

Analyzing Asset Class: Multi-family



Climbing to new heights

Panelists

Moderator: **Larry Sullivan**, Passco Companies LLC

- **Dan Shaeffer**, Cottonwood Capital LLC
- **Jay Grooters**, Eliason 1031 Properties Corp.
- **Stacy Hunt**, Greystar South
- **Jeffrey Hawks**, Apartment Realty Advisors

Coordinator: **Bill Winn**, Passco Companies LLC



Climbing to new heights

Product Overview - Returns

NCREIF Property Index

	<u>Annual Returns</u>					<u>Std Deviation</u>	
	3 Yrs	5 Yrs	10 Yrs	20 Yrs	Since 1978	20 Yrs	Since 1978
Apartments	16.4%	13.7%	12.8%	10.3%	12.1%	4.7%	5.7%
Industrial	17.6%	13.9%	13.2%	9.3%	10.7%	6.9%	6.3%
Office	19.1%	13.5%	13.2%	7.3%	9.5%	9.3%	9.3%
Retail	18.0%	17.6%	13.6%	9.6%	10.5%	6.6%	5.8%
Average	18.0%	14.4%	13.1%	8.7%	10.2%	6.8%	6.5%

Index returns start in 1978

Source: NCREIF Property Index



Climbing to new heights

Product Overview - Returns

Last 2 Recessions: 1990-91 & 2001-02

	Total Returns	
	1990-91	2001-02
Apartments	5.80 / <1.36>	9.37 / 8.76
Industrial	1.96 / <3.86>	9.30 / 6.70
Office	1.06 / <11.45>	6.20 / 2.78
Retail	5.96 / <1.85>	7.76 / 6.74

Source: NCREIF Property Index



Climbing to new heights

Investing in Core Assets

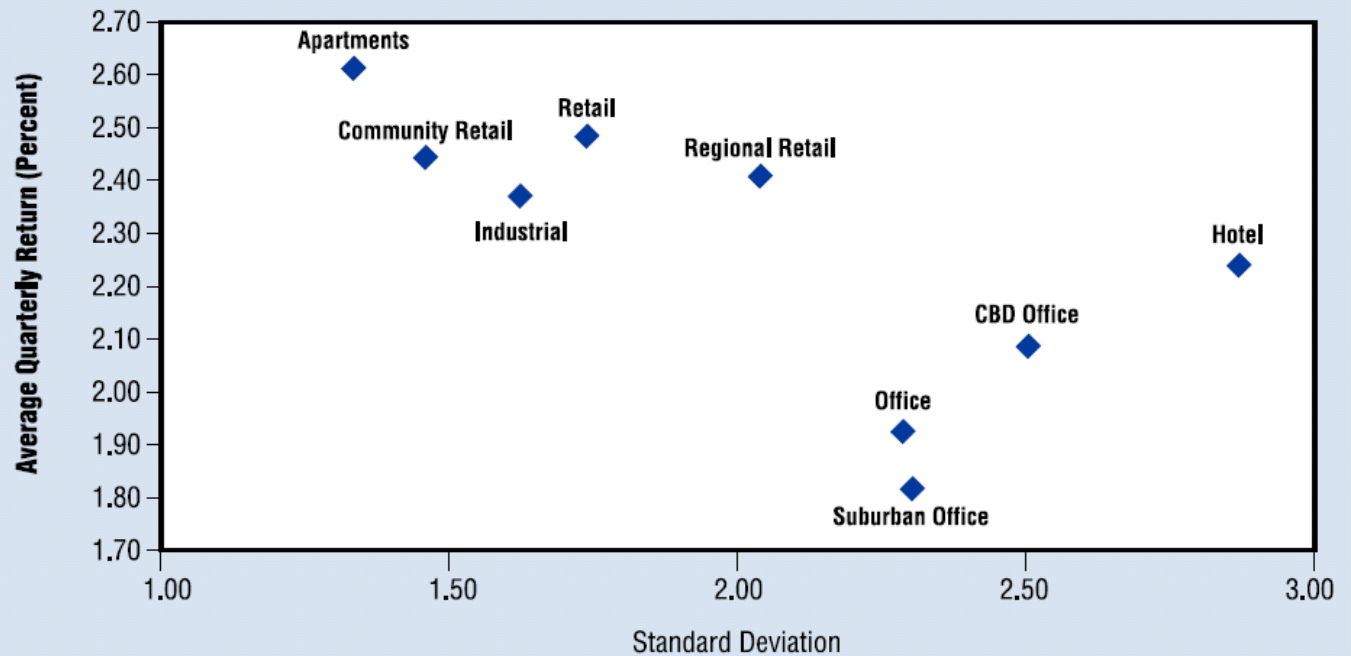
Presented by:
Dan Shaeffer
Cottonwood Capital LLC



