

# PHILADELPHIA BUSINESS JOURNAL

## Breaking properties into smaller ownership units

DeSanto found its renaissance in tenant-in-common strategy

### **GROWTH** STRATEGIES



Gary and Louis DeSanto of DeSanto Realty Group switched the focus of their business.

BOB FLEISCHHAUER | BUSINESS JOURNAL

**M**EDIA — Revenue in 2004 was \$6 million. Last year: \$30 million.

OK, we'll hear what Gary DeSanto has to say.

The story involves turning a bad break into a big opportunity. It's about making a radical change in your mindset, finding a whole new way to do things. And it's about real estate.

Founded in 1951 by Gary's father Louis DeSanto, DeSanto Realty Group went along for half a century buying, rehabilitating and operating office and residential properties throughout the area. Gary took over as president in 2000 and continued the practice, with 80 percent of the company's work on the residential side.

But he wanted something new. Single-family rowhouses required too much day-to-day management for his taste. He wondered how to sell off the real estate without taking a massive tax hit? DeSanto discovered a quirky little rule called the

ADAM STONE  
SPECIAL TO THE BUSINESS JOURNAL

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Gary DeSanto  
DeSanto Realty Group

1031 exchange. Sell a piece of property and you can defer the capital gains tax if you buy another within a set period of time.

Here comes trouble. Under the 1031 deal, the landowner has just 45 days in which to identify a new property, "but 45 days in today's real estate environment is no time at all, just because properties are so competitive and it is so difficult to find what we consider an attractive deal," DeSanto said.

And here comes the breakthrough.

Starting in 2004 DeSanto sold off \$2.5 million worth of property. He couldn't find anything to buy with the money, so he borrowed eight figures from Citi Group and bought a \$13.5 million, 93,000-square-foot office property in Harrisburg.

Now we're in a whole new ballgame. It's call "tenant-in-common" and it allows a developer like DeSanto to buy a big property then break it down into smaller holdings for other inter-

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# DESANTO: Nailing down the right property remains the company's highest hurdle

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ested investors. That's what DeSanto did in Harrisburg, thus turning his firm in an entirely new direction by thinking bigger than ever before.

There are ups and downs here. On the plus side, DeSanto has a good eye for real estate, according to Charlie Ambrose, a vice president at Herbert Yentis and Co., a commercial real estate brokerage in Philadelphia.

*'I saw an opportunity ... I saw that no one else in Pennsylvania was offering this kind of product.'*

**Gary DeSanto**  
DeSanto Realty Group

"I consider them to be smart investors based on the location, the types of buildings, the types of tenants. They aren't picking something just to turn it back

around," Ambrose said.

At the same time, DeSanto's long history in real estate gives the firm a jump in obtaining those properties.

"A lot of things that they pursue are things that are not necessarily on the market," said Jackie Eakin, asset manager at RSR Realtors in Lemoyne, Cumberland County, Pa. "Because they are looking at things that are not listed for sale, it cuts out a lot of competition."

On the downside, it takes some time to get up to speed in the world of tenants-in-common. Early on, DeSanto spent \$15,000 on a real estate law firm only to realize that the firm was nowhere near up to speed on this area of the law.

"We eventually had to switch because they didn't understand what we wanted to do," DeSanto said. "This tenants-in-common industry just started gaining attention in 2002, so many people are not familiar with it."

Likewise, DeSanto went through three title companies before finding Land America in Richmond, Va.

Eventually DeSanto found the Tenants in Common Association, which put him

## UP CLOSE

**COMPANY:** DeSanto Realty Group

**LOCATION:** 1400 Providence Road, Media, Pa. 19063

**OWNERS:** Gary DeSanto and his father Louis DeSanto

**TYPE OF COMPANY:** Real estate investment

**NUMBER OF EMPLOYEES:** 12

**2003 REVENUE:** \$4 million

**2004 REVENUE:** \$6 million

**2005 REVENUE:** \$30 million

**LESSONS LEARNED:** Gary DeSanto grew revenue fivefold in one year by turning an arcane tax law to his advantage.

in touch with lawyers, bankers and title companies. He now uses the Boston-based law firm Sullivan & Worcester.

With his professional help firmly in place, DeSanto has been able to turn his attention to more pressing issues. Despite his colleagues' praise of his real estate savvy, DeSanto says nailing down the right property remains his highest hurdle.

"The biggest challenge still is in finding good real estate to put out there to the investor," he said. "It's all about having the relationships that allow you to get that property before it hits the market. You need relationships with brokers, real estate agents, building owners."

Coincidentally, the same 1031 rule that pushed DeSanto in a new direction also is helping him to thrive in the tenant-in-common world. As other investors sell property and look for 1031 exchanges, DeSanto is able to help them place their funds before the time limit expires. "And because there are more investors than there are buildings, we can then charge a premium for what we do," he said.

Looking ahead, DeSanto expects to move \$150 million in property this year, and he hopes to double it the following year.

How did he do it? How did he find the fortitude to push his 50-year-old business in such a radically new direction? Chalk it up to sheer confidence.

"I saw an opportunity, I saw a need that I was sure we could fill and I saw no one else in Pennsylvania offering this kind of product. I thought it was a tremendous opportunity." ■