

Real Estate Gems

Baceline Investments specializes in finding 'diamond' commercial properties in Middle America. BY MICHAEL S. FISCHER

ASSET MANAGEMENT SPOTLIGHT



DAVID PUCHI

gave us nuts-and-bolts knowledge of the commercial real estate business," he says. Highline made its first investment in real estate in 1998 and engaged in both investments and property management for third parties. In 2003, after Craig Zoellner came on board as a third partner, Highline was wound down and the three men started Baceline Investments.

Investing In The Heartland

The core of Baceline's strategy is investing in neighborhood retail and industrial properties located in the broad midsection of the country. This is the "secondary market," in contrast to the "primary market" in the gateway cities on the east and west coasts. The firm is active in the southwest, the Rocky Mountain states and the Midwest in cities such as Dallas,

way cities on the coasts."

Baceline's advantage is temporary, however. "Large institutional investors have played in the secondary arena before, and will do so again," Puchi says. This will happen when they tire of competing with dozens of bidders on core assets on the coasts. Puchi thinks it will take large institutional buyers two or three more years to return. "We're already seeing some movements. It's not only the operators and the equity capital, but it's also the banks; the lenders have to get back to the middle of the country."

For now, though, Baceline has the secondary market largely to itself, Puchi says. "Our competition more often than not is a local buyer rather than a regional or national buyer," he says. Baceline typically beats out local buyers on target properties

ALTHOUGH DAVID PUCHI ISN'T A GEMOLOGIST, he favors diamond metaphors. Puchi heads up an investment team at Baceline Investments that buys commercial real estate in the American heartland. Some properties are what he calls "diamonds," outstanding assets to be improved and put back on the market. Others are "diamonds in the rough," distressed properties with strong potential for revival that need a lot of polishing.

Puchi learned how to work with real estate gems in the mid-1990s, when he and his partner Douglas Arnold started a property management company in Denver called Highline Group. "Managing commercial buildings for other people

Denver and Minneapolis. It is also active in Chicago, a primary market.

The secondary market's attraction for Baceline is the absence of large institutional competitors. "Buying real estate in the heartland gives us a competitive advantage," Puchi says. "We simply don't have the competition that you see in gate-

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because they may not have capital backing or the ability to get financing, he says.

Add to this another competitive advantage: Baceline's reputation among sellers. "We have an impeccable record as far as closing on real estate that has gone through our due diligence process," Puchi says. This is especially important since, after

the financial crisis, buyers would put a property under contract and then not close because of lack of capital and a non-existent operating platform. “The sellers have to be wary,” he says. “It’s important for us to keep our buying reputation intact when we go into markets.”

Two Fund Offerings

Baceline offers its accredited individual and family investors funds in two strategies. One is its flagship debt-free income initiative. “When we go in, we buy a property for all cash,” Puchi says. This gives Baceline greater control over the property and the ability to stay nimble. It does not have to sell at an inopportune time. “We don’t have a debt maturity or refinancing gun to our head,” he says.

Baceline looks for centrally located commercial properties with existing cash flow, available at prices that reflect discounts to prior peak values. These will also have positive indicators for added value, such as high occupancy rates and new leasing potential.

The markets themselves must be attractive for investment. They will have a diversity and predictability of major employers, and will evidence both historical and projected population, employment and household income growth and stability. The region will have strong infrastructure, attractive cost of living in relation to median income and lifestyle choice for living and working.

Baceline’s latest acquisition in the debt-free strategy, announced in August, is Bridgewood Plaza, a retail center in Des

Moines, Iowa. The firm bought the property at a 10.2% capitalization rate from a lender for \$4.7 million, a third of its pre-financial crisis value. The shopping center comprises 18 units, 14 of which are currently occupied. It is located across from the city’s largest and highest-profile mall. Baceline now will launch a repositioning program in order to maximize investor value upon the sale of the property.

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tressed initiative. Here, the firm may put as much as 50% leverage on a commercial property. It typically acquires assets from lenders at severe discounts to value. Puchi and his team will focus on properties that have a history of good occupancy and are well located in a viable surrounding community.

In January 2010, Baceline bought the 100,000-square-foot University Commons retail center in South Bend, Ind., for \$1.8 million, about 30% of its original loan value. It was 37% occupied and in foreclosure. From Baceline’s perspective,

the property had several things in its favor: a low purchase price, its location in the hometown of the University of Notre Dame, and visibility and access from a main thoroughfare. As well, it sat next to a large regional mall, and was equidistant between two regional medical centers.

The next step was to bring the vacant space back to life. Through its market research, the Baceline team identified a growing need for medical office space in South Bend. This prompted the firm to

design a major renovation plan for converting the big box into medical offices. A local medical group that was showing interest in leasing the space liked the plan, and contracted to purchase the property. It sold in September 2010 for \$4.9 million—a hefty \$3.1 million profit for the Baceline investors.

Baceline’s debt-free portfolio has 14 properties, and its distressed portfolio five properties. The firm manages and improves all its assets in accordance with its Sustainable Initiative Program—“bringing green to Main Street,” Puchi says. *Rv*



Baceline Investments LLC