

TENANT-IN-COMMON BASICS

"EXPLORE TENANT-IN-COMMON OWNERSHIP PROGRAMS"



Compliments of

THE CHALLENGE

Some investors hesitate to perform a §1031 exchange because the requirement to identify all replacement properties by the 45th day can be challenging to fulfill. In addition, it can be difficult to locate a second replacement property of exactly the right equity/ value needed for a fully deferred exchange.

A SOLUTION - TIC PROPERTY

A potential solution is to acquire a fractional ownership interest in a Tenant-in-Common (TIC) property ownership interest in a large commercial property with multiple owners. A TIC interest represents co-ownership between two or more investors. In essence, rather than owning 100% of a smaller property, the investor receives a separate deed to an undivided interest, thus owning a fractional interest in a much larger property. A properly structured TIC is not a joint venture or a partnership. Instead, each co-owner has the same rights as would a single owner. Generally, a "management agreement" or "operating agreement" links the co-owners together. Most TIC properties provide creditworthy tenants and steady monthly income. In 2002, the IRS issued Revenue Procedure 2002-22 that provides specific guidelines for requesting advanced rulings relating to specific TIC arrangements.

Some investors have chosen TIC property ownership because they can enjoy the benefits of appreciation, cash flow, annual depreciation and flexibility without management problems. In many cases, a TIC program provides the flexibility for an Exchanger to specify the exact amount of property that must be purchased to meet their specific exchange requirements. Below are some advantages available to the average investor which in the past was previously reserved for large institutional investors.

BENEFITS OF TIC OWNERSHIP

- Geographic Diversification
- Excellent Value
- Financial Diversification
- Liquidity
- Professional Management
- Economic Diversification
- Existing Financing
- Flexibility
- Low Minimum Investment
- Predictable Performance

EVALUATE POTENTIAL TIC ARRANGEMENTS

Great care should be taken so that the TIC arrangement is not considered a joint venture or partnership. A partnership interest is specifically excluded from tax deferral treatment under Section 1031. An investor considering any TIC program should have their tax/legal advisors thoroughly review the proposed ownership arrangement to assess whether or not the structure will likely meet the requirements of IRC Section 1031. In addition, the investment itself and property management should be evaluated.

Please call Asset Preservation for more information on TIC program arrangements.



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