

## The Real Estate TICS Are Coming

“Tenants in Common” Investing has swept across California and the West Coast over the last several years, and is quickly becoming a real estate investment vehicle on the East Coast as well. Historically, real estate investors have selected from purchasing single family property rentals, multi family property rentals, or have invested in retail, commercial or industrial properties. Some investors even invest money in raw land, hoping the appreciation will outpace inflation.

Many investors dream of putting money into large projects like shopping centers, malls, office buildings and several hundred unit apartment complexes, but don’t have the resources to buy into large projects without many partners. A way for real estate investors to buy into these larger projects is with a “soft” investment vehicle known as a “Tenants in Common” property, or a TIC.

TIC ownership allows buyers to purchase an undivided, fractional interest in an entire property. This ownership is generally a fee-simple ownership; and through TIC ownership, the average real estate buyer can participate in ownership of an institutional-grade property that might not otherwise be possible. Additionally, investors can use the tax deferred 1031 exchange program in order to sell properties, defer Capital Gains tax liability and re-invest in a TIC.

“Many real estate investors are liquidating the properties they own that are *high maintenance*, and putting the money into investments like TICs, where the investor is still leveraged in Real Estate, but doesn’t have the day to day headaches of rental property ownership.” Explains Bobbie Papageorgiou of Century 21 Keim Realtors in Allentown Pennsylvania. “We’re beginning to assist some investment property owners in shifting their assets from smaller investment properties to larger fractional interests with good returns.”

“If an investor wants to sell a property without paying Capital Gains on the sale of the property, they can actually use a 1031 exchange and move their investment capital into a TIC as an alternative.” Loren Keim of Century 21 Keim Realtors continues. “Actually our network allows us access to assist buyers in finding properties in TICs across the Country. One of the companies we’ve partnered with in marketing these large fractional interest properties, Spectrus, has available equity shares in Office Buildings and Shopping Centers in Texas and Florida, Medical Centers, and Shopping Centers across the country.”

Additionally, more Tenants-In-Common investment groups are opening across the northeast. ‘Carlton Cabot, president and CEO of Cabot Investment Properties LLC and its sponsor subsidiary, Cabot 1031, says he’ll continue to buy in Florida and other markets as he has been. But Boston-based Cabot is particularly excited about two deals he has in the works in the Tri-State area, one a 600,000-sf class A office campus in a suburban market and the other what he describes as a “very high profile transaction in midtown Manhattan.”

Meanwhile, Gemini Real Estate Advisors, LLC the New York City-headquartered company that currently hold the title to sponsoring the only New York City TIC deal with last year's Howard Johnson Express Inn deal, has three properties in the works here. "We're definitely going to be doing more TICs in New York City, both retail and hospitality," says Will Obeid, president, adding that Gemini is "actively pursuing several hospitality assets in the city."

While we stay tuned for more details on those pending transactions, it seems the TIC market-a largely West Coast phenomenon that has grown exponentially over the past few years-has been slow to catch on in the Northeastern part of the country. "As we got into the business, I thought that the penetration of the TIC market...might reach the Northeast more rapidly" than it has, says Richard Previdi, the Short Hills, NJ-based CEO of another TIC investment sponsor, NPV/Direct Invest LLC. "The tidal wave clearly has not yet hit the Northeast and mid Atlantic-and it may not."

There are more properties in the Northeast being acquired and syndicated compared to a few years ago, but it clearly has not reached the extent that it has in other parts of the country. Obeid, for one, attributes that to several factors. For one, he notes that most TIC sponsors are not located in the Northeast. "Cap rates, especially in New York City, are extremely low and it's difficult for the numbers to pencil out," he adds. New York City itself has been another barrier. "Transacting in New York is a high stakes game. It's very competitive, the deposits tend to be high, with short closing periods."

Pricing can be prohibitive, especially when you take into consideration the costs and loads that get added on, resulting in the syndication price, and the fact that the typical TIC investor is looking for as much cash flow as possible. "The real estate is priced so high in this area," notes Ari Rosenblum, president of White Plains-based sponsor Woodlark Capital LLC. "The vast majority of TIC investors are looking for a cash flow stream...It's difficult to buy at a price that's going to generate an attractive return" in the metro NY area.

"In the Northeast there are opportunities, but in places like Buffalo," Rosenblum continues. "If you're not well ensconced and connected in New York, it may not be worth it."

Echoes Previdi: "Cap rates are local but debt rates are national, and if you're going to add a load, you need high cap rates." His company's transactions in the Northeast and mid-Atlantic corridor include a 220,000-sf warehouse in Rockland County that is net leased to Kinoka/Minolta; and a 187,000-sf warehouse in Richmond, VA leased to Alpha Laval.

Among other deals in the region brought to the TIC market is Gemini's recent \$48.8 million transaction of DuBois, PA which involved 34 TIC investors. The property consists of six buildings totaling 439,451 sf and has anchor tenants such as Old Navy, JCPenney and Sears. Also in Pennsylvania, Gemini an 19 TIC investors purchased Ebensburg Plaza Shopping Center in Ebensburg, PA for \$11.6 million. And Media, PA-

based DeSanto Realty Group recently closed its second TIC property deal, a \$20-million, three building, 120,000-sf office complex in Harrisburg, PA.

