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# ARE BABY BOOMERS DRIVING THE MARKET?

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The baby boomer generation has undoubtedly impacted the American economy more permanently and profoundly than any of its predecessors. This generation of investors has made early, active retirements more mainstream and, in the process, embraced sophisticated strategies for the preservation of wealth. One such strategy is investing via a Tenant-In-Common (TIC) structure when completing a 1031 exchange. The TIC structure allows investors to defer capital gains taxes thus building wealth and becoming a passive real estate owner.

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Some members of the generation, defined as those born between 1946 and 1964, have made their own wealth; others are the beneficiaries of inherited money. Regardless, the eldest of this generation are only entering their 61st year. As a result, the group as a whole is keenly focused on capital preservation over time and a reliable income stream that will support their active lifestyles. Both of these objectives are ideally met through passive investments, permitting this generation to pursue their retirement dreams and goals. Hence, the unprecedented interest in TIC structured investments.

If there is any doubt that the baby boomer generation is responsible for the rapid growth of TIC structured investments, consider this: the average age of TIC investors involved in the more than 4,300 of these transactions is just over 60 years old. The net worth of these investors is estimated to be just north of $4 million. More than 90 percent of these TIC investments involve 1031 exchanges[1], illustrating that these investors are concerned with preserving their wealth by deferring taxes—but are no longer interested in the time commitments of active real estate management.

Real estate professionals often credit TIC structured investments with helping baby boomers make the transition from hands-on real estate management to a passive real estate investment. Prior to the broader acknowledgement of TIC investments, real estate investors who had accepted that they no longer wanted to manage property often delayed the sale of their real estate due to the staggering impact of capital gains taxes on their bottom line. Today, as more real estate and financial professionals have become well versed in TIC structured investments, they are able to counsel clients on this 1031 exchange tax strategy and, as a result, help them make the lifestyle transition.

This year and into 2008, the influence of capital gains on investors' decisions is likely to become more pronounced. The new Democratic Congress appears ready to lead the charge to rescind the capital gains tax cuts instituted under the Bush administration. Should the White House change party hands in 2008, the current 15 percent rate may rise. While it's too soon to tell whether capital gains will again reach the 25 percent level, what is certain is the increasing importance of TIC structured investments for a generation ready to reduce their day-to-day real estate responsibilities, but unwilling to surrender up to a quarter of their profits to taxes.

TIC investments are also increasing due to continued growth in the real estate market. As investors reap record profits in certain regions of the country, they must also consider strategies for protecting their profits. For some, this will mean a 1031 exchange involving active management, but an increasing number of gains will be reinvested in TIC structured investments which allow the investor to be passive.

While baby boomer interest in TIC structured investments will be fueled by impending changes in capital gains rates and record real estate profits, perhaps the greatest impetus for TIC structured investments growth will be, simply, awareness. Even today, the vast majority of TIC investors reside on the West Coast; nearly 2,000 of the 4,300 total transactions were made by Californians and nearly another 1,000 were investors in Washington and Oregon. As awareness grows, so follows investment capital: the amount of capital flowing into TIC investments has grown from $167 million in 2001 to an estimated $4.5 billion in 2006. Most analysts agree that growth in this market will increase exponentially in the coming years, as the strategy becomes better known throughout the United States.

Just as baby boomers have influenced the tremendous growth in the TIC segment from a capital perspective, they have also impacted the industry's product providers. Generally more financially savvy overall than previous generations, this group tends to perform more due diligence on their own and demands accountability on the part of these TIC product providers. As a result, the ranks of TIC product providers have begun to narrow in response to investors' selectivity. By the end of 2007, the number of TIC product providers is estimated to be 70, down 20 percent from its high of 88 in 2006.

When the IRS set forth its guidelines for TIC structured investments, the benefits of this strategy were aimed at real estate investors in general, and no particular demographic segment. The goals of maturing baby boomers and the advantages of this tax deferment, however, have converged in a manner that could never have been foreseen and yet seemed destined to support an evolving view of retirement and investing for the 21st century.

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[1]*Information/statistics obtained from the annual TICA (Tenant-In-Common Association) meeting held October 15–18 in Las Vegas, NV.*

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