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EXCLUSIVE REPORTS

From the December 31, 2004 print edition

Real estate for wealth

Firm expands to Milwaukee seeking investors for tenancy-in-common deals

Pete Millard

The Geneva Organization has arrived in Milwaukee and is looking for well-heeled clients who want to diversify their real estate portfolios.

The

Minneapolis-based real estate wealth management firm has opened a Milwaukee office to cater to wealthy investors interested in putting their money to work in office, industrial, retail and multifamily properties.

"Our expertise is not bricks and mortar. It is financing and packaging investors," said Joe Wagner, a Geneva principal who left his job with Inland Madison, a subsidiary of Inland Cos., Dec. 1 to open Geneva's Milwaukee-area office, 875 E. Wisconsin Ave.

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. The company was founded by Duane Lund, a University of Wisconsin-Madison business school graduate who is originally from Cambridge.

Tenancy-in-common real estate investments are offshoots of 1031 real estate exchanges. Section 1031 of the Internal Revenue Service Code allows real estate sellers to defer capital gains taxes on the sale of real property, provided that the seller reinvests the sale proceeds in a similar property. For tax purposes, the sale is treated as an exchange rather than a sale.

An IRS ruling two years ago set the tenancy-in-common investment craze in motion, said a Milwaukee tax lawyer who works with clients who have invested in tenancy-in-common projects and who did not want to be identified. The IRS said in the ruling an individual investor selling a property can pool the capital from the sale with as many as 35 other investors to acquire a like-kind property.

Geneva's primary business is to identify properties and then pool

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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, said the Milwaukee tax lawyer.

Growth in the tenancy-in-common market has been explosive. Wagner said the industry will do \$3 billion in tenancy-in-common sales in 2003 -- triple the sales volume of 2002.

Transaction pipeline

Geneva was involved in \$100 million worth of tenancy-in-common sales in 2004 and already has \$120 million in the pipeline for 2005. Wagner expects to exceed \$300 million in 2005.

Geneva is set up as a tenancy-in-common sponsor to find the appropriate partners and property that fit the IRS guidelines and timelines. Investors must identify the new exchange properties within 45 days of the sale and close within 180 days to qualify for the capital gains tax break, said Wagner.

Prior opening a Milwaukee office, the Minneapolis company acquired the Ashley Furniture Home Store at 6801 S. 27th St., Franklin, in February 2004. The company paid \$4.2 million for the 116,000-square-foot retail building. Ashley Furniture had sales of \$1.7 billion in 2003 at 105 retail centers in the United States.

Tenancy-in-common sponsors are becoming more active real estate buyers in secondary markets like Milwaukee, said William Bonifas, an executive vice president of The Polacheck Co., Milwaukee.

"There are more properties readily available in markets like Milwaukee for TIC sponsors," said Bonifas. "It's hard for them to break into Chicago because pricing in big markets is too aggressive."

In late November, Meridian, Idaho, real estate investment company DBSI Group of Companies completed a tenancy-in-common transaction in Brookfield by acquiring two buildings at 400 and 440 N. Executive Drive on behalf of eight investors. DBSI purchased the Brookfield property, which included 16 acres, for \$15.4 million.

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