TICS …a Dying Breed

By Stephanie Miles

There are many reasons for entering into a tenant in common (“TIC”) property ownership structure. Investing into a TIC allows the investor the opportunity to own a portion of larger properties. But the leading reason for entering into a TIC property ownership structure is the accompanying tax benefits, including IRC 1031 Tax Deferred Exchange, also known as a “like kind exchange”.

There was a day when TIC structures were an acceptable form of ownership structure from a CMBS servicer standpoint. But, after the crash of 2008, some issues with this ownership structure became apparent and now servicers have developed a disdain for the TIC structure and have even gone so far as to say they won’t accept them.

Why is this? With a TIC structure there are essentially as many borrowers as there are TIC’s. This puts the trust, in the case of a CMBS loan, in greater risk. During an assumption, the servicer’s number one responsibility is to make sure the trust is no worse off with the proposed borrower than they are with the current borrower. Thus, while going through the process of approving a borrower that presents a TIC structure, hesitation arises and the described TIC structure is likely not to be approved – or to be approved only with more stringent conditions than if the borrower was not a TIC structure.

If you are contemplating assuming a CMBS loan under a TIC structure, be sure you know what to expect before starting the process. Each servicer is different and there are many other factors that go into play. Knowing this at the beginning of the process will allow you to make tough decisions upfront instead of just a little too late.

That’s where 1st Service Solutions comes into play. We have the knowledge and expertise to guide borrowers from the beginning of the transaction even with an ownership structure as pesky as a TIC.