the financial system because it gives profit incentives to institutions who have been blinded to the risks they are taking.

The good news is that these events will usher in one of the greatest transfers of wealth in our life time. I believe solutions are possible to solve this credit crisis. As these events get worked out, significant opportunities will become available to invest in good quality real estate.

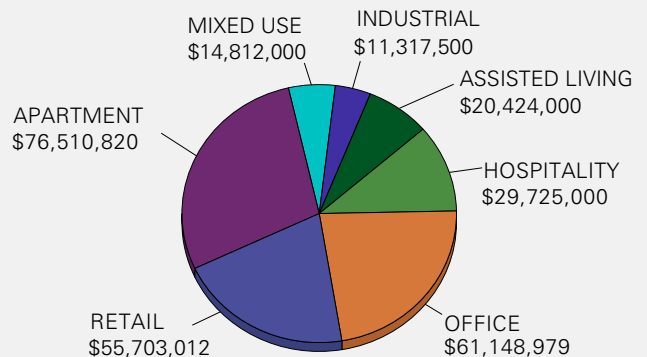
\*CNNMoney.com Special Report America's Money Crisis

## AVERAGE CAP RATE OF PROPERTIES - SOLD 3RD QTR '08



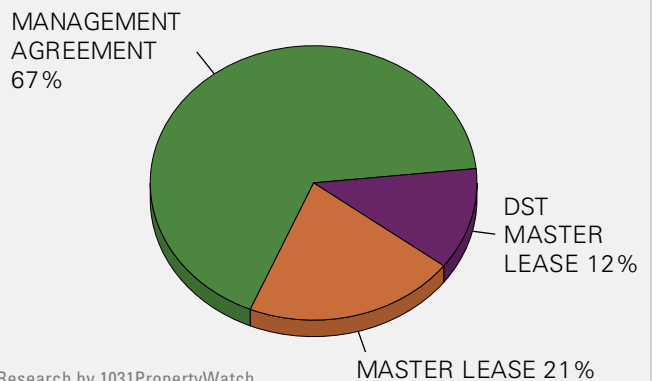
Research by 1031PropertyWatch

## EQUITY RAISE OF PROPERTIES SOLD - 3RD QTR '08



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## MANAGEMENT STRUCTURE - 3RD QTR '08

