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Overcoming perceptions of the Midwest for tenant-in-common real estate investment

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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 metro 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 U.S. in multifamily, office and retail properties.

This is true of a variety of mid western real estate markets. While many of the REITs walked away from commercial and residential real estate investments in the Midwest in the early 2000s, 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.

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 metro areas.

TIC investors, many of which are on the west coast of the U.S., do find the trends and locations of east coast investments somewhat easier to digest.

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

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 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 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. 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, Mich., has markets that share Toledo's attributes as well as opportunities for investment. Holland, Mich., a suburb located near Lake Michigan and Grand Rapids, is a lake-shore town located on Lake Macatawa and the Black River, and was named one of the top places in the country to retire. 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.

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.

Turning back to many TIC investors' misgivings about the Midwest, a final example comes from the very heartland of the U.S, Wichita, Kans.

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 metro 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 attractive properties that might be better than similar ones in the mid-Atlantic and northeast U.S.

This is a challenge that TIC sponsors like DeSanto Realty Group 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.

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 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.

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