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TIC investments heat up real estate market

Christine Perez
Staff Writer

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A real estate strategy that takes advantage of a 2002 change to the tax code continues to catch fire with investors and has spurred the launch of a new Dallas-based company. Called tenant-in-common, or TIC investments, the tactic allows individuals to buy fractional ownerships in specific properties.

TIC buys often are made as part of 1031-exchanges, which allow property owners to defer gains made on the sale of real estate if the proceeds are used to acquire other buildings. Rarely used just three years ago, local experts say TIC transactions in the

United States will approach \$2.5 billion in 2004.

"Obviously, the growth of this industry is significant," said Denny Landers, president and CEO of Gaedeke Landers L.L.C.

In September, Landers will leave the firm he co-founded 10 years ago with German investor Werner Gaedeke to run his new company, called Kodiak Capital Partners, which will focus on fractional-ownership deals. Kodiak will pursue office, retail and industrial buys of \$10 million to \$50 million in size, likely in the Texas, Arizona, Oklahoma, Arkansas,



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Louisiana and Florida markets. The goal is to do six transactions in the first 12 months, with a total volume in the \$100 million to \$125 million range.

The TIC industry has great appeal, Landers said.

"It's almost like an emerging market, and you don't find that very often in real estate," he said. "When you get into it you find it's very complicated. This provides a barrier to entry, because not everyone wants to be in the highly regulated syndication business."

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The Internal Revenue Service sets out 15 requirements for TIC transactions, said Kevin Thomason, senior partner in the tax section of the Dallas law firm Thompson & Knight. Once the IRS came forward with specific standards, TIC deals began to take off.

According to Thomason, in 2001, before the IRS issued rules, about \$167 million was raised for TIC deals. This year it's expected to approach \$2.5 billion.

"It's the hottest thing going, for a lot of reasons," he said. "It's a way for sellers to get properties sold, and for buyers to get deferred treatment and also get access to quality properties and management they couldn't otherwise get. Properties get marked up by intermediate parties, but everybody makes some money in the process."

Over the last several years, the number of sponsoring companies getting into the TIC business also has mushroomed, Thomason said. Dallas-based Behringer Harvard Funds, formed in 2002 by investor Robert Behringer, is among them.

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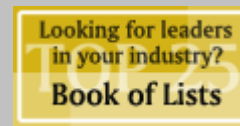
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