

THE STORMS REVIEW

WHAT'S IMPORTANT IN THE REAL ESTATE AND FINANCIAL MARKETS

According to

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Is There a TIC In Your Future? Do you own a piece of real estate that doesn't produce stable cash flow? Are you tired of dealing with tenants who offer you one excuse after another as to why they can never pay on time? In this difficult rental market, there are many property owners who would answer yes to those questions. There are some who would like to sell and invest the funds elsewhere but, when they calculate the anticipated sales proceeds after paying off the mortgage, capital gains tax, and depreciation recapture, they are appalled at how little money they have left. There are a number of potential solutions to this problem, one of which is a 1031 exchange. The good news is that this market is one in which prices are relatively high and most properties sell well. The bad news is that it is difficult to find a replacement property that leaves you better off than before. This is particularly difficult for the small investor with less than \$500k to invest. One solution that many fail to consider is the tenants in common (TIC) vehicle. This is a vehicle that allows you to exchange your property for an interest in a larger property. The main advantage is that you exit the overcrowded small investor market and enter into a market where only investors with substantial capital are allowed to participate. Instead of owning 100% of a small property, you own 5% of a much larger property. TIC investments have been around for some time; however, in recent years, several new players have entered the field. Unfortunately, many of these are not suitable for our clients. Problems range from poor tenant quality to excessive mark-up by the product sponsor. Considerable due diligence is required in order to select the best product for a given situation. TIC investments work best for the small investor with \$100,000 or more of equity to exchange. They also are particularly useful for older investors who wish to end their direct real estate investing career. While the most common use is for 1031 transactions, they could also be useful for investors wishing to diversify into investments that provide a stable stream of partially tax-sheltered income. We have done considerable research in this area and would like to invite you to call us for a discussion as to how TICs might work in your portfolio.

Don't Forget to Look at Other Options. Another way to get rid of the headaches of management at little cost is to hire professional management. If you have a property with \$12,000 in annual rental income, you can have a professional manager for about \$100 a month. If you're worried about how you might pay for that, consider restructuring your mortgage. Adjustable mortgages that are fixed for periods from three to seven years are available at excellent rates and you can often save \$100 or more per month. Of course, you have to develop a strategy for dealing with potential rate increases at the end of the fixed period, but we can help you do that. Our experience is that many investors fail to consider all the options for improving their current situation. By being overly conservative in their approach to financing, they give up too much in their current quality of life. Of course, you can be too aggressive also. The key is to achieve a balance that fits your needs for current cash flow without incurring excessive risk in the future. Call us to find out what new options might be available.