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For Ray Wirta, Thinking Small May Be Next Big Thing

CB Richard Ellis' Vice Chairman Starts New Venture To Bring Big Commercial Real Estate Opportunities to Small Investors

Ray Wirta, former CEO and current vice chairman of CB Richard Ellis, the world's largest real estate services firm, is thinking small these days.

Wirta has created a proprietary new web-based system through which smaller investors can own commercial real estate property. By small, we're talking investments of \$2,500 - amounts even a journalist could afford.

Wirta, 63, has more than 40 years of real estate experience. His Web-based system is being made outside his affiliation with CB Richard Ellis through Nexregen, a company Wirta founded. Ironically for Wirta, who helped build CB Richard Ellis into the largest brokerage firm anywhere, Nexregen collects no brokerage fees.

How it Works

Smaller investors can purchase securities representing ownership in income-generating property for as little as \$2,500.

"Unlike investing in residential real estate, commercial real estate pays you in two ways," Wirta said. "First, [in] quarterly checks for as long as you own the property. Second, owners receive a check when the property is sold."

"There is a growing market of younger investors that want nontraditional yet profitable ways to invest their money," said Wirta. "Nexregen is the first company to make an opportunity like this available to the public online."

Historically, smaller investors interested in buying real estate were limited to purchasing a portfolio of properties through mutual funds or public or private real estate investment trusts (REITs).

Through Nexregen, registered users will be able to view featured properties for sale online and download vital information such as property descriptions, site plans, photos, aerial views, local demographics, prospecti and tenant rosters.

They can also drive by the site to see it for themselves.

The company's name, Nexregen, was developed from a combination of words that mean the "next real estate generation of investors."

First Deal

Wirta is launching his first commercial real estate investment opportunity within the Firewheel area of Garland, TX.

Nexregen formed a limited partnership last May to purchase the 148,780-square-foot Firewheel Village Shopping Center at 3174-3178 Lavon Drive (Hwy 78) in Garland. The property is fully leased to six

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retailers with Hobby Lobby leasing or guaranteeing 57% of the space. The average rent is \$6.58 per square foot a year.

The Nexregen entity paid \$13.34 million for the property or about \$91 per square foot.

Now Nexregen has formed a Texas real estate investment trust, which has filed an offering with the Texas Secretary of State to sell 275,000 common shares in the trust at \$10 apiece with a minimum investment of \$2,500 seeking to raise a total of \$2.75 million.

CoStar had the opportunity to discuss the venture with Wirta.

CoStar Advisor: What role does the growing transparency of real estate information and the role of the Web have in the start up of this venture?

Wirta: The roles of real estate information transparency and the Web have everything to do with Nexregen. One of Nexregen's fundamental tenets is that via the availability of information on the Web, investors can make informed investment decisions on their own, without the advice of commission-based financial planners and broker-dealers.

CoStar Advisor: Is there a reason that this venture is starting in Texas, and if yes, what is that reason? Does the concept work in other states, and when might other opportunities come in other markets?

Wirta: Our initial offering was intended for a populous state with ample real estate investment opportunities and a pro business-development state securities review process. Texas has a lot of citizens who are potential investors; Texas has a well-developed commercial real estate investment marketplace, and we were able to successfully register the offering with the Texas State Securities Board.

The Nexregen concept will work with other states. However, our goal is to take the Nexregen concept nationwide with an SEC-registered public offering in 2008.

CoStar Advisor: Obviously you have the Rolodex to raise money from any type of investor internationally, so why target the small investor?

Wirta: The small investor market is underserved and we see a tremendous opportunity to access this marketplace via a medium like Nexregen. In our opinion all investors, large and small, should have income-producing real estate in their investment portfolio.

CoStar Advisor: The marketing cost to raise money from several investors is obviously higher than from one or two investors. How does this cost translate into a small investor's return on an opportunity through Nexregen?

Wirta: Our marketing costs are not materially higher. Reimbursement of offering and organization expenses is capped at 3% of the offering. Additionally, since our method of fundraising is via advertising and our Web site at www.nexregen.com, we do not incur expenses associated with sales commissions payable to financial intermediaries such as financial planners, broker-dealers and stockbrokers.

We intend to leverage our Nexregen acquisitions. With the effects of leverage, the 3% expense reimbursement noted above is actually less than 1% of the purchase price of our first property, Firewheel Village in Garland.

Long and short, the cost to raise money utilizing the Nexregen method does not have a material effect on the small investor's investment return when compared to an investment funded by fewer larger investors.

CoStar Advisor: What is the advantage of this type of investment for the small investor? Why put \$2,500 directly into a commercial real estate property rather than \$2,500 into a portfolio of properties by investing in a REIT or real estate mutual fund?

Wirta: Nexregen offers the smaller individual investor the opportunity to make an investment decision based upon a specific, local, tangible property. Thus, the investor has a choice: invest in what they know and can see, or invest in pool of properties with less individual property knowledge.

From our perspective, an investor might still opt for the portfolio of properties - but at least we offered them an alternative. We believe when given a choice, an investor will be more inclined to invest in a property that they specifically have analyzed and can understand.

CoStar Advisor: How does this opportunity differ from a tenant-in-common investment?

Wirta: Tenant-in-common (TIC) investments take advantage of the tax codes to allow investors to defer taxable gains on the sale of real estate. TIC investing is a complicated process involving investors' tax advisors. Typically, investment sponsors require that the minimum TIC investment be in the hundreds of thousands of dollars.

Nexregen's minimum investment is \$2,500. So, there really is not an applicable apples-to-apples comparison.

However, Nexregen is also open to TIC investors with a minimum investment amount of \$250,000.

CoStar Advisor: As a security holder, how will the small investor be able to track the status of their investment or liquidate their investment?

Wirta: Nexregen investors will be able to track their investment via www.nexregen.com. All monthly financial reports will be available to existing investors on our web site; as will quarterly summary reports.

We are offering an unconditional one-year money-back guarantee to our investors, which will provide a liquidity alternative for investors with second thoughts or changed financial circumstances. Our overall anticipated investment time frame is from three to seven years, after which the property will be sold and proceeds distributed. After the first year, we will assist investors seeking to liquidate their investment by advising our other investors of the investment availability.