

# TIC Monthly

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Sponsor Upclose : **DeSanto Realty Group**

By Michelle Napoli

## DeSanto Realty Group

Radnor, PA



Gary DeSanto

The DeSantos first took notice of the TIC business in 2003, when they had their own 1031 exchange requirement and had a tough time finding a replacement property. "We came across TICs, and thought there was a tremendous need for this type of product," says Gary DeSanto. So after about two years of studying the industry, DeSanto Realty Group entered the business as a sponsor. It offered its first TIC deal in 2005.

DeSanto, which has in the past year or so grown its staff to keep up with the needs of its TIC business, is one of a relatively small number of TIC sponsors on the East Coast. "Initially it was a challenge," says DeSanto. "However, I think it's changing as many more registered reps and broker-dealers are willing to come to the East Coast for investments. There's still a lot of value in real estate in this part of the country."

In addition to growing its staff, the sponsor has set out to distinguish itself in two particular areas, says DeSanto. One is providing investors, reps and due diligence officers password-protected online access to all materials on a particular deal. Another in the works is an online property management system which DeSanto says will allow investors to access their property for "up-to-the-minute reporting" on such things as current occupancy and daily property site visits.

Its TIC deals now number seven, and have been focused on multi-tenant office and retail assets. The first few transactions involved properties close to home, in the Harrisburg, PA, market, and the sponsor has subsequently expanded to assets in smaller Midwest markets. DeSanto opts for those smaller markets intentionally, since, he says, they are less likely to experience the highs and lows many other markets do: "They don't get as much attention, however they are stable in their economy and growth."

"We like stabilized, income-producing properties," DeSanto says. "In our past life and our business for years, we just bought for ourselves, so we approached it with conservative underwriting standards. And that carries over to our TIC investments."

**Current TIC/DST Portfolio:** Seven properties with a total value of about \$165 million. The portfolio consists of approximately 1,000 apartment units and 600,000 sf of office.

**2005 Equity Raised/Total Property Value:** \$4 million of equity for one \$15 million property.

**2006 Equity Raised/Total Property Value:** \$20 million of equity, \$55 million total property value.

**2007 Projections:** The sponsor expects to raise \$55 million for \$160 million of

property offerings this year, and has already completed about \$100 million of TIC properties.

**TIC/DST Properties Gone Full Cycle:** None yet.

**Property Type Focus:** Deals have been concentrated in the multifamily and multi-tenant office sectors; DeSanto says he likes multifamily because is an asset class the company is especially familiar with and because of its conservative nature, and multi-tenant office because it helps spread out risk among tenancy. In addition, DeSanto says the company has been looking at a lot of medical office properties of late.

**Regional Focus:** Its first deals were in the Harrisburg, PA market, but the company then expanded into small Midwest markets. DeSanto says he continues to look locally in the mid-Atlantic region but that it is harder to find appropriate returns. By late this year or early next year, he adds, the sponsor expects to have a more national reach. "We like to stay in the markets that we know, however, we have hired additional acquisitions people" to explore new markets, he says.

**Recent Transactions:** Examples include Fox Chase, a 304-unit apartment complex in Holland, OH that was purchased for \$21 million and was 94% occupied at closing, and Cypress Medical, a 74,518-sf medical office complex in Wichita, KS that is fully leased to physicians and an ambulatory surgery center operated by Symbion Healthcare.



Fox Chase

**Securitized Investment:** Yes. "We felt we needed to stay in the deal with the investors through the life of the project," says DeSanto, to "make sure the investors are taken care of." In addition, he says, "we also like the benefit of the extra layer of due diligence."

**Master Lease or Management Agreement:** All TIC deals to date have been with management agreements. "I think unless it's a special circumstance, it will probably stay that way," says DeSanto, adding that he feels management agreements are in the best interest of the investors.

**TIC or DST:** All DeSanto deals have been structured as tenants-in-common.

**Financial Capability & Closings:** The sponsor typically closes on a property with first lender financing, mezzanine financing and its own equity, and subsequently offers it to investors.

**Debt Financing:** Typically non-recourse, fixed-rate debt with a 10-year term, two to five years interest only and 60% to 65% loan-to-value.

**Other Investment Vehicles/Affiliated Companies:** None at this time.

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