

Satisfying a 1031 Exchange with Co-ownership

Tenants-in-Common; a Simplified Lifestyle

By Ricardo E. Jobin



Deferred capital gains taxes on the sale of investment property is the objective of many savvy investors. Additionally, a steady stream of monthly income and renewed deductions are also important. What if all this could be accomplished with no more day-to-

day management hassles? Welcome to the Tenants-in-Common Simplified Lifestyle.

By using The "Tenant-In-Common" (TIC) 1031 exchange one can now sell investment property, defer all capital gains taxes and purchase large well-thought-out real estate. These properties are leased by large credit-rated tenants with triple-net leases and offer non-recourse debt. This method of exchange is offered through the securities industry.

The process is easier than you think. Select an accommodator to escrow your dollars at closing and then seek out a reputable Securities Broker who has an established relationship with providers of TIC properties.

When this industry began in the mid 1990's there were only a hand full of sponsors providing TIC properties. As a result of an IRS ruling in 2002 (Revision Procedure 2002-22) that number has steadily grown to well over 50. An informal survey conducted at the National TICA (Tenant-in-Common Association) symposium revealed that 75% of the people now in the TIC industry entered as a result of the IRS ruling in 2002.

1031 Exchange Alternatives entered the industry in 1998. Given that industry sales were \$100 million in 2001 and have grown to \$2 billion in 2004, the requisite experience level is absolutely critical when selecting your securities broker.

As the exchanger, you have 45 days beginning with the day you close on your "relinquished" property to identify with your accommodator, your new Like Kind "replacement" property. You then have another 135

days, for a grand total of 180 days from the date of your original closing in which to complete the purchase of that replacement property. With the Tenant-In-Common (TIC), a smaller investor can step up and participate in a larger, Wall-Street-type property, usually too big for a single individual to handle.

You will become a co-owner and receive a fractional interest of a large project. Typically there might be ten to thirty-five TIC participants, each owning their proportionate interest. It is not a partnership, trust or LLC. It is direct ownership and you receive your own deed.

Be prepared to put your confidence in the real estate management company that handles the purchase and operates the property; for all practical purposes you do not have hands-on control. You give the property managers power to manage the asset; this is the objective of many investors thus simplifying their lives. It is not a put and take account. Once you purchase, be prepared for a long-term commitment. Even though you have an option to sell your interest, these properties are typically poised for resale in four to seven years after purchase.

The reality for investors wishing to complete a §1031 is that there is a shortage of replacement properties available that will meet both your debt and equity requirements. The TIC option however, provides you with a place to park your tax-deferred proceeds without the typical problems. Locating the single, perfect replacement property, at the right price and location is a daunting task at best. Employing a securities broker is a great way to achieve your investment goals and will start you on the path of simplifying your lifestyle.

Ricardo E. Jobin is Senior Vice President of 1031 Exchange Alternatives(tm). Ricardo attained an MBA in 2000 from Davenport University and served as a board member for The Strategy Forum of Detroit. He is a member of TICA, the national Tenant-in-Common Association and has first hand experience in the acquisition and management of commercial real estate. Ricardo is a licensed securities agent and a registered representative of SIGMA Financial Corporation, member of NASD & SIPC.