Climbing to new heights

Returns by Asset Class

Average Annual Risk and Return for Different Property Types: 1980-2006



Sources: NCREIF
Torto Wheaton Research

Berkshire Property Advisors



Climbing to new heights

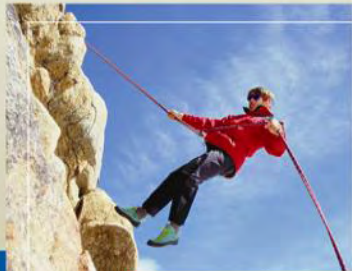
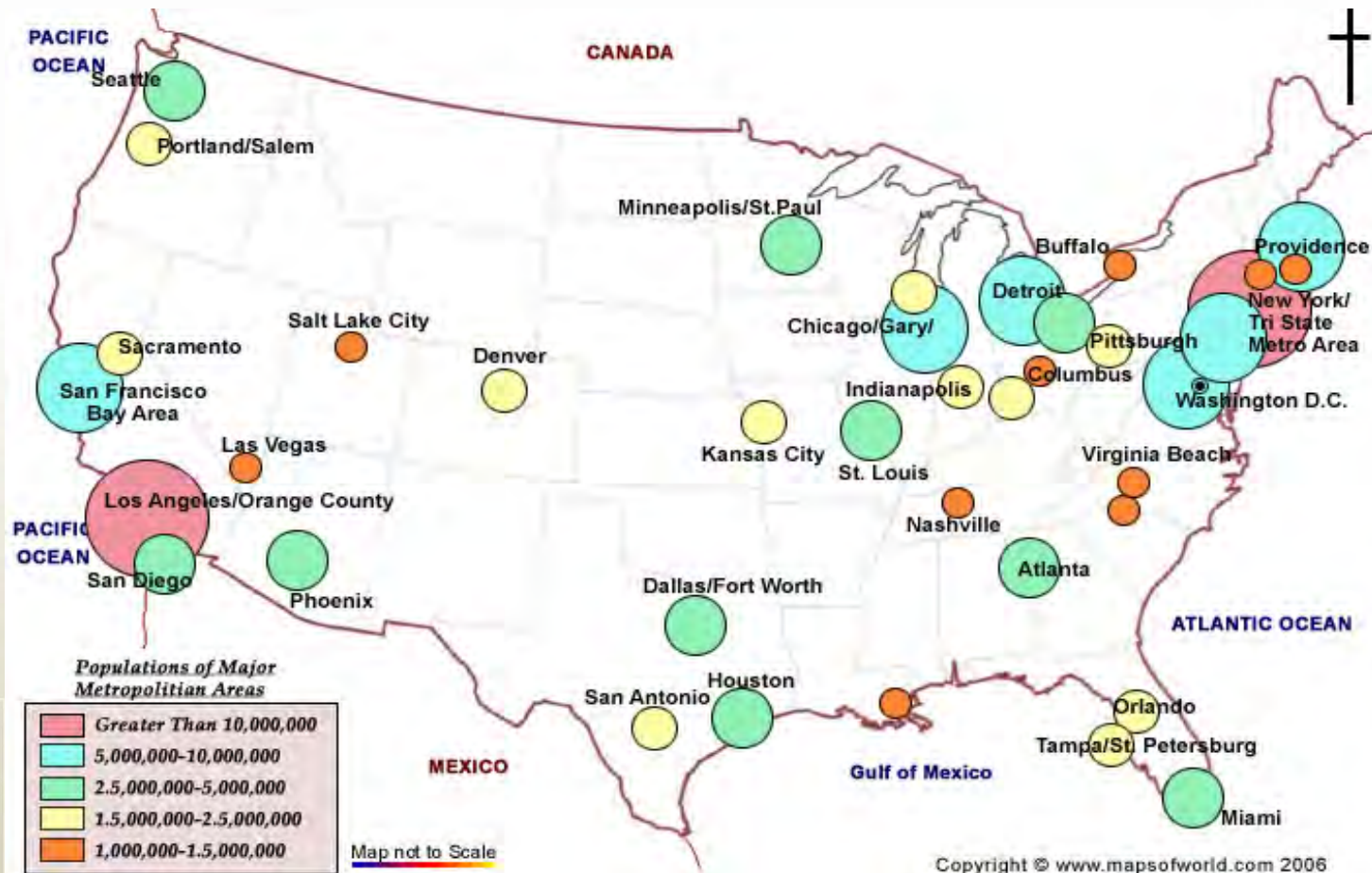
Simple Definitions

