

TIC MONTHLY

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Sponsor UpClose: Clearwater Real Estate Investments

Clearwater Real Estate Investments
Eagle, ID



Cochran

assets bought at or near the top of the market or facing refinancing challenges.

“We feel like we’re in a pretty good spot, because we don’t have any of what I’d call baggage,” says Bart Cochran, president of the Eagle, ID-based company, which has a dual focus on TIC and debt offerings.

Clearwater was formed in late 2007 by two sets of partners. One set, Cochran and chief financial officer Chad Hansen had been running a commercial mortgage brokerage firm and also had TIC industry experience, having worked previously for a TIC sponsor. The other partners, development officers and board co-chairs Christopher Benak and Ron Meyer, have business interests including real estate development.

The company put out its first TIC deal in the first quarter of 2008 and the second is currently open to investment. It has also opened its second debt fund and has several other investment products in the works.

As a relatively new sponsor with just two TIC deals in its portfolio — both of which are debt-free land deals — **Clearwater Real Estate Investments** could be considered to be in an enviable position of not having to manage a legacy portfolio of

“Clearwater was the genesis of what we thought was a better way to do business,” Cochran tells TIC Monthly. For example, he says the total sum of the monthly option payments due to its land deal investors is, from the outset of a deal, set aside in an asset management account rather than commingled with the company’s general operating funds. “The only thing those monies are used for is payment to the investors,” Cochran says. “Transparency is a really important thing for us.”

Looking for “a better way to do business” carries over into other areas other than investments. Clearwater has instituted an in-office recycling program and prints marketing materials on recycled paper. On the local community level, the company’s staff gets involved in an employee-planned quarterly philanthropic event, such as volunteering at a food bank.

And for its global community, Cochran says the company looks to make an impact beyond the places where it does business. Clearwater has made 32 microloans around the world and is committed to enabling a clean water project somewhere in the world for each TIC deal it sponsors.

“We have a focus on what we call our sustainability commitment. As a company we have an interest in making an impact on the world outside areas where we are actually in business with people,” Cochran says. “We really believe that abundance is created by giving.”

Current TIC Portfolio:

Clearwater has sponsored two all-cash land TIC deals thus far; the first raised \$7.5 million in equity and the second will have a total equity raise of \$8.75 million. In addition, the company raised a \$20-million note fund last year, and has raised more than \$4 million thus far in a second debt offering.

2009 Projection:

As 2008 was winding down, Cochran expected to do at least one new land deal and one all-cash income property deal in 2009, because that, he believes, is “what demand will call for.” He adds: “It’s safe to say we’ll always have a TIC product available for our investors.

TIC Properties Gone Full Cycle:

None yet

Property Type Focus:

Land deals and the creation of value through the entitlement and development process are familiar territory for Clearwater’s senior management and, says Cochran, “the land deals just really make sense to us today.” But, he says he is starting to see better prospects for the economics of income-producing property deals to make sense in 2009, possibly from a quick-sale liquidation or a foreclosure scenario. “We are seeing some demand for all-cash, stabilized income deals,” he reports, and if Clearwater does an income-producing TIC deal in 2009, that’s the kind of deal the market will likely see.

Regional Focus:

So far the company has stayed close to home in Idaho markets it is particularly familiar with. But the current development portfolio of affiliates includes projects in Arizona, California and Nevada and for all intents and purposes Clearwater is open to the western US, says Cochran. “We feel really comfortable with the West,” he says. “The majority of the growth over the last 10 years in the US is in the West.”

Recent Transactions:

The Preserve at Town Center, a master-planned commercial development north of Boise, ID. The second phase of the development is a land TIC deal with a buyback option.

Securitized Investment:

Yes. Cochran says he is excited about what the possible SEC exemption for real estate brokers who want to sell securitized TIC investments could mean for the industry.



Preserve At Town Center

But he adds that it is his opinion, after working on both sides of the fence, that “securitization is the right structure for tenant-in-common deals. I would look at it as if there was no other alternative.”

Master Lease or Management Agreement:

Clearwater has not used a master lease, and Cochran notes that the company’s name was inspired “by our focus on transparency.”

TIC or DST:

TICs so far, though the company is looking at the DST structure to see if it has application in its business.

Financial Capability & Closings:

Clearwater’s first two TIC deals involved land it already controlled, and Cochran says that will be the case with most deals it puts on the street.

Debt Financing:

None. “Debt’s a scary thing today. People have difficulties securing it,” Cochran notes.

Other investment vehicles:

Clearwater is currently evaluating several new investment products. One will be a financing tool, using an equipment leasing structure, for residential solar panels. Another is examining how the TIC 1031 exchange could be used to investment in a wind farm project. “It’s an exciting thing. Does the world need alternative energies? Yes,” Cochran says.

In addition, the company is working on a growth and opportunity REIT, using the “cash is king” concept to go after stalled development projects, foreclosures, REOs and other distressed projects. “We can build an inventory of properties that the REIT controls,” says Cochran. “An exit strategy could be the TIC market.” The REIT is expected to have a \$25 million offering with a greenshoe that would double the figure to \$50 million.