

TICs Provide Diversification

In today's real estate marketplace, investors and real estate professionals are becoming more sophisticated. The 1031 or like-kind exchange has provided an avenue for numerous investors to capitalize on the selling and purchasing of a variety of investment properties. As investors make decisions for real estate investment or re-investment, they should consider the options for diversification. For example, investors can select from residential income property, commercial property that includes office, retail, multifamily, industrial/flex, ground leases or even raw land.

One way for real estate investors to get into larger commercial properties is with tenant-in-common (TIC) ownership. TIC ownership allows buyers to purchase an undivided, fractional interest in an entire property. TIC ownership is fee-simple ownership; and through TIC ownership, the average real estate buyer can participate in ownership of an institutional-grade property that might not otherwise be possible. TIC ownership can greatly assist real estate investors with their portfolio diversification since it provides easier access to properties throughout the United States. This opportunity is pertinent to investors in the West who have benefited from highly appreciated real estate, even though rent payments have not kept pace and resulted in stagnant equity. Investors can 1031 exchange their properties, which have increased in value, and reinvest into an income-producing property in a TIC structure.

Some of the key benefits enjoyed by TIC owners include:

Access to higher-grade properties. The average buyer is able to enjoy the ownership in an institutional-type property.

Deeded interest. TIC owners receive a deeded interest that can be transferred by gift, sale, inheritance, assignment, etc.

Simple management. Through a third party contract of management or lease arrangement, the TIC owners are removed from most of the day-to-day hassles of property management and simply receive a monthly rental income check.

Diversification of a portfolio also includes property type. Land is an option for real estate investors who don't need to maximize monthly income, yet want to benefit from the appreciation potential. Historically, countless fortunes have been realized by individuals who understood the concept of buying the land in the path of growth. Unfortunately, undeveloped or raw land investment opportunities have simply not existed often for modest-sized investments. Until now.

Through TIC ownership, an untapped market is now accessible and the average person is able to purchase undivided TIC interests in raw land at the pre-development stage. This strategy can also be used for a 1031 exchange, direct investment, or even using self-directed IRA funds.

Applying the strategy of TIC ownership to undeveloped land changes the land market in many important ways. The numbers, scale and dollar volumes of undeveloped land being bought and sold will increase significantly.

Beyond the type of investment or location, the most basic research needed by a real estate professional and their client is the principal (or sponsor) of the TIC property. With the tremendous growth of the TIC market, there has been a huge increase (about 800% since 2004) in the number of companies offering real estate through TIC ownership. Hence, the need to evaluate the TIC provider is just as critical as researching the property investment. Before selecting potential properties, real estate professionals and their clients should research real estate principals to find the one or two that best match the needs of the investor. The following are a few questions to ask of a provider:

How long have you been in business?

Have your real estate holdings endured a down cycle?

What has been the performance on every property?

Have you had to a cash call or a time when payments to owners have been reduced or suspended?

Has the primary owner of the TIC provider/organization ever been involved in a foreclosure, even under another business name?

What kind of due diligence do you conduct on a property? Are you willing to share that with your potential buyers?

These questions are just a start. TICs can provide numerous benefits like diversification to an investment portfolio. But it is important to remember that, in a crowded TIC market, real estate professionals and their clients need to conduct thorough due diligence and weigh all of their options.