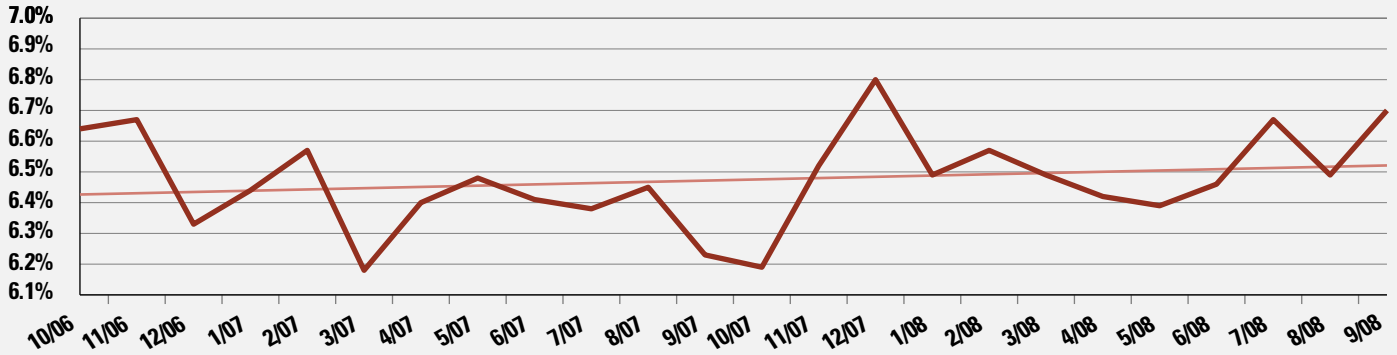


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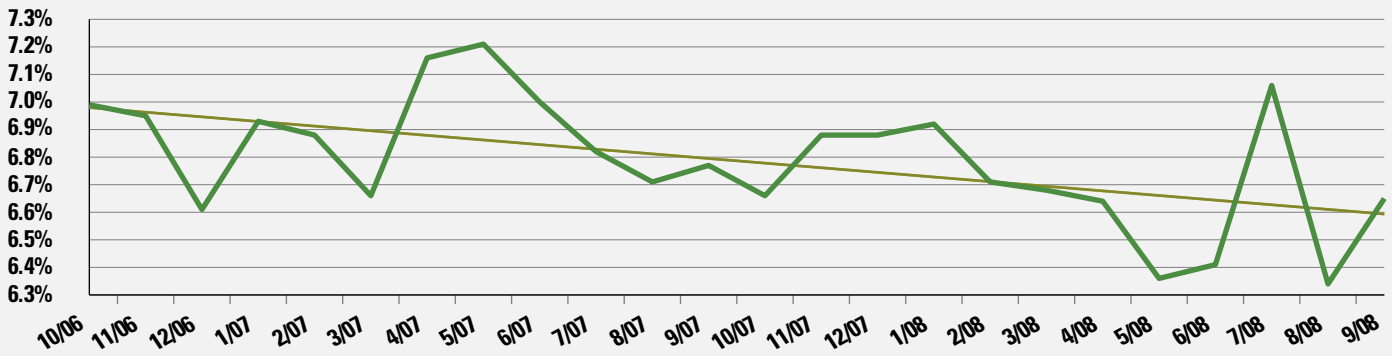
To receive a list of available TIC properties, give us a toll free call at 877-337-1031

### CAP RATE - TRAILING 24 MONTHS



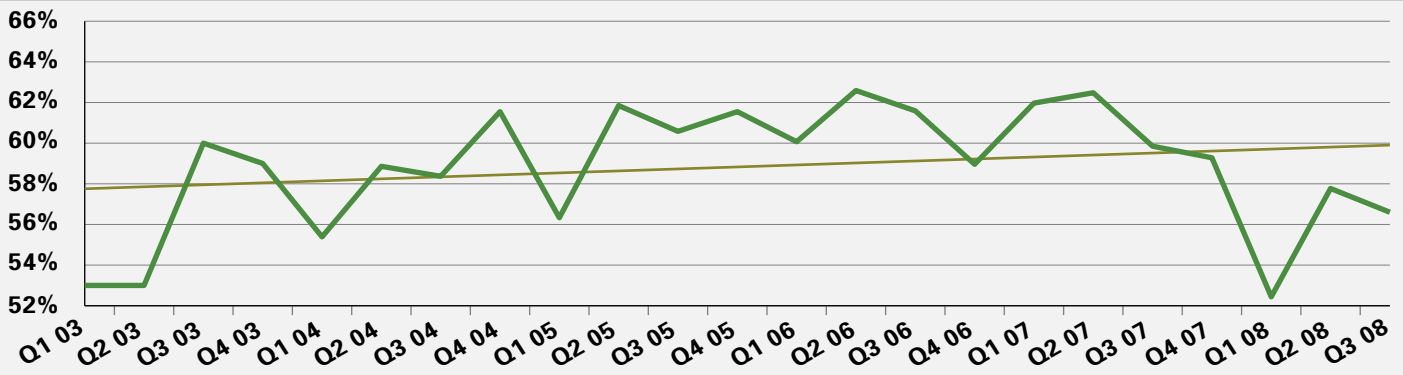
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### CASH FLOW - TRAILING 24 MONTHS



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### LTV HISTORICAL



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LEFT TO RIGHT: JANA CLINTON, JOSEPH TEMPLE, DAVID HAM, SARAH WEST, JOHN TEMPLE, JEREMIAH COLIHAN, CRAIG FERNSLER, IVAN WEST, MARC FLANNERY; KELLI JAYNES  
NOT PICTURED: RON RAITZ

## Meet the Team

We would like to welcome Craig Fernsler, Jeremiah Colihan, David Ham and Marc Flannery to the 1031PropertyWatch Team

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*JTH*

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