MINNESOTA REJournals.com
REAL ESTATE JOURNAL

VOLUME 19 NUMBER 13 July, 2004

What is Tenants-in-Common real estate ownership?

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PHOTO COURTESY OF FOR 1031 LLC

The Quorum Building, located in Addison, Texas is an example of a TIC building.

Simply put, Tenants-in-Common (TIC) ownership is an undivided, fractional interest in an entire property. As a TIC owner, you share in your percentage of the rental income, depreciation deduction and potential property appreciation. A TIC strategy allows the average real estate buyer to participate in ownership of an institutional-grade property, which might not otherwise be possible. For example, a real estate buyer with $500,000 could purchase a 10% interest in a $5 million property. You can now buy an undivided, fractional interest in a large commercial property along with other unrelated investors, not as limited partners, but as individual deeded owners. Each TIC owner receives an individual deed at closing for his or her undivided, fractional interest in the property. Each individual owner has a majority of the same rights that a sole owner of the entire property would have.

The typical investment into the whole building, income-producing real estate market generally begins at about $1 million, preventing most 1031 exchange owners from participating in this market. TIC ownership, on the other hand, allows the smaller, average owner to participate with others in the ownership of larger properties with a minimum investment as low as $50,000.

With the low minimum equity requirements, you are able to invest in higher quality, institutional-grade properties and you can diversify by purchasing or exchanging into different geographic locations and property types. By purchasing these institutional-grade properties, the TIC owner has an interest in properties that can attract tenants who are more stable and financially stronger than is possible for the individual landlord. As a TIC owner, you share in your portion of the net income, tax benefits and potential appreciation. Not only does TIC ownership provide smaller investors with greater access to better buildings, but buyers avoid the day-to-day headaches associated with property management. Investors can replace tenants, toilets and trash with tennis, travel and time off.

The FOR 1031 TIC structure is designed with simplicity and speed in mind. The TIC property is usually set up with a non-recourse whole property loan which can be assumed without payment of loan assumption fees. You are provided with all the due diligence information to help you make an informed decision. Once you are completely satisfied with your own due diligence, the closing of the property can occur in as little as a few days.

1031 exchangers often experience difficulty in finding adequate replacement property within the 45 day identification period and the 180 day closing period. A TIC investment significantly reduces these risks because it comes with financing and management already in place.

The recent popularity of TIC ownership has been spurred in a large part by Revenue Procedure 2002-22. Prior to the ruling, there were legitimate concerns whether a TIC interest would be considered a real estate interest suitable for a 1031 exchange, or an interest in a partnership or other non real estate interest. Rev. Proc. 2002-22 provided guidance on undivided TIC ownership as part of a tax-deferred exchange.