CORE	NON-CORE
Large A/B complexes	Smaller, lower class complexes
Vibrant higher-income neighborhoods	Working class or declining neighborhoods
Effective age of 10-15 years or less	Older properties with significant capital needs
Extensive, contemporary amenities	Limited or out-of-date amenities
Primary Markets	Secondary & Tertiary markets



Climbing to new heights

Market Selection

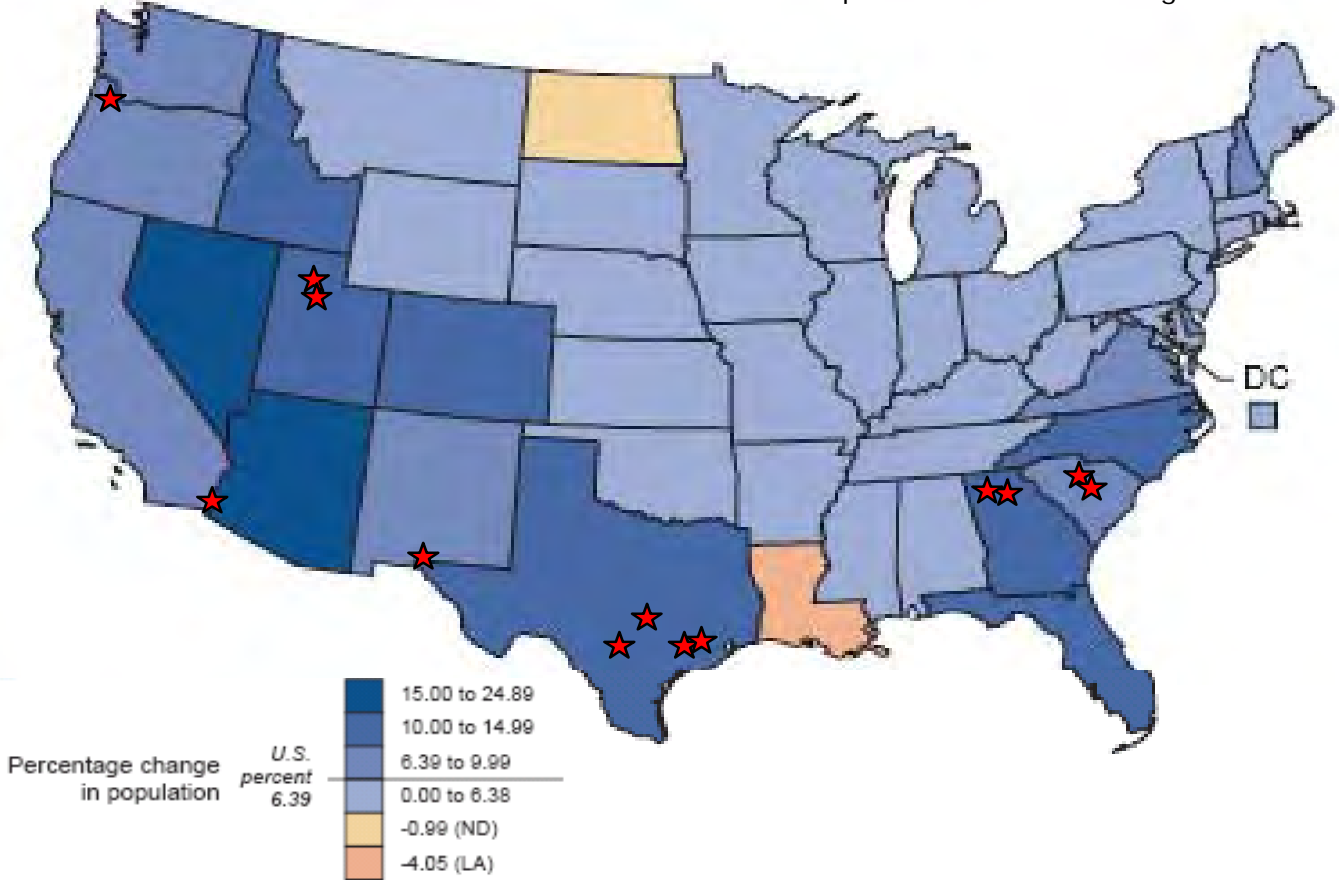


Climbing to new heights

Market Selection (Cont.)

2000 to 2006 Population Growth

Source: US Census Bureau Population Estimates Program



Climbing to new heights

Historical Returns

Investment Value Chain	Internal Rate of Return Contribution Core/Core Plus Market (Percent)	
	1995 – 1999	2002 – 2006
1. Purchase Cap Rate Yield	7 – 8	5 ½ – 7
2. Increase or Decrease in Return Due to Difference Between Exit Cap Rate and Purchase Cap Rate	½ – 1 ½	7 – 8
3. Cash Flow Growth Over Hold Period	4 ½ – 6	½ – 1 ½
4. Asset Renovation and Rehabilitation	–	–
5. Other Asset Management Initiatives	–	0 – 2
Unlevered Internal Rate of Return	12 – 15 ½	13 – 18 ½
6. Leverage	4 – 6	6 – 10
Total Return	16 – 21 ½	19 – 28 ½

SOURCES: Berkshire Property Advisors
Torto Wheaton Research



Climbing to new heights

