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FEATURE STORIES



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Private real estate investors drive tight commercial market

By Joe Gardyasz
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For Dr. Eugene Cherny, the Urbandale building housing his plastic surgery practice is more than his professional space. It's a tangible investment that's part of his three sons' college fund and an important piece of his retirement portfolio.

"You can spend your 'wacky money' on the tech stocks," said Cherny, who says he now has about half his assets in real estate, "but for my family's future I wanted kind of a widows-and-orphans fund. ... If it wasn't for this, (with the stock market's swings) I would have been toast."

Cherny, like many Greater Des Moines professionals, has ramped up his real estate portfolio over the past several years in response to a shaky stock market and weak bond returns due to record-low interest rates.

According to a national commercial property analysis conducted for Grubb & Ellis/Mid-America Pacific Group, private local investors now represent 25 percent of all commercial real estate owners, while just 16 percent of owners were institutional investors such as insurance companies. Private national investors accounted for 26 percent of investors, with real estate investment trusts making up another 22 percent of the market.

"Certainly, the stock market collapsing brought a lot more local investors to the table," said Dean Weitenhagen, a Grubb & Ellis associate in West Des Moines who specializes in office and investment advisory services. "That, coupled a couple years later with the drastic fall in interest rates, really brought them out of the woodwork."

Because there have been so many private investment dollars chasing a limited amount of available real estate, however, that has tended to drive up prices and make good investment properties difficult to find.

"That's really been the heart of the problem for the private investor for the past three years, finding replacement property," Weitenhagen said.

It's not any easier for investors who happen to be in the real estate business,



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said Doug Siedenburgh, owner of the Siedenburgh Group, a Clive real estate investment, consulting and development company.



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"I'm in real estate, and I paid taxes on two properties I sold last year, because I couldn't find replacement properties I was happy with," said Siedenburgh, who developed and now manages the office building his company occupies, which he co-owns with three partners.

Among the issues that keep a lot of people from considering real estate investments are finding a good property manager, as well as the fact commercial investment properties are not very liquid, Siedenburgh said.



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"I would say a huge number of people look at (commercial property investments) and simply say, 'I'm not going to do this,' because it's too much risk or too much money. So they turn to REITs, or they don't do it at all."

One path around the management issue is a triple net lease, an arrangement in which the tenants pay all the taxes, insurance and maintenance expenses of the property in addition to paying rent to the property owner. However, those type of arrangements are usually made for higher-priced commercial properties, typically \$1 million and above, Weitenhagen said.



"The majority of my clients, they want net lease properties because they're involved in professions where the last thing they want to do is have to worry about their property at night," he said.

An increasingly popular vehicle for acquiring commercial properties is a tenants-in-common arrangement, or TIC. In contrast to a partnership in which each of the partners must mutually agree to sell a property, a TIC allows the parties to sell their interest or roll it over to another property in a like-kind, tax-deferred exchange.

Getting into a TIC may be a good option for someone who's selling a property and no longer wants to actively manage and own real estate, and looking for a way to defer taxes on the gain, said Dave Watson, a tax partner at LWBJ LLP. As part of a TIC, they can also buy into a more expensive property than they could afford as an individual, he said.

Though the Internal Revenue Service issued guidelines three years ago that clarified what constitutes legitimate TIC arrangements, "you have to follow the rules very carefully, or you can really get burned pretty badly," Watson said. "The case law involving this area is evolving constantly."

With current market conditions, valid arguments can be made for either holding or selling commercial investment properties, Siedenburgh said. The most compelling argument for holding on?

"Did I mention that replacement properties are hard to find?" he said.

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