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1031 Exchange and TIC reinvestment - A crucial component to building and maintaining wealth

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Economic uncertainty. Wild swings on Wall Street. Credit crunch. Oil and gas as the new currency. Weak dollar. Stagflation. Real estate bust. Sharecropper economy. Economic slowdown. Tax hikes. Sunset provision on current tax code. Twenty-eight percent federal capital gains taxes...maybe higher. Recession. Depression. Sound familiar?

These are some of the words and phrases which we experience with our morning newspapers, with our afternoon drives from car radios, and which penetrate like darts through the evening din from the nightly news. There is certainly a whole lot of economic news these days and much of it is dour. Even on those days when the Dow is up 200 or 300 points, we know that the following day there is a good chance that the same index will be off by an equal or greater amount.

There is much that can be done to minimize risk and maximize returns - even in an economic climate as turbulent as today's. However, for most investors, it is essential to obtain good advice from top-notch advisors to accomplish these goals. It is a fact that adding real estate to an investment portfolio has the general effect of both increasing returns and decreasing beta or risk. There are many ways to invest in real estate for both accredited and non-accredited investors. From direct investment in actively managed property to the purchase of publicly-traded REITs to investment in private and non-publicly-traded REITs, investors seeking to add real estate to an existing portfolio have an array of options.

For those investors holding highly appreciated real estate, having an advisor who understands real estate fundamentals, structured finance, and who appreciates the tremendous power that our tax code affords us in the form of Internal Revenue Code Section 1031 is crucial. For those accredited real estate investors who seek to take advantage of Section 1031 and who also wish to relieve themselves of the burdens associated with active property management, it is necessary to rely on an advisor who brings all of this knowledge to the table and who is also a registered securities representative that is expert in the tenant-in-common or "TIC" market.

Tenant-in-common investment accomplishes the dual goals of providing tax-deferral (and potential avoidance) and relief from the toilets, trash, tenants, and all of the other "terrible T's" which are often associated with active property management. Many, if not all, of the criticisms of TIC investment are fallacious and are promulgated by those brokers who are not securities-licensed and therefore cannot legally introduce their real estate clients to high quality, securitized TIC offerings. In fact, the tenant-in-common industry has one of the best track records of any investment type and those advisors who understand the investment from a real estate, a securities, a legal and a tax perspective epitomize the cream of the crop of sophisticated securities representatives.

Commercial real estate in select markets and in specific asset classes is still a great investment. The opportunity for sharing risk, acquiring debt on advantageous terms, achieving geographic diversification, asset class diversification and purchasing property off-market cannot be ignored. This may well be one of the most useful investment strategies available to real estate investors today.

What is essential - no matter how successful one has been in the real estate market in the past - is to utilize the skills of an advisor who has all of the credentials and the experience to guide investors through the reinvestment process into TIC replacement securities wisely and strategically. It is incumbent upon the investor to do his or her homework in seeking out a real estate securities specialist who can effectively assist this investor in making some of the decisions which will potentially affect the relative outcome of the investment. However, it is the additional responsibility of the advisor and his or her broker-dealer to ensure that they have cast the widest net possible in evaluating the strengths and weaknesses of offerings to be presented to the investor for consideration.

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