T.I.C. DEVELOPERS

What is a TIC?

A TIC, or Tenants-in-common property is a co-ownership arrangement where you own a percentage interest in a property; you have a bundle of rights and exclusive use of your unit and any assigned common areas such as parking or outdoor space. You retain rights to use any shared common areas within the development, like roof decks, common gardens, etc. There is a TIC agreement (TICA) which is similar to the C.C.R.'s in a condo and spells out the rights and obligations of each owner. Tenancy-in-common is an option in cases where condo conversion is difficult due to zoning restrictions. TICs are often entry-level units in vintage buildings with character and style. They are a great affordable option in today's pricey market.

The TIC Agreement (TICA)

A Tenancy-In-Common Agreement is a legal document every co-owner is required to sign before closing escrow. It assigns which unit or "air space" you'll exclusively occupy. And, just like a condo, it explains the HOA fees which cover common expenses such as water, gardening, building insurance and maintenance of the property. A TIC agreement is like a "prenup" for real estate; it offers protection from and solutions to problems that might arise between co-owners. The TIC agreement is the glue that holds together the TIC group and creates security for all owners.

How is a TIC different from a Condo?

What's the main difference with a TIC? When you purchase a TIC with occupancy rights you own title to a percentage of the entire property in common with other building owners. In other words, if you buy one unit in a four-unit building you own a 25 percent ownership of the entire building & land. With a condo, property is divided into physical parts that are individually mapped and recorded in public records. Each owner has a deed that defines exactly which part of the shared property they own - "Unit 4D, northeast corner" for example. Tenants in common, however, own percentages in an individual property. Their usage rights to a certain area of the building ("Unit 4D, northeast corner") are spelled out by a contract (TICA), as are their rights and obligations. This is a contract between co-owners and is not recorded in county real estate records.

Financing Your TIC home

There are basically two types of financing for your TIC home purchase - a Fractional Loan or a Group Loan.

Long ago, **Group Loans** were the only game in town; they consist of a single loan covering all units (the building). Co-owners are financial partners on one mortgage, with shared risk. The risk, of course, is that the entire group could face foreclosure if one party defaults. You manage this risk by thoroughly investigating new co-owners before allowing them to purchase, keeping a reserve account with sufficient funds to cover any shortfall, and maintaining strict internal management. In practice, defaults on these types of loans are rare, but most buyers would prefer the simpler, cleaner alternative to this type of mortgage – the Fractional Loan.

Fractional Loans have been available for years and have become the ***preferred method*** for financing TIC's. Each loan involves a note signed only by the owner of a particular TIC interest and is secured by a deed of trust covering only that owner's share. Unlike with group financing, none of the other TIC owners are affected by the default or foreclosure. Fractional loans are like condo loans, with a few exceptions. Since TIC mortgages comprise a small portion of the market nationwide, there is no secondary market for banks to sell these loans. Therefore, all TIC mortgages are portfolio loans, meaning they stay on the originating lenders' books until they are paid in full. This makes the loans riskier for the lender, and therefore the rates are a bit higher and there is no 30-year fixed rate option. As a specialized product, only a few smaller banks offer TIC loans; in the more mature SF/Bay Area market, six lenders offer TIC mortgages. Since the Los Angeles TIC market is younger, currently only two lenders have entered the market. As it grows, we expect others to jump in, but it takes time and volume. Additionally, TIC borrowers/buyers will, on average, need to be stronger applicants than your typical condo buyer. TIC mortgage lenders reduce their risk by asking for slightly better credit scores, more solid income history, and a higher average down payment. While this creates a somewhat smaller pool of applicants, it helps ensure the financial viability of your co-owners, which makes the overall community stronger.

Is my TIC mortgage tax deductible?

Yes. The mortgage interest that you pay on your TIC fractional loan is tax deductible, as are property taxes, just like a condo. Always consult your tax advisor for details on how to maximize the benefit of home ownership. If you don't already have a good accountant and you're becoming a homeowner, it's time to get one. A good tax consultant will be up to date on any changes to the tax code to help you get every possible deduction.

Final Thoughts

In Los Angeles and the SF/Bay Area, TIC's are typically created from 2-12 unit rental buildings that have the character and location to become successful for-sale properties. San Franciscans are familiar with TIC's as they comprise approximately 35% of the for-sale apartment market. New Yorkers have a similar product with their massive co-operative (Co-op) apartment market. Angelenos, with their tradition of single-family home ownership, are less familiar with TIC's ownership. However, the market for these properties, while young, is growing fast (always a great time to invest!). TIC's are most useful when the local condo conversion rules are too strict to allow approval. Sadly, local zoning laws encourage demolition of vintage properties in favor of creating larger condo buildings with plenty of underground parking. At TIC Developers, our goal is to preserve and restore these beautiful early 20th and mid-century buildings to create affordable options for first-time and middle-income buyers who are currently priced out of the market. TIC conversion is an exciting way to retain a community's character and charm, while providing inventory to a segment of the market that is underserved (entry-level homebuyers). TIC's are great for buyers and the investors who create them. It's a win-win situation in the real estate market.