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Tenants-in-Common Investments Are Booming

by Joe Wagner,
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The inability to defer taxes has long been one of the main issues for real estate investors looking to sell their existing portfolios. For years the only viable alternative was provided in Internal Revenue code section 1031. Simply stated, 1031 exchanges are tools whereby investors selling out of one real-estate asset can avoid substantial income tax liability by re-investing the sale proceeds in a similar or "like kind" property. The problem then became the ability for the seller to identify a "like-kind" property in the time frame required.

Since 2001, an attractive alternative has developed as an offshoot to the 1031 exchange. Under a Tenants-in-Common (TIC) investment, an individual investor selling a property can pool his/her capital from the sale with as many as 35 other investors to acquire a property. For many investors, finding the appropriate partners and the property in the designated IRS time frame is cumbersome and difficult. TIC sponsors have emerged to take on the role of pooling the needed investors, identifying appropriate properties, and overcoming many of the hurdles that stopped the traditional 1031 exchanges. Due to the relative newness of TIC investing, many potential investors have numerous questions.

What Does the TIC Sponsor Do?

The TIC sponsor will identify the property, negotiate the purchase contract, arrange financing, complete the closing, and distribute cash flow to the partners. A good TIC sponsor eliminates the time constraint hurdle in a traditional 1031 exchange by continually identifying properties for potential TIC investors and maintaining an inventory for investors to consider. Investors can basically fill out an application, choose where and what they would like to invest in, and write out a check.

Is This '80s Syndication?

Unlike many of the syndications of the 1980s, which were mainly created to produce short-term losses for income tax purposes, TICs are driven by true real estate fundamentals. Location, occupancy, cash flows, and the potential for appreciation are all essential characteristics in a TIC transaction. The sponsor usually is investing alongside with the investors and receives no preferred return.

What Are the Exit Strategies?

One of the most common misconcep-tions is that there is no way out of a TIC. Today there are at least four potential ways for an investor to sell his/her investment.

1. The TIC sponsor will usually have a buy-back agreement at fair market value.
2. Your current TIC partners may buy your share.
3. The TIC sponsor will find new investors to buy your share.
4. Sell your share on your own to any variety of prospective owners.

What Are the TIC Advantages?

Benefit from multiple tax advantages, including the ability to defer capital gains taxes until death or sale of TIC interest.

Profits can be locked in by selling out of higher-risk appreciated markets and then reinvesting in safer growth markets.

Since you are pooling your funds the ability to buy larger, safer, and higher-quality investments is very possible.

The TIC's interests are typically managed by real-estate professionals. The sponsors have a vested interest in the performance of the properties. The investor can relax and allow them to maintain the buildings and carry out the management duties.

Because the TIC's sponsors have local management responsibilities and the ability to split your money among several properties, a TIC investor should feel comfortable investing in several different markets and asset classes.

It is easier to split cash flow then it is to split buildings, simplifying the TIC investor's estate planning considerably.

TIC investments typically have a much lower minimum investment than does sole ownership and allow the sponsor to tailor to the investor's equity and debt requirements.
TIC investing is virtually exploding across the country. When they were first introduced in 2001, about $100 million was invested via the TIC method. Today the estimates for completed TIC investments range from $3 to $6 billion. The Geneva Organization, a TIC sponsor in Minneapolis, is currently representing an Ashley Furniture store in Franklin and a senior living facility in Wausau as TIC investments. Geneva claims to be targeting $50 million for other potential investments in Wisconsin. ■

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