CALIFORNIA ASSOCIATION OF REALTORS®

SAN FRANCISCO TENANCY IN COMMON OWNERSHIP DISCLOSURE

(C.A.R. Form SF-TICD, 1/11)

This disclosure concerns the residential property situated in the City of San Francisco, County of San Francisco, State of California, described as _____ ("Property").

1. **OWNERSHIP:** A Tenancy in Common (TIC) is an undivided interest in an apartment building. You will co-own the property with other investor/co-owners as a tenancy in common and share common costs for items such as taxes, insurance, building maintenance, repairs, and possibly a shared mortgage. It is not a condominium. It is therefore outside of the protections of the Davis-Sterling Common Interest Development Act (Civil Code §1350) that apply only to condominiums or other legal subdivisions.
2. **TIC AGREEMENT:** Most protections for TIC projects are contractual, based on the TIC agreement. If a problem arises, you will be relying on the provisions of the TIC agreement. If you do not have a valid TIC agreement, you may be subjected to a variety of legal and financial problems. For instance, you may not have a legally-enforceable right to exclusive use of a specific residential unit or a specific parking space without a TIC agreement executed by all co-owners because you do not own the specific unit or parking space as you would in a condominium project. Or one co-owner may have the legal right to a partition, which is a forced sale of the entire property even if a Buyer and other co-owners object. It is important to note that TIC agreements vary greatly. It is essential that all current co-owners sign the TIC agreement. Any person who becomes a co-owner in the future should, along with all existing co-owners, sign an amendment to the TIC agreement accepting all rights and responsibilities for that co-tenancy share under the TIC agreement. A TIC agreement may not be binding on a co-owner who does not sign it and therefore all co-owners should retain a copy of the executed TIC agreement along with any exhibit or amendments. Buyer is strongly advised during Buyer's investigation period to seek qualified counsel to review the TIC agreement to ensure that it affords adequate protection and to inspect the entire building, not just the unit Buyer will occupy.
3. **RECORDS:**
   Most TIC projects are required under their TIC agreement to maintain financial and governing records. For an existing tenancy in common project, Buyer is advised to carefully review these records to ascertain the current state of the tenancy in common project.
4. **FINANCING:** Financing for TIC projects is done through either a group loan or a fractional TIC loan. Buyer should evaluate the risks and benefits of both options when choosing how to finance this type of property.
   A. Group Loans
   A group loan, as the name implies, is taken out by multiple co-owners and is secured by the entire property. As a result, Buyer is relying on the owners of the other interests in the property to meet their obligations to the lender. For instance, if one co-owner defaults on its share of the debt and the other co-owners do not pay the defaulting co-owner's share, then the lender would be entitled to foreclose on the entire property leading to the loss of all of the co-owners' interests in the property even if others are making timely payments on their share of the loan. Likewise, if one co-owner needs to refinance, it can have an impact on the other co-owners who all need to participate in a new group loan because **(i)** there could be an interest rate increase, or **(ii)** one of the co-owners may no longer qualify for a loan, or **(iii)** group loan financing may not be available on the same terms and conditions. An adequately drafted TIC agreement will provide some protection in these circumstances. However, even a well-drafted TIC agreement cannot protect against all problems that can arise in co-ownership. Therefore, before sale a Buyer should assess the financial ability and responsibility of the other co-owners and request any relevant credit information.
   B. Fractional TIC Loans
   Another financing option is a fractional TIC loan. This type of loan is secured only by the borrower's individual TIC interest. Although the risk associated with this type of loan is lower in one sense because it is secured only by a co-owner's single interest, it has other risks of which Buyer should be aware. These loans have only been available for a few years and only a small number of lenders currently offer them. There is no guarantee that these loans will be available in the future when Buyer decides to sell or refinance. In that event, Buyer would need to seek a group loan. Accordingly, Buyer should review the TIC agreement to determine if other co-owners are required to

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participate in obtaining a group loan. Also, fractional TIC loans are generally more expensive and have more stringent qualifications than group loans. Again, this could affect Buyer's ability to sell as finding a qualified new Buyer may be difficult.

5. CASH PURCHASE:
If Buyer intends to forego financing to be secured by the Property and pay the complete sales price in cash, Buyer is advised to seek legal advice regarding the effect of the group loan on Buyer's interest in the property.

6. RESALE:
In addition to possible problems reselling due to a potential lack of financing for the new Buyer, there are other resale issues to consider. Buyer should carefully review the TIC agreement and seek the advice of qualified legal counsel to determine if there are any contractual requirements for a resale, such as consent by the other co-owners and the payment of costs under the TIC agreement. If a resale requires a refinancing of the group loan at a higher monthly cost, the Seller is often required by the TIC agreement to offset the additional costs incurred by the non-selling co-owners.

7. CONDOMINIUM CONVERSION:
The City and County of San Francisco (the "City") currently allows owners to convert some buildings into condominiums, if the building and its owners meet stringent requirements. Under current laws and regulations, the City requires lengthy occupancy periods (from one to ten years) by an owner of 10% or 25% of the property in one to three units in the building, it requires most buildings to participate in a lottery that allows only 200 units in the City to be converted each year, and it requires repairs if the building does not satisfy certain physical condition requirements. The City prohibits a condominium conversion if certain tenants who were senior or disabled were evicted from a unit in the building after May 1, 2005, for reasons other than the tenant's breach of legal obligations. The City also severely reduces a property's eligibility to convert to condominiums if the tenants in two or more units in the building were evicted after May 1, 2005. There are other requirements that must also be met to convert a building to condominiums. The City has frequently changed the requirements to convert buildings to condominiums so that a building that qualified for conversion a year ago may not qualify today. In addition to requirements imposed by the City, Buyer should be aware that the TIC agreement may contain provisions that make it more difficult to convert to condominiums or that require all owners to incur significant expense if one of the owners wants to convert the building into condominiums. Buyer is advised to consult with an attorney familiar with San Francisco condominium conversion law.

Buyer has read and understood this TIC disclosure and had the opportunity to seek independent legal counsel to review the risks of tenancy in common ownership. Buyer has not relied on any oral statements from the Seller or Broker concerning how this TIC project will function.

Date _____ Date _____

BUYER _____ BUYER _____

_____ _____

(Print name) (Print name)

_____

(Address)

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