TIC deals in the region are being transacted by sponsors that are not located here, as well. Santa Ana, CA-based Triple Net Properties LLC, for insurance, has closed in three deals in the greater Philadelphia area in the past year or so. The sponsor, which does have a person in New York active in sourcing deals, acquired 1818 Market St., a 983,000-sf office tower in downtown Philadelphia; 300 Four Falls, a 298,371-sf office building in West Conshohocken, PA; and Lake Center an 89,000-sf office building in Marlton, NJ.

Other examples include the recent acquisition of ITC Crossing South Shopping Center in Mount Olive, NJ, by Los Angeles-based SCI Real Estate Investments. The nine-building, 366,000-sf power center was purchased for \$64.3 million; built in 2002, it was 100% occupied at the time of the sale. And Boise, ID-based For 1031, which is now part of rebranded company called Spectrus Real Estate Group, purchased the 45,662-sf 100 Cranberry Township, PA with 16 tenants-in-common.

Spectrus is another company bullish on expanding its presence in the Northeast and mid-Atlantic markets. In fact, it recently hired four sales team members in the area, one each in Northern New Jersey, New England, Philadelphia/Southern New Jersey/Delaware and Washington DC/Maryland/Virginia. In addition, to boosting its presence on the sales side, the company is in the process of setting up an acquisitions team in the Northeast. “Bobbie Papageorgiou and a team at Century 21 Keim is working in Eastern Pennsylvania on selling shares in projects, but can give his clients access to our holdings anywhere in the nation. This gives investors the flexibility to own property outside their direct market.”

“We feel the market has breadth across the US,” says Spectrus VP of business development Lee Broome, who works from a San Mateo, CA office. “Our strategy is to be a nationwide player and we’re simply executing that strategy.” The company believe now is a good time to be expanding in the Northeast in particular and on the East Coast in general. Among the factors that have attracted Spectrus to this area, says Broome, is “the fact that so many counties figure into the top 100 in terms of wealth, New Jersey in particular.”

Despite the amount of wealth and property value appreciation in the area, TIC sponsors still find most of their equity capital is coming from the western part of the country. While Rogers says that “some of our largest investors are New York residents,” he estimates that only 20% to 25% Triple Net’s business is currently with East Coast investors. That’s more than it was a year or two ago, he adds.

Cabot estimates that at least 80% of his TIC equity comes from investors in the West, but he is confident that, as sponsors offer more TIC properties in the area, it will help attract more investors to the area, too. “When we start to do more deals here...we’ll start capturing a larger percentage of Northeast investors.”

Greater presence among broker-dealers that sell securitized TIC product (most TIC product around the country is securitized) will likely help fuel interest and investment activity among investors in the area. A number of BDs active in the TIC market are reportedly looking to set up offices in New York City. Cabot says he expects BDs and more reps to open up offices on the East Coast “in anticipation that this is the next growth market” for the TIC industry.

Meanwhile, other real estate companies in the New York area have at least considered how they might get involved in what has arguably been one of the hottest trends in the investment real estate industry for the past several years. New York City-based real estate investment services firm Eastern Consolidated Properties has brokered the sale of at least one property to a TIC sponsor, and sees the potential for more down the road. Eastern Consolidated arranged the sale of a Mayo Clinic building located at 3050 Superior Dr. in Rochester, MN, to Triple Net Properties. The TIC sponsor won out over other bidders that included several REITs and paid \$36.25 million for the asset, which Eastern Consolidated director Ben Tapper notes is leased to what is “probably one of the strongest credits out there.”

Also based in New York City, the Carlton Group set up a 1031 investment division earlier in the year, and when it was initially rolling out, expected to get more involved in TIC investors and transactions. But since then the platform evolved into being part of CSV Investment Management, explains managing director Ed Yu, which functions as a direct real estate investment separate account money manager for high net worth individuals and family offices. “We are working more and more with individual 1031 investors,” says Yu. “In many ways we have become an alternative to TICs.” He says in many cases CSV’s clients prefer to invest on their own can afford to do so. Carlton also found that sponsor’s already have cheaper, more competitive sources of bridge capital, which was another way the real estate investment banking firm was initially looking to get involved in the TIC business.

Even if growth of the TIC industry has been slower in the Northeast and mid-Atlantic state than some may have expected or hoped, it seems virtually unanimous among those involved in the business that TICs will grow in popularity and presence.

For his part, Rogers thinks the Northeast/Mid-Atlantic will capture a greater portion of future growth for TIC industry, if for no other reason than the fact that it is relatively lesser known here. “I think it has great upside. I’m hoping that the East Coast investor has a similar mindset as the West Coasts investors-willing to look for opportunity.”

Obeid says he would not be surprised to see office property sponsors investing in New York City in 2007. “That will actually do a lot to spread the idea of TICs to East Coast-based investors,” he says.\*

For more information on investing in Tenants in Common projects, see our website at [www.REInvestmentDigest.com](http://www.REInvestmentDigest.com) for informational brochures and booklets.

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