Future Returns ?

Investment Value Chain	Internal Rate of Return Contribution (Percent)			
	Core/Core Plus Market 1995-1999	Core/Core Plus Market 2002-2006	Core/Core Plus Market Expectation 2007-2013	Value Added Expectation 2007-2013
1. Purchase Cap Rate Yield	7 - 8	5½ - 7	5 - 5½	5 - 6
2. Increase or Decrease in Return Due to Difference Between Exit Cap Rate and Purchase Cap Rate	½ - 1½	7 - 8	< 3 >	< 2½ >
3. Cash Flow Growth Over Hold Period	4½ - 6	½ - 1½	3 - 4	4 - 5
4. Asset Renovation and Rehabilitation	-	-	-	1½ - 3
5. Other Asset Management Initiatives	-	0 - 2	0 - ½	0 - 1
Subtotal Unlevered Rate of Return	12 - 15½	13 - 18½	5 - 7	8 - 12½
6. Leverage	4 - 6	6 - 10	1 - 2	4 - 5½
Total Return	16 - 21½	19 - 28½	6 - 9	12 - 18

SOURCES: Berkshire Property Advisors
Torto Wheaton Research



Climbing to new heights

Multifamily Value Add Opportunities

Presented by:
Jay Grooters, CEO
Eliaison Real Estate Group



Climbing to new heights

Multifamily Value Add Opp.

Creating Opportunities

- Rising Construction Costs
- Scarcity of Land and/or Rising Land Prices
- Difficulty with Land Entitlement Process
- NIMBYism
- Urban Sprawl and Redevelopment of Urban Core



Climbing to new heights

Multifamily Value Add Opp.

