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Weighing the benefits and risks of tenant in common (TIC) ownership

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As the tenant in common (TIC) market continues to mature, a growing number of investors are considering the real estate strategy as a way to boost a portfolio and increase net worth. Whether they're electing TICs because of the tax benefits, flexibility in investment size, potential cash flow or other advantages, it is undeniable that the approach is on the rise. As the industry expands and successes are evaluated, it might be tempting to jump right into TIC investing. But, as with any financial decision, the investor is wise to carefully weigh the option of a TIC transaction to ensure it is right for them.

There is no doubt that TICs, which offer a group of up to 35 investors the ability to purchase a share of institutional quality real estate, are the perfect way for many educated investors to enhance a portfolio. It's an attractive arrangement: each investor owns an undivided fractional interest in the property and shares in the net income and potential growth. There are several benefits to TIC ownership. But is such an investment right for you?

The Tax Factor

If you've just sold an investment property and are looking for a way to defer capital gains tax while continuing to maximize on your return, it just might be.

Because TIC properties offer management-free ownership and flexibility in the amount invested, they're a popular choice for those looking to utilize section 1031 of the federal tax law. A 1031 exchange provides for the capital gains taxes from appreciated real estate to be deferred if the funds are put back into another real estate investment. By deferring the tax, the investor has more money to put into another property, allowing them to maximize on the return.

Flexibility, Buying

Power and Convenience

Perhaps one of the most desirable features of a TIC is the flexibility it offers investors. While most offerings have a minimum contribution per person, TIC investors can choose to buy into the property in a flexible denomination. This allows the investor to match their available funds dollar for dollar, maximizing on their resources without compromising on the quality of the property. TIC offerings include office, multifamily residential, retail and medical.

TICs are convenient for those under a time crunch. In order to be in accordance with the federal guidelines for 1031 exchange, the investor must identify a property in 45 days and settle in an additional 135 days. Since TIC sponsors have the responsibility of locating properties, securing financing and facilitating the overall transaction, the deal is relatively headache-free for the buyer and can be carried out in a matter of days.

We Due Our Diligence

One of the biggest factors in finding success in real estate is ensuring that your investment is sound and will appreciate while delivering cash flow. That requires the investor to put forth ample time in researching the property. What if there was a way to pass off those duties to the experts? That's essentially what happens when you work with a TIC sponsor that has a history of success and a proven eye for assets. The sponsor carefully selects each offering based on key characteristics, including location, economy and population trends.

At DeSanto Realty Group, a team uses experience to explore properties in markets with stable economies. Upon locating potential offerings, a thorough due diligence process is completed to ensure the offering will have stable yields and lower downside risks, while offering the investor the opportunity to enhance a portfolio.

Are there risks?

In a perfect world, every investment would be risk-free. But, in reality, every real estate transaction carries drawbacks. It is the goal of the sponsor, however, to minimize risk during a comprehensive due diligence process. Aside from the gambles that are assumed in any real estate transaction, including the potential for value decrease, investors should be mindful of some unique characteristics that TICs possess.

TICs have a typical holding period between five and ten years, therefore, the investor must be comfortable with illiquidity during that time frame. While the investors receive periodic installments of their share of profits, the sale of the property happens in unison with the other investors at the end of the holding period.

Because TIC sponsors hire third-party management companies, each owner does not have control over day-to-day decisions. However, TIC co-owners vote on all major issues, such as selling the property, giving each investor a hand in the larger decisions. This absence of management responsibility is thought to be a plus for most. TIC owners don't have to worry about collecting rent checks, maintaining the property, etc. But for some, particularly those who enjoy all the small tasks involved with owning an investment property, this aspect could hinder the appeal of a TIC.

The benefits of this dynamic investment strategy outweigh the weaknesses. TICs are here to stay because of the myriad benefits they generate. The opportunity to add high-quality property to a portfolio without worrying about daily headaches is a combination that seems to be a perfect fit for many savvy investors.

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