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Trendsetter, Upland pursue 'next big thing'

Scott D. Smith
Staff Reporter

Real estate innovator Duane Lund is back in the game with what he believes is the next big thing in real estate investing.

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After a few years with a low profile in the Twin Cities real estate market, Lund expects his real estate wealth-management firm, Minneapolis-based The Geneva Organization, to facilitate the purchase of at least \$100 million in real estate this year.

To achieve that goal, Lund's firm has joined with Minneapolis-based Upland Real Estate Group to capitalize on a hot trend in real estate investing -- tenancy-in-common partnerships (TICs), which allow up to 35 partners to purchase real estate and receive tax advantages. In February, the two firms launched Safe Harbor Properties Exchange, a conduit for the TICs.

"Duane is doing what he's always done, which is raise money in the capital market in real estate," said Michael Houge, CEO of Upland, who has known Lund for nearly 20 years.

Lund helped usher the Twin Cities into the era of real estate investment

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trusts (REITs) when he and others formed Chicago-based First Industrial Realty Trust in 1994. He's had a low profile in real estate circles in recent years as the CEO of Minnetonka-based Stonehaven Realty Trust. In July, Lund severed ties to Stonehaven in a friendly transition. The REIT moved to Cleveland.

Lund is now free from a noncompete clause and sees great opportunity in the new venture.

Houge found a niche for his brokerage firm, Upland, by selling single-tenant properties that house such stable operations as Walgreens stores and KinderCare Learning Centers. Upland does so through a Web site it runs that attracts buyers from across the nation. The firm has done more than \$450 million in sales of these so-called net-lease properties. "What Duane doesn't have is the sales side," Houge said. "Our primary job is to sell the TICs."

TICs have grown in popularity since an IRS ruling in March 2002 clarified the rules for establishing them.

Last year, TICs purchased about \$800 million in property, and they're expected to purchase \$3 billion to \$5 billion this year, Houge said.

The partnerships are attractive to property owners seeking what is called a 1031 exchange, which allows them to avoid capital-gains taxes from a property sale by rolling the proceeds into another property within 45 days. Given the time constraints, it's often hard to find a desirable replacement property.

TICs provide such buyers an escape, since they can buy a percentage of a property and still avoid taxes. TICs also let buyers invest in properties such as large office buildings that were previously out of reach. TICs sponsored by Geneva and Upland have a minimum investment threshold of \$100,000.

"I just see that there is a tremendous amount of private capital going into real estate," Lund said. In 2002, there were about \$40 billion to \$50 billion in 1031 exchanges, with \$10 billion to \$25 billion that couldn't get done, Lund said.

TICs are not new, but their popularity is. St. Paul-based AEI Fund Management Inc., a private real estate investment fund, pioneered the first TIC transaction in 1992. But "the growth has been exponential in the last three years," said Rick Vitale, executive vice president of AEI.

Tics will become a fairly common transaction, said Greg Miller, a developer and president of Eagan-based Interstate Partners, which recently sold a 62,000-square-foot office building in Apple Valley to a TIC sponsored by Geneva and Upland. "The essence is that 1031 investors can now access a whole type of property that they were locked out of before," Miller said.

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