What Makes a Good Value Add Opportunity?

- Quality In-fill Location
- Solid Demographics
- Good Physical Bones to Work With
 - Amenities
 - Unit Mix (2 bedroom/2 bath)
 - Unit Design (9' ceilings)



Climbing to new heights

Multifamily Value Add Opp.

Details You Must Analyze

- Is the Property Leading or Following?
- Detailed Rent Comp. Analysis
- Capital \$\$ to Complete the Upgrades
- Track Record of Sponsor and PM



Climbing to new heights

Multifamily Value Add Opp.

Risks

- Under Estimate Upgrade Costs
- Market Will Not Bear Rent Increases



Climbing to new heights

Multifamily Value Add Opp.

Benefits

- Attractive Buy-Side Cap Rates
- Substantial Rent Growth → NOI Growth
- Higher IRR



Climbing to new heights

Multifamily Value Add Opp.

Case Study: The Falls at Highpoint

Located in Growing Dallas/Ft. Worth Metroplex

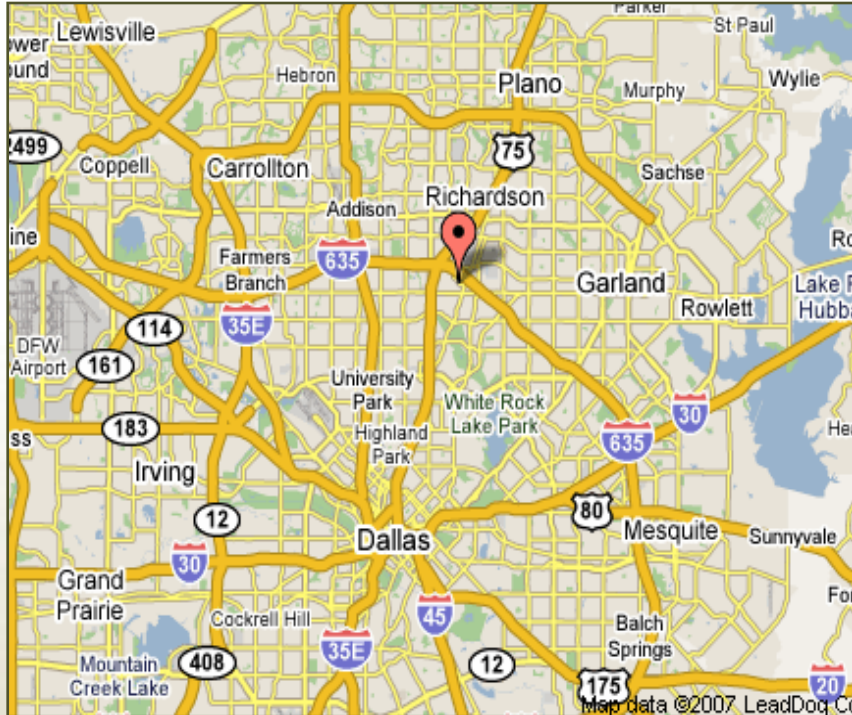


Number of Units:	708
Number of 1 Bedroom:	480
Number of 2 Bedroom:	228
Average Unit Size:	835 square feet
Net Rentable Area:	591,000 square feet
Land Area:	18.2 acres
Parking:	1,164 spaces



Climbing to new heights

Multifamily Value Add Opp.



