



Tenants in Common (TIC)

What is a Tenants in Common (TIC)?

- In a Tenants in Common investment, multiple owners come together to purchase a large, institutional-grade, Tenants in Common property, not as limited partners, but as individual owners. Each co-owner receives an individual deed at closing for his or her own undivided fractional interest in the entire property, has all the same rights as a single owner. Each owner receives his or her proportional share of the income, tax benefits, and appreciation of the property accordingly. In the event of the owner's death, title passes to the estate of the deceased owner. The person named by the estate assumes their proportionate title to the property and becomes the new tenant in common with the surviving tenants in common.

Does purchasing a TIC qualify as a 1031 Tax Deferred Exchange?

- Yes, in March 2002, the IRS issued Revenue Procedure 2002-22, 1 C.B. 733 ("Rev. Proc. 2002-22"), which essentially laid out the guidelines for tenants in common investments to qualify as an eligible property for purposes of a 1031 exchange. We do recommend, however, that all potential exchangers speak with a tax professional to see if 1031 Tenants in Common property exchange transactions would be a suitable tax solution for their individual situation.

Who should consider a 1031 TIC Exchange?

- Typically someone who ---
 - Wishes to greatly reduce their management responsibilities
 - Has left over funds (boot) from another direct 1031 investment
 - Does not want to pay capital gains or depreciation recapture taxes
 - Seeks Grade "A" properties with large, well financed tenants
 - Cannot find suitable direct property in the 45 day period
 - Desires to remain in the real estate market for income and potential of capital gains
 - Desires a higher degree of diversification both in properties and regions.

What is the role of the TIC Exchange "Sponsor"?

- Tenants in Common investment agreements are typically created and structured by "sponsors". Major decisions regarding the investment property are determined by vote of the tenants in common owners. In relation to the owners, the Tenants in Common Sponsors are responsible for the following: 1) finding a property, 2) successfully putting it under contract, 3) performing research, 4) acquiring financing, 5) completing Tenants in Common sales, 6) arranging for property management services, 7) when available, sending monthly payments to Tenants in Common owners, 8) providing owners with annual summary statements, 9) initiating the sale of the property and 10) distributing the proceeds among owners.

What is an "Accredited Investor"?

- Virtually all real estate investments have inherent risks and it is possible for investors to lose their money. As such, the SEC has established suitability standards to ensure that participants in TIC transactions have been pre-qualified to have financial substance and knowledge, and are considered to be "accredited". To be considered accredited, an investor must have a minimum \$1 million net worth, or have earned \$200,000 per year for the past two consecutive years if single, or \$300,000 per year if filing a joint tax return. If the party is an entity, it must have a \$5 million net worth or each of the stockholders, partners, or members must meet the accredited standards separately.

What is the typical profile, price, and location of a TIC property?

- Tenants in Common properties are generally institutional-grade 1031 Exchange Properties, such as an office building, a drug or grocery anchored shopping center, multifamily apartment community, warehouse/distribution, or industrial property. The typical profile of a Tenants in Common Property is fully or partially leased, stable properties, “B+” to “A” properties in major metropolitan markets. Property values can range anywhere from \$5 million to \$150+ million. Property locations vary and are subject to supply and availability on a national basis.

What is the typical number of TIC investors and what is the usual investment amount?

- While IRS guidelines (Revenue Procedure 2002-22) limit the number of investors to a maximum of 35 per property, this is typically driven by the lenders and generally ranges between 15-25. Minimum investments are determined by the total amount of ownership equity being sold and the number of ownership interest the lender allows. Minimum investments are determined by the total amount of equity being raised for an investment and the number of investors the lender allows. Minimum investments can start as low as \$100,000 and can reach as high as \$1,700,000 or higher depending on the offering documents. Typically, however, Tenants in Common minimum investments tend to range from \$250,000 to \$600,000.

How are Tenants in Common properties made available?

- Tenants in Common offerings are offered through Registered TIC Representatives who are appropriately registered through and associated with an actively registered broker/dealer who is a member of the NASD (National Association of Securities Dealers). While there are some 1031 TIC sales occurring outside of the SEC supervision, there is quite a bit of controversy over these properties currently and there may be a movement by the SEC to pull these properties under their regulatory umbrella. Offerings are sold by a Private Placement Memorandum only, and are offered solely to pre-qualified Accredited Investors.