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SIZE MATTERS

When Purchasing A TIC (Tenant-In-Common) Interest

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One of the big rage in real estate these days are TIC interests. TIC stands for "tenant-in-common," which is the legal title that these types of interests hold title to property. TIC interests are program investments similar to the partnership tax shelters of the 1970s and '80s, in that they pull together a group of investors to purchase one large property.



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There are two major reasons for this great surge in these type of investments: the first is that the IRS approved TICs as suitable replacement properties for 1031 exchanges in 2002. Prior to that date it was uncertain whether a TIC interest could be purchased as the replacement for a 1031 exchange because their structure so closely resembles a partnership. As a result investors were wary of them. Today, however, approximately 70% of the TIC interests are purchased by such investors.

The second reason for their popularity is their desirability to aging baby boomers. Because a TIC interest lets them own a piece of a property large enough for a professional management team to care for, the busy investors is relieved of that chore. It also allows them to invest in large multi-million dollar properties that would otherwise be beyond their means. Approximately 30% of the TIC interests are currently purchased by investors as an alternative to other types of real estate investments such as Real Estate Investment Trusts (or "REITS"), which are similar to mutual funds, but only own real estate.

Because the TIC industry is so new, it still has a number of rough edges that you need to watch out for. The most important thing to watch for is the size of the sponsor. Approximately 10% of the sponsors (people or companies that put together a TIC offering) are large companies that have multiple properties available for purchase at any one time. The other 90% are small sponsors that may only package one property at a time, and many of them may only ever sponsor one property.

The reason that size is so important is that you need to have an exit strategy for your TIC investment. While most of the projects have a stated investment timeframe of, say five years, there is no guarantee that the project will be sold at that time because market forces dictate such sales and you have no way to predict when the market will be right for the sale.

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Because your own situation may require that you get out of the investment before the date the property is sold, finding someone to buy your interest may be very difficult. This is where dealing with a large sponsor is important large sponsors have good investor relations programs, because they want you to reinvest with them when your building is sold. And because of their size, they always have a very large pool of potential, and usually willing, investors. It is to their advantage to line you up with another investor that will buy your interest.

Lastly, because of their size, these sponsors have excellent "due diligence" departments that thoroughly analyze each property they sponsor -- they can afford to avoid a law suit.

You can find these sponsors on the internet by searching for "TIC" or for "Tenant In Common." Your search

results will make it pretty obvious who the big players are.

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