

LAST WORD

How Do I Exit a TIC?

Here are three avenues investors can pursue in the absence of a fully developed secondary market. **By Michael Franklin**

While tenant-in-common investments are typically offered as both securities and real estate, TIC investors considering their exit strategy must think real estate — the sale of which requires a willing seller and buyer. As the sharp upward trend of investors looking to TICs increases, many industry experts predict that a secondary market for these fractional ownership interests will continue to develop. With 1031 exchangers always looking for replacement property opportunities, this may well be the case.

According to the Tenant In Common Association, based on information supplied by Omni Consulting & Research, TIC investors clearly understand and are undeterred by the nature of the investment. Of the more than 23,000 investors who invested in 1,114 TIC offerings from 2001 through mid-2007, a miniscule number of TIC investors have sought an exit prior to the property being sold. Clearly, most TIC investors prefer to hold their investment the entire cycle.

The reasons so few investors seek an early exit are straightforward. First, TIC investors are seeking investments in institutional-quality real estate that does not require direct day-to-day management responsibilities, but does

provide a stable monthly income.

Additionally, the majority of TIC investments involve a 1031 tax-deferred exchange, which enables investors to defer capital gains taxes on their previous real estate sale. (*For more on the health of the TIC industry today, please see NREI's special supplement inside this issue following page 40.*)

In the event that an investor chooses to exit a TIC early, he or she should understand that there are three avenues available to exit the market in the absence of fully developed secondary market.

1 Offer your TIC interest to fellow co-owners — Unlike investments such as stocks and bonds, which are more easily liquidated on Wall Street, a willing buyer must be located as in all real estate transactions. And who better to understand the value of the investment than fellow TIC owners of the property? The majority of TIC agreements require that, when exiting, fellow investors retain a right of first offer.

2 Find a willing buyer — Should fellow TIC investors decide against increasing their ownership interest in the property, investors can also turn to TIC professionals, real estate brokers and/or securities brokers to locate a potential and willing buyer who is an accredited investor. The lender must approve a substitute TIC buyer who would most likely be someone with similar equity and debt needs as the TIC interest being sold. In general, TIC offerings are leveraged between 50% and 75%.

Determining market value for a TIC ownership interest is not as clear-cut as a per-

centage of the appraisal of the entire property. In most instances, a fractional ownership interest would be offered at an amount that reflects the current state of the property, the real estate market, the local market, the projected property sale horizon and the state of the financial markets.

TIC sponsors typically do not become involved in TIC resale initiatives, recognizing that the TIC owners are able to sell their fractional ownership interest subject to provisions contained within the TIC agreement and any lender approval criteria.

Also, bear in mind that the resale process for a TIC ownership interest may cost between 3% and 6% of the purchase price due to various lender and/or broker fees.

3 Persuade co-investors to sell — TIC investors can also initiate a sale of the entire property, in essence enlisting all TIC investors to exit the investment. In 2002, the Internal Revenue Service determined that there are four acts involving TICs that require unanimous consent from the owners: refinancing, property sale, management change and leasing of the property.

TIC sponsors, such as Los Angeles-based FORT Properties, may indicate in the offering that if a super majority, or two-thirds of the owners, agree to act then the action on any of the four acts will proceed in accordance with TIC offering agreements.

When a property is sold, most TIC investors who utilized the investment as a 1031 exchange will exchange again, either into another TIC investment or a sole ownership opportunity. Most 1031 exchangers subscribe to the belief that it is best to “swap till you drop.” ■

BIRTH OF A TIC NATION*

What started as a fledgling tenant-in-common industry in the early 2000s has grown dramatically. The capital crunch that began in mid-2007 has curbed that growth of late.

Year	No. of TIC Programs	No. of TIC Investors
2001-2004	393	4,800
2005	246	4,920
2006	341	9,548
2007**	201	5,628

* Based on 86 sponsors, deals structured as securities only

** Year-to-date totals as of Nov. 1, 2007

Source: Omni Consulting & Research



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