Location is Key

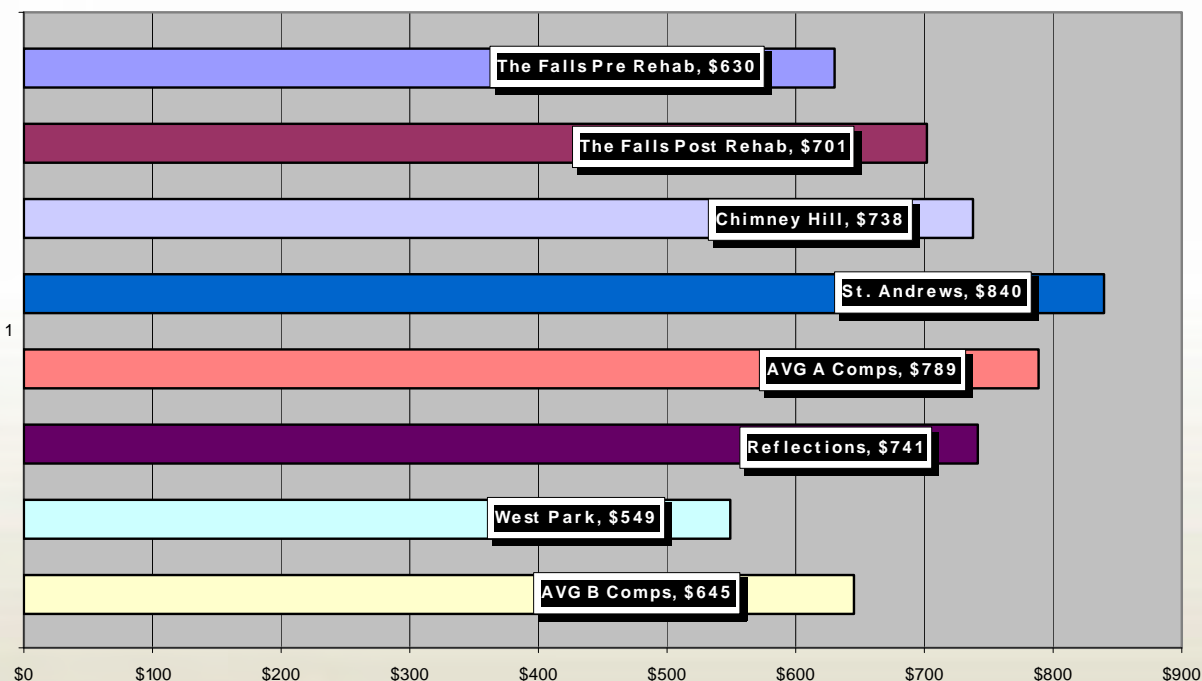
The Falls at Highpoint

- Interchange provides great access to:
 - Central Business District
 - DFW International Airport
 - Richardson Telecom Corridor
 - Retail, Dining, Entertainment
- Adjacent to Texas Instruments HQ



Climbing to new heights

Multifamily Value Add Opp.



Rent Comps

- The Falls Pre Rehab
- The Falls Post Rehab
- Chimney Hill
- St. Andrews
- AVG A Comps
- Reflections
- West Park
- AVG B Comps

Effective Rents



Climbing to new heights

Multifamily Value Add Opp.

Upgrade package

The Falls at Highpoint

- Kitchen Upgrades
 - New Appliance Package
 - New Hardware
 - New Flooring
 - New Lighting
- Two-tone Paint
- Exterior Paint
- New, State-of-the-Art Fitness Center
- Pool Resurfacing
- Parking Lot Striping and Resurfacing



Climbing to new heights

Multifamily Value Add Opp.

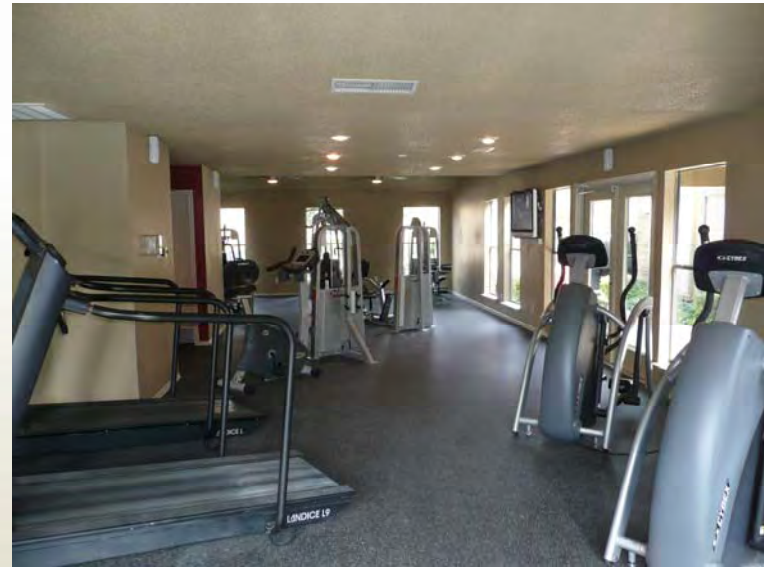
Before & After



Climbing to new heights

Multifamily Value Add Opp.

