ORION
COMMERCIAL PARTNERS LLC

Case Study: PRIVATE CALIFORNIA FAMILY FUND

Assignment

Orion was asked to ascertain the investment objectives for three different Tenant in Common (TIC) parties and create an investment acquisition strategy tailored to each of these parties objectives. The objective was to reposition the client's private real estate holdings through the disposition of a single asset and completion of separate 1031 tax-deferred exchanges into a diversified portfolio of various product types located in separate geographies. Two of the TICS required leveraging up the investment base from all cash to 50% loan to value to increase asset base performance. All TICS wanted diversification from the single relinquished grocery-anchored retail property to multiple properties to enhance returns and safeguard their investment through diversification. The diverging needs and priorities had driven the group to separate many of their real estate interests by selling the crown jewel of their real estate assets.

Challenges

The client had owned the primary asset for more than 30 years and given that the property was passive in nature and always performed solidly, there was very little client knowledge about the nature of today's commercial real estate market. Although there was a strong desire to diversify; the family also lacked familiarity with other real estate product types and had only basic familiarity with the Pacific Northwest's major metropolitan markets into which they wished to exchange. The client was heavily reliant on a legal resource which was not versed in the real estate market dynamics resulting in inordinate internal and external deal friction and obstruction. Lastly, the client had to overcome credibility concerns due to their newness to the Northwest region and the real estate investment market. These sellers often created timeline pressure as they hesitated to sign contracts, which was detrimental to an Exchanger with virtually no cost basis and large tax consequences if the 1031 timelines were not met. *(continued)*

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Results

Having successfully secured the "down-leg" California property under contract, Orion scoured the Pacific Northwest for investment opportunities. Targeted properties were classified in three different 'food groups' and necessitated travel from Idaho to Central Oregon and beyond to pre-qualify even the smallest properties which could satisfy the 1031 exchange requirements. This proactive effort to initiate the hunt before the "down-leg" sale was non-refundable effectively doubled the client's time to identify, negotiate, and close on the various 1031 "up-leg" properties which would defer a double capital gains tax liability (CA State and Federal) that could have wiped out 24% of the TICS equity. The various TIC parties were attracted to different property types which matched their objectives and therefore Orion was able to act as a single-point-of-contact and represent each party in their search for replacement property in the same markets. Orion ranked each prospective replacement property for yield, risk, and other objectives for each investor and factored the anticipated negotiated purchase position into the rankings.

Since each TIC was a long term holder, a basket of twenty top properties were identified for which Orion developed 10-year cash flow and IRR models. After prequalifying an 'A' list, Orion fully negotiated a Purchase agreement of three properties for each TIC member (nine total) to qualify for the 1031 Exchange form as potential replacements prior to the declaration of which three would qualify was required. Then Orion performed the full due diligence on each, managed the purchase agreements, loan placements and loan assumptions including preparing the client for rigorous bank underwriting, and effected the closing of two each (six total closings) with a third property always held as a contingency option.

Each of these TIC investors has been very satisfied with their new investments. In the overall portfolio are two soft-goods anchored shopping centers, one grocery-anchored center, one hard-corner unanchored center, a medical project and a mini-storage complex. Average occupancy has been above 90% over the hold period, and each owner has had the freedom to choose a level of debt at which they are most comfortable. The properties reside in six different areas of Western Washington and Oregon, and are close enough to each investor's home to visit on a one-day trip. In the first 5 years of ownership $24 million in equity and real estate value was converted to over $50 million in equity and more than $100 million in overall real estate valuation. The equity position for each investor was approximately doubled and cash-on-cash returns exceed 15%. Perhaps most importantly, this collaborative process has enhanced each client's level of expertise in 1031 exchanges, asset management, property management, and developing real estate–knowledge and skills that should be handed down through each family's generations.

Orion continues to assist and advise on strategic matters, leasing, valuations, buy/hold analysis, management, redevelopment, refinancing and anchor tenancy issues for each investor on these and other properties still held jointly in California including the entitlement for future development of a large tract of mixed use land and an apartment complex.