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Developer Darren Casey is digging deep to find new opportunities

San Antonio Business Journal - by Tricia Lynn Silva

Local real estate developer Darren Casey has embarked on a multimillion-dollar project.

But it's not retail, office or industrial tenants he's looking for in this case. This time around, he's banking on Texas' position in the oil and gas market.

Casey has joined forces with West Texas-based oil man Jack Curtis to develop a quarry and plant that will produce the sand crucial to many of the oil and gas mining activities taking place in the Lone Star State. Spanning 250 acres, the Erna Frac Sand facility is located in Mason County — about 130 miles northwest of San Antonio.

Casey and Curtis have invested some $30 million to get this plant up and running. **Amarillo National Bank** is the lender on the project.

Casey, the founder and CEO of San Antonio firm **Casey Development** Ltd., and the developer behind more than 2 million square feet of commercial space in the greater San Antonio area, realizes that this sandstone quarry/processing plant operation is a marked departure from the real estate development game.

He also recognizes, however, that the oil and gas industry is booming now, and real estate isn't.

"Last couple of years, there's been no (real estate) market, from a development perspective," Casey says.

But the Erna Frac Sand facility, and its proximity to the Eagle Ford Shale, a major source of oil and gas located in South Texas, could be just the thing to keep Casey active in a down real estate market — all the while providing a hefty return that will fund Casey's future real estate ventures.

Adds Dennis Haire, CFO and controller of Casey Development: "This could be the cash cow that funds a lot of future real estate deals."

Sand cash

Operations like the Erna Frac Sand facility produce the sand necessary in the process of drilling cracks, or fractures, into large rock formations.

Commonly known as hydraulic fracturing, or fracing, this drilling method allows for production on a commercial scale and has resulted in hoards of oil and gas companies staking their claims along these lucrative rock formations — including the Eagle Ford Shale in South Texas and the Barnett Shale in the Dallas-Fort Worth area.

The process has not been without its detractors. The Environmental Protection Agency recently announced plans for a hydraulic fracturing study, which will investigate what it calls "the possible negative relationships between hydraulic fracturing and drinking water."

EPA plans to begin the study in 2011. The final results are to be available by late 2012.

The reality for the energy industry, however, is that fracing has become a necessary method for bringing to market the oil and gas on which many people still depend — especially when it comes to tapping into those deposits in shale plays like the Eagle Ford Shale, says Peter E. Hosey, a partner in the San Antonio office of **Jackson Walker** LLP. His practice areas are real estate and energy. .

Without hydraulic fracing, trying to get oil and gas out of these hard rock formations would be very difficult, says Hosey.

And given the potential for large returns of oil and natural gas liquids that the Eagle Ford Shale provides, both the rock formation, and the process necessary to reach these minerals, will likely be in demand for some time to come.

“The Eagle Ford Shale is hot right now,” observes Mitch Brownlee, who owns his own oil and gas exploration company. And with the demand for fracing, comes the demand for the sand that makes the process necessary, say Hosey and Brownlee.

Enter the Erna Frac plant, which can provide this sand and is close to the action at the Eagle Ford Shale and other Texas formations, Curtis says.

Haire says that the Erna Frac sand sells from between $40 to $77 a ton — with the typical sale being for a truckload of about 25 tons.

Haire estimates that the plant will produce about 2,000 tons of frac sand a day.

“The future,” adds Casey of the plant he and Curtis built, “looks bright.”

Smart business

Casey is certainly no stranger to lucrative deals. Consider one of his most prominent transactions: The sale of a 12-property portfolio of some 880,000 square feet of office and industrial space to Newport, Calif.-based investment firm **Chase Merritt**.

The purchase price for the buildings — the bulk of which were developed by Casey himself — was $113 million.

That deal, says real estate veteran David Held, is representative of the business acumen that defines Casey.

“You look at his past, and how he’s done. He’s landed on his feet again and again and again,” says Held, a principal in local real estate firm **Endura Advisory Group**. “Darren is very smart. He’s aggressive. But he’s smart aggressive.”

True, in real estate, luck often plays a part in successful deals, Held adds. But sooner or later, smarts has to come into play for one to be successful in the business.

And that’s where someone like Casey stands as an example of smarts over luck.

“He’ll analyze a deal, do his homework, but he is certainly willing to take a risk,” Held adds. “He gets on base a lot more than he strikes out.”