

Perspectives on Investment

It's been quite a ride

Congratulations to *The New Mexican's* Real Estate Guide on publishing this 10-year anniversary issue. It has been quite a ride for many real-estate investors who have experienced significant gains both realized and unrealized on their investment property over these 10 years.

During this period, we have seen a dramatic increase in the use of the Section 1031 exchange. This provision of the Internal Revenue Code allows the real-estate investor to move capital gains from one investment property to another, deferring payment of the capital-gain and depreciation-recapture taxes that ordinarily would be payable on sale of the property. Since 1923, the 1031 exchange has existed essentially unchanged with only minor adjustments and improvements. Previously a relatively small group of tax sophisticates used the tax-deferred exchange. However, over the last decade all classes of investors

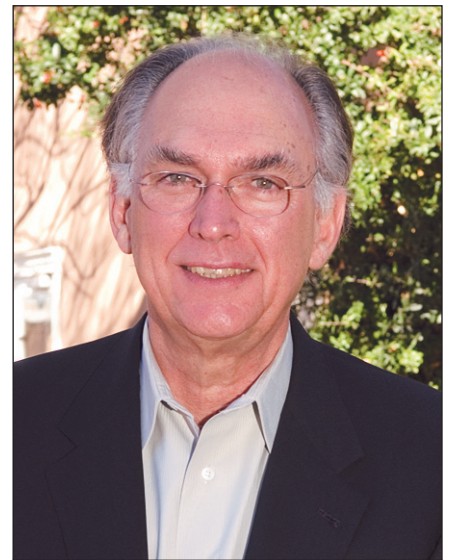
have become knowledgeable about the exchange process.

We also witnessed the re-emergence of an old ownership structure being used in a new and exciting way to purchase investment real estate. Beginning around 1998 this ownership structure, known as tenant-in-common programs (TICs), came into the market with the first structured offerings in fractional co-ownership of investment-grade real estate. They offered the small, individual investor the opportunity to purchase a fractional interest in a large, professionally managed, income-producing property. Property previously only available to large institutional investment companies such as pension funds and real-estate investment trusts (REITs) are now available to our local investors with as little as \$100,000 to invest.

Fueled by the issuance of Internal Revenue Service Procedure 2002-22 in

the spring of 2002, the tenant-in-common market took off. The revenue procedure provided investors and their tax advisors comfort regarding the use of the TIC structure in a tax-deferred exchange. In 2006, the number of investors selecting a TIC investment as replacement property for a 1031 exchange grew to an annual rate of just over \$3.6 billion in equity - and a total market value of property near \$12 billion - according to the Tenant in Common Association (TICA). This is a national trade group that compiles statistics on this market segment and provides educational opportunities for its membership. Over the last 10 years this has truly become a new and beneficial way to own investment real estate.

Investments in real estate continue to experience solid growth in values and monthly cash flow. From the first-time purchase of a small rental property to the exchange involving a large office property,



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the tax-deferred exchange has helped preserve equity and build wealth for investors through the years.

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Our water Quality

How contaminants enter our water

City of Santa Fe municipal water comes from surface accumulations (McClure and Nichols Reservoirs) from springs, rainfall runoff, and snowmelt in the upper Santa Fe River watershed as well as from groundwater wells. Water that reaches city taps is treated in compliance with Environmental Protection Agency (EPA) drinking-water standards.

The quality of water is a product of its provenance, a geologic term meaning its origin and all the natural factors that influence it along its pathway from sky or earth to our supply sources. As you might expect, water that falls from the sky and courses across a largely forested surface and into a drainage or reservoir has a far different provenance, and thus water chemistry, from water that falls on the Sangre de Cristos, traverses rock strata with very diverse mineralogy and enters groundwater aquifers.

City water treatment itself affects water chemistry, from the processes used to eliminate bacteria to the

addition of fluoride for health purposes. Anthropogenic influences on water quality may occur even within our homes because of the materials we use in plumbing and because of changes in water temperature occurring in water heaters and appliances.

In Santa Fe, our dramatic topographic setting makes it easy to imagine water running down the mountains and increasing in chemical complexity. Visual observation confirms the diversity of the terrain influencing quality, but that exact mixture is a complex combination of initial water chemistry, bedrock and soil mineralogy, slope, temperature, pH, pressure, etc. Because the oxygen side of a water molecule is negative and the hydrogen side is positive, any atom with a positive or negative charge can bond with it.

Water commonly attracts minerals that influence its hardness - primarily calcium and magnesium, as well as iron and manganese, which may cause

staining. Sulfates may be partially oxidized into hydrogen-sulfide gas (the characteristic "rotten egg" odor), one of the most difficult contaminants to treat. One measure of everything dissolved in water is its total dissolved solids (TDS) content, which is used as an indicator of overall water quality and, depending on the components, may contribute to its taste. Water also may contain microbial contaminants, which may be both natural and man-made. The list of potential man-made contaminants and the ways they can enter the water supply is almost endless.

Locally, granitic rocks and erosional products from volcanic tuffs (especially in northern Santa Fe County) are known to contribute radionuclides to groundwater. After EPA raised the bar on allowable levels, arsenic also became a contaminant of heightened concern. The presence of nitrates in well water is commonly attributable to the leaking of septic leach fields.

These are among the contaminants the



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city removes from our water supply and for which private well owners must make their own treatment choices. As per EPA regulations, the city annually publishes (with water bills) a water-quality report listing detected contaminants, the ranges of levels tested and subsequent water treatment.

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