

The Business Journal of Milwaukee - January 10, 2005
<http://milwaukee.bizjournals.com/milwaukee/stories/2005/01/10/focus4.html>

IN DEPTH: REAL ESTATE & DEVELOPMENT

From the January 7, 2005 print edition

Real estate investment options expanding

National firms target Milwaukee investors for TIC transactions

Pete Millard

Milwaukee real estate investors anxious to diversify their portfolios are being recruited by national firms to take part in tenancy-in-common exchange transactions that promise stable returns, capital gains tax benefits and none of the headaches of active property management.

Tenancy-in-common (TIC) investments have developed as an offshoot of Internal Revenue Service 1031 real estate exchanges, which allow property owners to sell assets and then reinvest in similar or like-kind properties without paying capital gains taxes.

In a TIC investment, an individual investor who sells a property can pool the capital from the sale with up to 34 other investors to acquire a property. A company known as a TIC sponsor will work to create a pool of like-minded investors and find a suitable property within the time frame designated by the IRS to meet the tax deferral requirements.

The tenancy-in-common real estate market is expected to more than double in 2005.

"There is a lot of money looking for a home in real estate and our challenge is to find quality investments," said Joe Wagner, a Milwaukee partner of the Minneapolis-based Geneva Organization, a company that sponsors TIC investments.

Wagner opened a Milwaukee branch office of Geneva in December. He previously was a partner at Inland Madison, a property management subsidiary of Inland Cos., Milwaukee.

"Tenancy-in-common real estate deals are driven by the desire of taxpayers to take advantage of tax-free exchanges," said Carl Anderson, a certified public accountant and partner at Virchow Krause & Co.'s Milwaukee office.

The Geneva Organization is a 20-year-old real estate investment firm that only recently branched out into tenancy-in-common (TIC) real estate investments.

IRS ruling set the pace

An IRS ruling two years ago set the tenancy-in-common investment craze in motion, said John Sikora, a Milwaukee tax lawyer with Weiss Berzowski Brady L.L.P. who works with clients who have invested in tenancy-in-common projects.

"Fighting through the tax rules for TIC investors is not the most difficult aspect of putting deals together," Sikora said. "The difficulty is finding suitable replacement properties."

That's where Geneva and other TIC sponsoring companies come in. Geneva's primary business is to identify properties and then pool investors who can acquire the real estate. While investors can get into some deals for as little as \$100,000, minimum required stakes of \$250,000 and \$500,000 are more common, according to a newsletter from Omni Brokerage Inc., Salt Lake City, Utah, a TIC and 1031 exchange consulting firm.

Investors must identify the new exchange properties within 45 days of section 1031 tenants-in-common sale and close within 180 days to qualify for the capital gains tax break, Wagner said.

Geneva is the first tenancy-in-common firm to establish an office in Milwaukee, he said. However, several companies are promoting their tenancy-in-common real estate deals to Milwaukee investors.

"Tenancy-in-common sponsors will become more active real estate buyers in secondary markets like Milwaukee as long as interest rates remain favorable," said William Bonifas, an executive vice president of The Polacheck Co., Milwaukee.

Many of the TIC-sponsor companies have a hard time competing in tier-one real estate markets like Chicago because the pricing of properties is too aggressive, said Bonifas.

"As more investors learn more about the tenancy-in-common options, we think this will become the preferred way to get into the real estate market," Wagner said.

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