

Overcoming perceptions

Why mining secondary & tertiary Midwest for TIC investments strikes gems



By Gary DeSanto

People are sometimes surprised to find the ideal properties for tenant-in-common (TIC) investment are often found in areas considered secondary or tertiary markets.

While acquisitions in larger metropolitan areas sometimes grab more than their share of headlines,

the fact is there is a lot of opportunity in smaller, but economically stable markets throughout the United States in multifamily, office and retail properties.

This is particularly true of a variety of Midwestern real estate markets. While many of the REITs walked away from commercial and residential real estate investments in the Midwest in the early 2000's, they left attractive, highly manageable real estate investment behind them. As TIC sponsors and investors look to find new value in today's markets, they are finding it in greater quantity in some of Midwest's most unlikely markets.

What is an "ideal property?"

In many cases, the factors that make an asset an attractive TIC investment on the East Coast are the same for the Midwest. The asset should be in a stable economic climate, strong job growth, a positive trend in population and access to major thoroughfares and adjoining metropolitan areas.

TIC investors, many of which are on the West Coast, do find the trends and locations of East Coast investments somewhat easier to digest. In many times these are areas that, despite being considered secondary or tertiary, are close to major cities and places where they have a better understanding or experience.

Yet across the Midwestern region, there are real estate markets that are quietly, yet robustly growing. Markets like Toledo, Ohio, Holland, Michigan and Wichita, Kansas, are seeing new life and opportunity in their commerce, populations and real estate.

Some great growth stories

While property owners and REITs cashed in equity throughout the region in the early part of this decade, the properties that remain are now serving growing populations. To be fair, as occupancy trends were declining from 2001-2004, many of these properties simply did not offer occupancy rates that made them sensible investments at that time.

But growth and economic stability have returned to places like Greater Toledo, Ohio. The area has a strong local economy and has experienced job growth and over \$67 million in private sector investment over the past year.

As major manufacturers like GM commit money and infrastructure to the area, it creates property opportunities with great long-term upside in an economically strong and stable location, which also has access to major thoroughfares like I-475, Airport Highway, and the Ohio Turnpike.

What's more, developers are not flocking to areas like this, leaving existing infrastructure to service each community's growing residential, commercial and retail real estate needs.

Ohio's neighbor to the North, Michigan, has markets that share Toledo's characteristics as well as opportunities for TIC investment. Holland, Michigan, an upscale suburb located near Lake Michigan and the city of Grand Rapids, Michigan is a lakeshore town located on Lake Macatawa and the Black River, and was recently named one of the top places in the country to retire.

The town of Holland also allows for easy access to the area's primary commercial corridor, including shopping, dining and entertainment. The area's location is in one of the most prosperous economic climates in the entire state and offers real estate assets that can be purchased below their appraised values.

Again, this reality offers an ideal climate for TIC sponsors and investors looking for opportunities in strong, stable markets that are also available at a premium to their appraised value. These markets are offering new opportunities in TIC transactions for investors nationwide. Indeed, the number of deals appears to be on the rise.

Familiarity breeds investment

Turning back to many TIC investors misgivings about the Midwest, a final example comes from the very heartland of the US, Wichita, Kansas.

As Kansas' largest city, Wichita offers a vibrant economy and a progressive environment in which to grow. It also hosts the finest medical facilities the state has to offer. This is a metropolitan region that is seeing strong growth trends, and an opportunity for TIC properties.

Yet many times, TIC investors from either coast have little familiarity with the state and region. In many cases, their own misconceptions about the Midwest and real estate investment opportunities keeps them from examining extremely attractive properties that might be better than similar ones in the Mid-Atlantic and Northeast.

This is a challenge that TIC need to help investors and brokers alike understand and overcome. The goal of any quality TIC investment is to identify and acquire real estate assets that will provide strong cash flow over the hold period, and ultimately provide the TIC investors with a stable asset in an ideal market.

While TIC investors may be reticent about Midwest real estate investment, the fact is that states like Michigan, Ohio, Kansas, Indiana and others are offering markets and properties that exhibit the same fundamentals as properties on the East and West Coast, and in many cases better fundamentals.

The value of Midwest properties available for acquisition is another attractive characteristic, as these properties are selling in some cases far below replacement cost which is attractive to every real estate investor.

As real estate investors from the baby boomer generation retire and look 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.

While these groups have typically looked to investments on the East and West Coasts over the years, today the Midwest is offering some of the best opportunities in TIC investment.

Growing markets with positive population trends, stable economies and a lack of new development all host the next wave of TIC properties. Investors should look to their sponsors and brokers to become acquainted quickly with these areas and opportunities before the window closes.

Gary DeSanto is principal and CEO of DeSanto Realty Group, a national sponsor of tenant-in-common (TIC) real estate transactions. The firm is actively acquiring commercial, residential and retail real estate nationwide that can be successfully converted into TIC ownership.