

A New Player in the TIC Market

This firm believes it has the financial and real estate expertise to make it in an increasingly crowded field

By Bob Howard

THE EXPANDING TENANT-IN-COMMON universe has done it again as former executives from Passco Real Estate Enterprises and Mammoth Equities Capital Group have joined with one of Orange County's largest owners of office buildings, John Saunders, to form a new tenant-in-common investment firm, CORE Realty Holdings LLC.

However, the Newport Beach-based firm will also offer other financial services and has its eyes on offering a REIT as well, one of the founders, says Sterling McGregor, who serves as chief investment officer and is one of the founders of the new firm.

McGregor was most recently the vice president of acquisitions and financing at Irvine-based Passco. The other principals and founders include Russ Colvin, John Saunders and Douglas Morehead. Colvin, CORE's president and CEO, was formerly the president of Mission Viejo-based Mammoth Equities Capital Group; Saunders, who owns a portfolio of commercial properties in Orange County and other Southern California

locations, is chairman of the new firm; Morehead, president of Optima Asset Management, is vice chairman of CORE.

McGregor, who was a founding shareholder of Triple Net Properties and a founder of Argus Realty Investors before joining Passco, tells Real Estate Southern California that he sees consolidations ahead in the tenant-in-common business and that the future belongs to those firms with the most real estate acumen and capital reserves.

"We firmly believe that the TIC business is a great business to be in," McGregor says, "but we also believe that in the future, the well-capitalized companies that have the best real estate expertise are going to be the players left standing." The future will be dominated by fewer, larger companies and a lot of the smaller players "will either be squeezed out or just move to the sidelines," says McGregor. He notes that CORE Realty Holdings is on solid capital footing, thanks to the resources of Saunders, who has been a low-profile player in the Southern California

office market but has nonetheless built a portfolio of about 90 mainly multi-tenant properties comprising about five million sf.

Colvin tells Real Estate Southern California that his new post as president and CEO of CORE Realty represented "a once-in-a-lifetime opportunity to build a world-class, leading-edge real estate investment company." Colvin further liked the opportunity to join with seasoned TIC and real estate executives. He notes that besides its experienced principals, CORE includes as its vice president of marketing and communications Janet O'Connor, who was marketing director at Mammoth and before that was with Triple Net Properties.

Colvin, before joining Mammoth, held executive posts at several large institutions during his 22 years in commercial lending. He points out that he and McGregor both have lending backgrounds. "If you've looked at deals for 20-plus years as a lender, you probably view things a bit differently from someone who has always been just an acqui-

sitions person," Colvin says.

CORE Realty Holdings includes its own property management arm in the form of Optima Asset Management and Saunders Property Co., which own and manage more than 5.5 million sf of commercial property, mainly office buildings and mostly in Orange County.

"Our specialty is multi-tenant buildings," says Morehead, who tells Real Estate Southern California that whether CORE manages the properties it acquires will depend on a number of factors. "If the property is in an area where we can be competitive and we can use our edge, we will manage it," he says, "But if the property is in a market where we are not comfortable that we can do the job, we will farm it out." One

Co-Ownership of Real Estate, McGregor explains. CORE's primary investment targets, according to McGregor, will be west of the Mississippi. The company will be seeking quality, multi-tenant, retail, office and industrial assets as well as multifamily properties. However, he notes that the principals of the company have also acquired value-added properties in their careers and Saunders' group, in particular, has historically has focused on such plays.

The CORE headquarters at 1600 Dove in Newport Beach, for example, is in a formerly foreclosed property that was substantially vacant when Saunders acquired it but is now 97% occupied.

In addition to its TIC investments, CORE will offer other products and services,

McGregor was there are a sign of things to come in the industry. The Puente Hills Mall transaction was remarkable in myriad ways, according to McGregor, among them the number of investors, 35, which far surpassed the maximum of 12 to 15 investors in many if not most TIC deals up until that time.

Also, the Puente Hills Mall purchase was financed with a bow-tie conduit loan, a type of financing that allows investors to borrow at a low start rate typical of adjustable loans while still maintaining many of the advantages of stability and predictability that come with a fixed-rate loan.

Flexibility will be one of the keys to success in the TIC universe in the future, McGregor believes, because consolidation of TIC firms is just one of the trends he foresees.



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Chief Investment Officer



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Vice Chairman

reason that Saunders and Morehead have concentrated on multi-tenant properties is that "the smaller tenant market is harder to manage, but we believe it is more stable," Morehead says.

According to McGregor, CORE will seek primarily core, stabilized assets, although the company "anticipates working with some institutional investors on some value-added transactions," he says.

The new company chose CORE as its name to indicate the emphasis on core assets, but the name CORE also is an acronym for

according to McGregor. He says the firm intends to be a diversified financial services company that will establish a mezzanine loan fund and, eventually, a REIT. "We intend to have a REIT vehicle in probably nine to 12 months, but we don't know precisely if it will be a private or a public REIT," the CORE principal says.

Financial savvy will become even more important in the TIC world in the future, according to McGregor, who says deals like the \$148-million TIC purchase of Puente Hills Mall that Passco engineered while

Another trend is that the smaller broker-dealers who sell interests in TICs will likely consolidate into larger and more sophisticated firms, he says. Yet another trend is that the industry will become more marketing oriented. "More people have heard about tenant-in-common deals now, so more people understand the product," McGregor says.

He explains that the public's greater familiarity with the TIC concept means that more people will be receptive to TIC marketing campaigns, in turn meaning a larger pool of prospective investors. —SOCAL