

NORTHEAST REAL ESTATE BUSINESS™

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CONNECTICUT
NEW JERSEY

DELAWARE
NEW YORK

MAINE
PENNSYLVANIA

MASSACHUSETTS
RHODE ISLAND

NEW HAMPSHIRE
VERMONT



Russo Development is constructing a two-building facility called Brookline Corporate Center, located at 1600 and 1700 MacArthur Boulevard in Mahwah, New Jersey.

IMPACT OF CATASTROPHIC LOSSES

Catastrophic losses and their impact on the insurance industry and you.

Robert D. Odell, CIC

Catastrophic loss is the biggest threat to the financial strength of property and casualty insurance carriers. It is also the biggest threat to commercial real estate and property owners. The insurance industry considers an event a catastrophe if the claims are expected to reach \$25 million. Prior to 1997, events with claims totaling \$5 million were considered catastrophes.

In the world of insurance, catastrophes are significant, rapid and unexpected events characterized by extreme force and/or sizable financial

loss. Catastrophes can be man-made, such as the World Trade Center bombing, or natural, such as Hurricane Katrina.

COMMON CATASTROPHES

According to the International Insurance Institute, in the last 20 years, hurricanes and tropical storms have been the most frequent types of catastrophic events in the United States, making up 34.6 percent of total catastrophic losses. Losses by tornadoes make up the

SEE INSURANCE, PAGE 49

BRINGING IT ALL TOGETHER

The Northeast market is alive with development along its distribution corridors.

Dan Marcec

Developers across the Northeast are seeing the demand for new office and industrial projects, especially along major distribution corridors where tenants are looking for prime space to locate their operations. *Northeast Real Estate Business* recently conducted interviews with several developers covering a variety of office projects, industrial developments, as well as endeavors that include elements of both. The flourishing activity in these markets proves that this type of product continues to be a source of positive impact in the Northeast for the commercial real estate industry.

PROLOGIS LOWER NAZARETH, PENNSYLVANIA

National developer ProLogis currently is underway on a massive industrial development called ProLogis Park 33, which is located at the intersection of Routes 33 and 248 in Lower Nazareth, Pennsylvania, on the eastern end of the Lehigh Valley industrial market. With its location on Route 33, the development has excellent access to Interstates 78 and 80, as well as Interstate 95 and the Pennsylvania

SEE OFFICE AND INDUSTRIAL, PAGE 46

HOSPITALITY THRIVES IN THE NORTHEAST



The Ritz-Carlton Westchester and The Residences at The Ritz-Carlton in White Plains, New York, will feature 123 guestrooms and 400 private condominiums.

SEE HOSPITALITY UPDATE, PAGE 50

TIC TRANSACTIONS CONTINUE TO GAIN TRACTION

The Northeastern United States is starting to recognize the investment opportunity in tenant-in-common transactions.

Gary DeSanto

While many people believe that their investment portfolio should include real estate, the truth is, owning institutional quality commercial and residential real estate assets today can be a complex undertaking. The simple act of identifying quality assets can be tedious from a due diligence perspective, even for savvy investors.

Day-to-day management can be a headache — finding quality tenants for long-term leases, maintaining the property and other ownership responsibilities combine for a daunting task for anything less than a multi-person organization. For someone simply looking to invest in real estate or to defer capital gains taxes, the rising avenue of choice is the tenant-in-common, or TIC, transaction.

IN THE BEGINNING, THERE WAS THE 1031 EXCHANGE

The Northeastern United States, as well as much of the country, has witnessed an amazing run in real estate values over the past 5 years. As many groups and individuals began to reap the rewards from the sale of various real estate assets, the government stood to gain a substantial amount through the capital gains tax.

That's where the Internal Revenue Code Section 1031, better known as the 1031 Exchange, comes in to play. As defined by the IRS, 1031 means, "If you exchange business or investment property solely for business or investment property of a like-kind, no gain or loss is recognized." For the purpose of this discussion, that means that gains made

on the sale of real estate assets can then be reinvested in another real estate asset on a tax-deferred basis.

Here's the catch: According to the same rule, an investor, after closing on his other relinquished property, has 45 days to identify potential replacement properties with a qualified intermediary. That leaves a small window in which to identify a potentially profitable property. It's a short time period for any one person to be able to successfully utilize the 1031 Exchange for its inherent advantages.

THE SUM IS GREATER THAN THE PARTS

Enter the TIC transaction. TIC transactions offer real estate investors an alternative that allows them to minimize their risk, defer capital gains, and

benefit from a tax-advantaged yield on their ownership stake. The idea is brilliant in its simplicity — one large institutional quality real estate asset with multiple owners. Each owner has a tangible share of the property in which they can now watch their investment grow, and defer taxes for a period of time. These tenants-in-common now have something where the sum is greater than the parts, and their combined investment can earn more for them than on a stand-alone basis. By investing in a TIC transaction, the educated real estate investor has gained ownership in an asset that has been properly vetted by a preferred manager with an eye for solid investments in strong markets. The property has been examined thoroughly, the area has been researched and the growth opportunity is clear.

Business Banking Made Easy.

