

Purposeful Real Estate Planning Series #4:

6 Reasons Groups/Partnerships Turbo Charge Investments

How would you like to trade equity, retain your 1031 status, and invest like the big boys in new real estate developments? How would you like to eliminate property management headaches? If you're a small investor interested in fabulous growth opportunities, read on!

Group (Partnership) real estate investments are a great way for small investors to both diversify and accelerate growth. Using group vehicles known as 'tenants-in-common' (TIC), you can own real estate in a partnership like a group. Unlike most types of partnerships, TIC allows you to take advantage of tax deferred exchanges. TIC makes it easy for you to execute a tax deferred exchange of one of your properties, (under Internal Revenue Code 1031) into a group investment arranged by a broker like Brown & Brown Investments. (For more information on TIC visit www.jeffbrowninc.com)

Here are six powerful reasons for small real estate investors to consider group investments.

- 1. Gain access to investment properties with mega growth potential***
- 2. Trade income property equity into group investments—retain 1031 status***
- 3. Truly diversify real estate investments***
- 4. Eliminate property management headaches***
- 5. Enjoy total trading flexibility & timing—into another group, with the same group, into individual property or any combination of these***
- 6. Strengthen growth of retirement savings with cash from IRAs or 401Ks***

1. Gain access to investment properties with mega growth potential

Let's start with an example: you can buy five homes in a high-growth area like Phoenix—or you can put your capital into a group that buys a ten acre piece of land to develop 35 homes. Five homes in Phoenix will yield \$70,000-\$100,000 per home in two years. However, the group option can potentially result in even higher capital gains.

The potential for large capital gains in brand new residential or commercial developments is on steroids compared to the average income property growth rate. Another example: let's say you invested in a group that bought land for 24 duplexes approved as

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separate town homes. The initial capitalization of the group is \$1 million. Instead of buying the five homes, you invest \$125,000 into the group. You get 12.5% of the allowed profits or, in this case, \$5.4 million. So your profits, in two years (more likely less time) are 12.5% of \$5.4 million. This is \$675,000. This is roughly \$100,000 more gain than owning the individual homes, with the added benefit of no property management responsibilities—the group handles that.

The growth potential in a brand new development is higher because you're in on the ground floor. It's much like being a wholesaler but also owning the retail store. When you create the product the profits are almost always more attractive than if the strategy is 'buy and hold'.

Now don't get me wrong, my clients have made a ton of money doing just that in two states. Now imagine if they had had the horsepower to develop brand new buildings or homes in the same growth markets. Also, no matter how intense demand may be for any particular product, gains on new almost always trumps used, right?

If new development isn't your cup of tea you can opt for a group investment of well-located first class apartments, office/retail, or mobile home parks.

2. Trade income property equity into group investments and retain your 1031 status

You're probably wondering how group investing impacts your 1031 tax deferred status. If the group is using the proper 'vehicle', your tax deferred status is not disturbed. As long as the group investment is set up according to Internal Revenue Service Code rules, trading 1031 equity into a group investment protects your tax deferred status just as though you're exchanging into a property by yourself. The potential to increase equity and protect your tax deferred status is mind-boggling when you think about the typical growth rate of brand new real estate developments.

3. Truly diversify real estate investments

Your ability to diversify is greatly expanded. You can—if there's enough equity—invest in more than one type of real estate. You can diversify by geography, type of property, or even be part of a brand new residential or commercial development.

Imagine you as a small investor owning parts of a housing development, apartment complex, or a triple net office/retail project. It's all accessible to you using a group investment vehicle. Won't you be the investment-wizard-envy of your friends!

4. Eliminate daily property management headaches

One remarkable group investing benefit is you no longer spend time on property management. This headache is especially magnified if you'd like to take advantage of exciting growth rates in

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another state. Investing in groups with built-in management frees you to search for new properties!

Group investments provide professional management including on site personnel if needed. You receive a monthly or quarterly report showing a full accounting of the most recent period. Your job will be to file that report. That's your part of property management. Is this sounding better all the time?

In fact, some investors trade into groups simply to eliminate management (headaches). Even if the returns are roughly equal, they're more than happy to let someone else take care of managing the project on a daily basis.

5. Enjoy total trading flexibility & timing—into another group, with the same group, into individual property or any combination of these

What happens when you've traded into a group investment and later you wish to take your gains and exchange into a different property? Group investments are flexible. Without getting too technical you can find a buyer, (or the group will find a buyer) and another tax deferred exchange is arranged. Or, the group may take their profits and trade as a group, moving on to yet another management-free money maker. The bottom line is, when you're ready to trade your equity, you can choose any combination of group or individual trades.

6. Strengthen growth of retirement savings with cash from IRAs or 401Ks

Many investors are not aware of the ability to re-direct cash from either their own tax deferred (qualified) retirement accounts such as IRAs (Individual Retirement Accounts). Also, you can invest in real estate with cash from employer-managed retirement accounts (401Ks).

Summary

The 'tenants-in-common' option opens the door to many investor benefits. TIC investments provide you group opportunities for larger gains by making accessible group investments structured for easy exchange of tax deferred property equities. Trade into a partnership invested in a small to moderate sized new development project; you most likely couldn't have gotten into these properties by yourself. The really good news, daily management isn't your responsibility. A TIC project is not the answer for all investors, but it is an attractive option for those tired of the operational drudgery of personally managing properties.

About the author

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