Before & After



Climbing to new heights

Multifamily Value Add Opp.

Before & After



Climbing to new heights

Multifamily Value Add Opp.

Rent Increases*

The Falls at Highpoint

	<u>Pre-Rehab</u>	<u>Proforma</u>	<u>March '08</u>	<u>% Increase</u>
1 bd/1 bth (600 sq. ft)	\$594	\$607	\$665	14%
2 bd/2 bth (1094 sq. ft.)	\$902	\$922	\$1065	15%

- Average increase of \$115 per unit

*Market Rents



Climbing to new heights

Benefits of Utilizing National Third Party Multi-Family Fee Managers

Presented by:
Stacy Hunt
Greystar



Climbing to new heights

National Presence

- **Bulk buying** for credit screening, carpet, HVAC services and supplies, etc. saves owners significantly on operating expense
- **Master insurance program** allows owner to have quality coverage at geographically leveraged rate, i.e. Gulf Coast properties benefit from a policy that covers significant properties in the mid-west, Arizona and the mountain states.
- **Large firms can access tremendous talent pools** in each city in which they operate, thus assuring a ready supply of qualified, trained personnel fluent in IT, marketing, leasing, expense control and financial reporting.
- **National fee manager with training** and risk management departments help limit owners risk to Fair Housing, ADA, Environmental (lead, asbestos and mold) claims.
- Professional back-shop operations insure financial statement integrity and compliance with GAAP and client audit procedures.



Climbing to new heights

Regional Capabilities

With offices in Los Angeles, Phoenix, Denver, DFW, Austin, Houston, Kansas City, Louisville, Charlotte, DC, Atlanta, Charleston, Tampa, Orlando and Boca Rotan Greystar has presence where owners seek acquisitions.

- Market information flow assist owner's acquisition team in sourcing deals.
- Regional operators know market nuances like schools, employment sources, which advertising venues work best, and how to best access the best local talent.
- Regional operators can provide access to renovation team and the best contractors in the sub-market.
- Regional operators utilizing national training programs, national HR departments and national operating and financial reporting systems. Attract the best local personnel and give them a career path with a national firm. Have best of all worlds.



Climbing to new heights

Industry Operations Trends

- **Subprime Crash Positive Impact on Apartments**
 - Typical turnover (primarily due to home buying) has been 55% to 65% per year; now down 5% and this is big as keeping residents for another one year renewal saves marketing expense, make ready expense and temporary vacancy cost.
 - Move outs from home buying down 15% to 20% in good market like Houston; even more in Arizona, California, Nevada and Florida.
 - Foreclosure victims coming back to apartments produces more leasing traffic.
- **New Construction of Apartments Down in Most Markets**
 - Construction costs still high due to competition from China and other Pacific Rim nations
 - Construction lenders much more cautious
 - 75% loan to costs vs. 85%
 - Personal guarantees through completion and performance vs. no guarantee in Summer of 2007
 - Echo Boomers – kids pouring out of colleges find job and move to nice apartments vs. living with their parents



Climbing to new heights

Industry Technology Trends Available Through Large Fee

- Revenue Management – fee managers are investigating data based IT systems which systematically dictate rental rate and terms updates on a daily basis
- Ancillary Income Production
 - Mandatory renters insurance
 - Bulk telecommunication contracts for phone, cable, internet, Wi-Fi, etc.
 - Water and sewer, gas, pest control allocation to residents
- On-site Ops Upgrades
 - Call centers to cover leasing traffic
 - Internet based work order and follow up systems
 - Property websites becoming extremely interactive; Camden leased 20% of new residents without meeting them face-to-face



Climbing to new heights

Multihousing Investment Services

Presented by:

