

1031 EXCHANGE

By Jackie Eakin, VP, Asset Management & Acquisition, DeSanto Realty Group

The cash flow creator for TICs, property management for TIC properties

When Robert Kiyosaki in his book “Rich Dad Poor Dad” advised a friend to invest in real estate, the friend’s response was, “I don’t want to fix toilets.” Much the same are the concerns of many people looking to invest in real estate, and more specifically, tenants-in-common or TIC properties. Mr. Kiyosaki’s response to his friend was simple. He indicated he didn’t have to fix toilets; he should hire a property manager to do that because a great property manager will increase the cash flow, and increasing the cash flow will provide more opportunities to invest in real estate. Quality property management has proven again and again to be a creator of consistent cash flow, helping to protect the wallet of the real estate investor, and ensure that the property is in peak condition at the time of disposition.

For the unfamiliar, TIC transactions take advantage of Internal Revenue Code Section 1031, better known as the 1031 Exchange, which allows gains made on the sale of real estate assets to be reinvested in another real estate asset on a tax deferred basis. 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



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on their ownership stake. As a successful TIC sponsor, DeSanto Realty Group searches, investigates, and negotiates the purchase of suitable property for a TIC offering. After the acquisition, we then navigate through the due diligence studies and securitization process to ensure the acquisition is appropriate to sell as a TIC vehicle.

DeSanto Realty Group is also responsible for arranging property and asset management, handling investor relations and communications for many years, and coordinating the end result, disposition of the property for co-owners. Property management is especially important in TIC transactions, in fact through the entire transaction. From the initial acquisition of the property, through the hold period, and ultimately when the property is sold on behalf of the TIC investors, good property management

is a key part of ensuring success. The bottom line is: property management creates the cash flow.

It’s important when we identify a potential TIC property that is has been effectively managed for a number of years and is stable from an operational standpoint. During the hold period, a number of factors must be considered to ensure the asset value is enhanced so that at the disposition stage, the TIC investors have received every dollar of value they can from the property. A good property manager is responsible over the hold period for maintaining and enhancing the asset value, tenant retention, and ongoing communication to facilitate building a rapport for the disposition of the property, at the end of the day.

However, it’s not as simple as just fixing toilets. In my asset management, property management, leasing, and acquisition involvement with DeSanto Realty Group, I’ve found that my community involvement and relationships garnered over time have proven to be key assets in effectively managing a property. In the end, this has facilitated our ability to acquire off-market real estate opportunities for great cash-flowing TIC offerings. In my community role as an elected municipal official, a county plan-

ning commission chairman, member of a tri-county planning commission, and board member of a large federal credit union, chairing the committee responsible for new branch locations, this involvement has provided me with a wealth of relationships—that can affect property management and affect the cash flow of the TIC property.

Commencing in the acquisition stage and continuing in the management stage, it is of substantial benefit to know where development is or can occur in the municipality within which the property is located, to be kept aware of future commercial land development projects, and to be kept advised of zoning or ordinance changes, by establishing and nurturing professional relationships with local municipal officials.

Familiarity with this rapport and process will allow property management to stay proactively informed of what is feasible, and what can and what cannot be done in an area where the TIC property is located. Planning for tenant retention, an awareness of new business entities entering the market area where the TIC property is located, and an appreciation of the land development process for new commercial development are tools providing both short and long term property performance

expectation planning. The basics of property management are just as important. Indeed, we manage our own TIC properties through knowledgeable and experienced property and asset managers exemplifying expertise in facility condition oversight and financial reporting. Both anticipated and unanticipated capital improvements are budgeted and planned for, as well as tenant improvements and leasing commissions, by putting monies in reserve for future contingencies to alleviate any capital call of monies from investors. DeSanto Realty Group prepares and forwards financial statements to co-owners on a quarterly basis, reflecting property expenses, along with net revenue disbursements. Good property management involves a number of different areas of expertise, from community involvement and networking, to investor communication and facilities management.

DeSanto Realty Group helps to ensure the success of our TIC offerings by procuring exemplary product, exercising due diligence and property and asset management skills, providing investors with a constant projected yield, and exit strategy planning. The end result is a growing portfolio of TIC offerings with good cash-flowing institutional grade properties. ■