\$4,000,000 First Mortgage 23rd Street New York, NY Bridge Loan Commercial	\$3,500,000 First Mortgage Bleecker Street New York, NY Mixed-Use Refinance	\$3,300,000 First Mortgage Greenwich Street New York, NY Condo Acquisition Renovation/Conversion	\$3,000,000 First Mortgage Cromwell Avenue Bronx, NY Commercial Refinance Tenant Installation	\$2,950,000 First Mortgage Ardley Village Ardley, NY Mixed-Use Refinance	\$2,100,000 First Mortgage Washington Avenue Brooklyn, NY Condo Acquisition Renovation/Conversion	\$1,575,000 First Mortgage West 15th Street New York, NY Acquisition & Renovation Multi-Family	\$1,300,000 First Mortgage Peck Slip New York, NY Mixed-Use Refinance
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NEW VENUE, SAME SHOW

When dealing with a TIC transaction from any angle, the key is experience. The right real estate asset will offer a long-term gain for the investor, with sustainability for the near-term. Investors should be sure that the sponsor of the TIC transaction has a long record of success in the real estate industry.

This is a relatively new area of real estate investment, so many of the players' TIC track records may be limited. However, they should be able to show expertise in identifying quality assets, and the ability to manage and grow those assets over a period of time. Not every market is strong, and simply deferring assets from capital gains tax is not the only goal of the investment.

A little research and the right registered representative can help. Finding that TIC transaction that has all the right aspects — cash flow, strong lessee base, strong market — can be left up to the experts, but investors should be comfortable with their chosen TIC sponsor.

BEST COAST, LEFT COAST?

The Northeastern United States offers as attractive a market for TIC transactions as any other area of the country. Yet today, from an investor and property standpoint, TIC transactions remain more of a West Coast phenomenon; however, this is changing.

Up and down the Northeastern corridor and across the mid-Atlantic region, there are real estate markets that are quietly, yet robustly, growing. Middle-tier cities like Harrisburg, Pennsylvania and the Lehigh Valley in Northeast Pennsylvania are seeing new life and opportunity in their commerce, populations and real estate. Property owners have cashed in equity throughout the region, and the next generation of retirees is watching their coffers grow with capital gains. These individuals fit the bill for TIC ownership as they look to protect and accumulate wealth for the long-term for a quality life in retirement. These markets are offering new opportunities in TIC transactions for investors nationwide. Indeed, the number of deals appears to be on the rise.

Upcoming Editorial

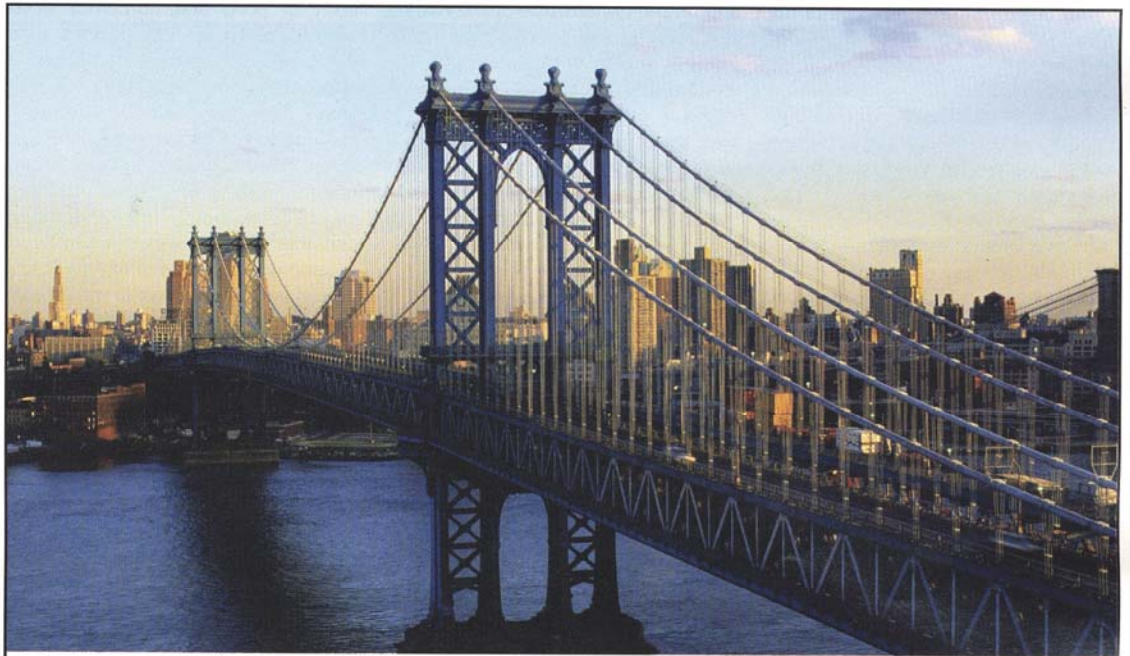
November:
REIT Activity
Office Report
Boston Market Highlights

BURGEONING TREND GAINING TRACTION

As the baby boomer generation retires and looks to downsize, they find themselves with significant capital gains. They will look to various

avenues of investment to help defer taxes to their hard earned gains built over a lifetime. On the other side, sellers of commercial real estate assets are looking to TIC sponsors as a significant new source of liquidity and a whole new class of buyers.

Gary DeSanto is a principal and CEO of DeSanto Realty Group, a leading sponsor of Tenant-in-Common (TIC) real estate transactions.



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