Jeff Hawks

Apartment Realty Advisors

www.ARAusa.com



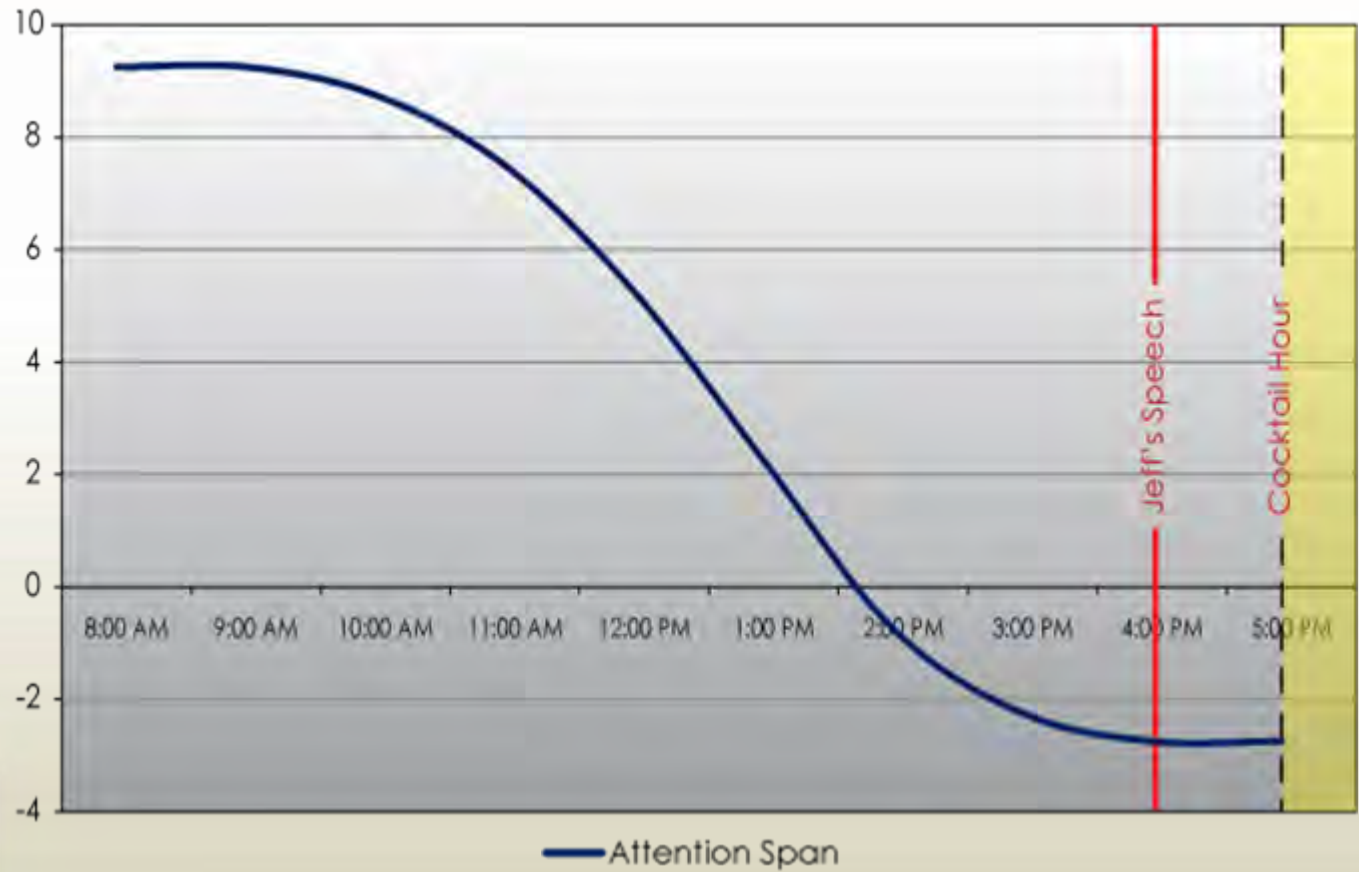
Climbing to new heights



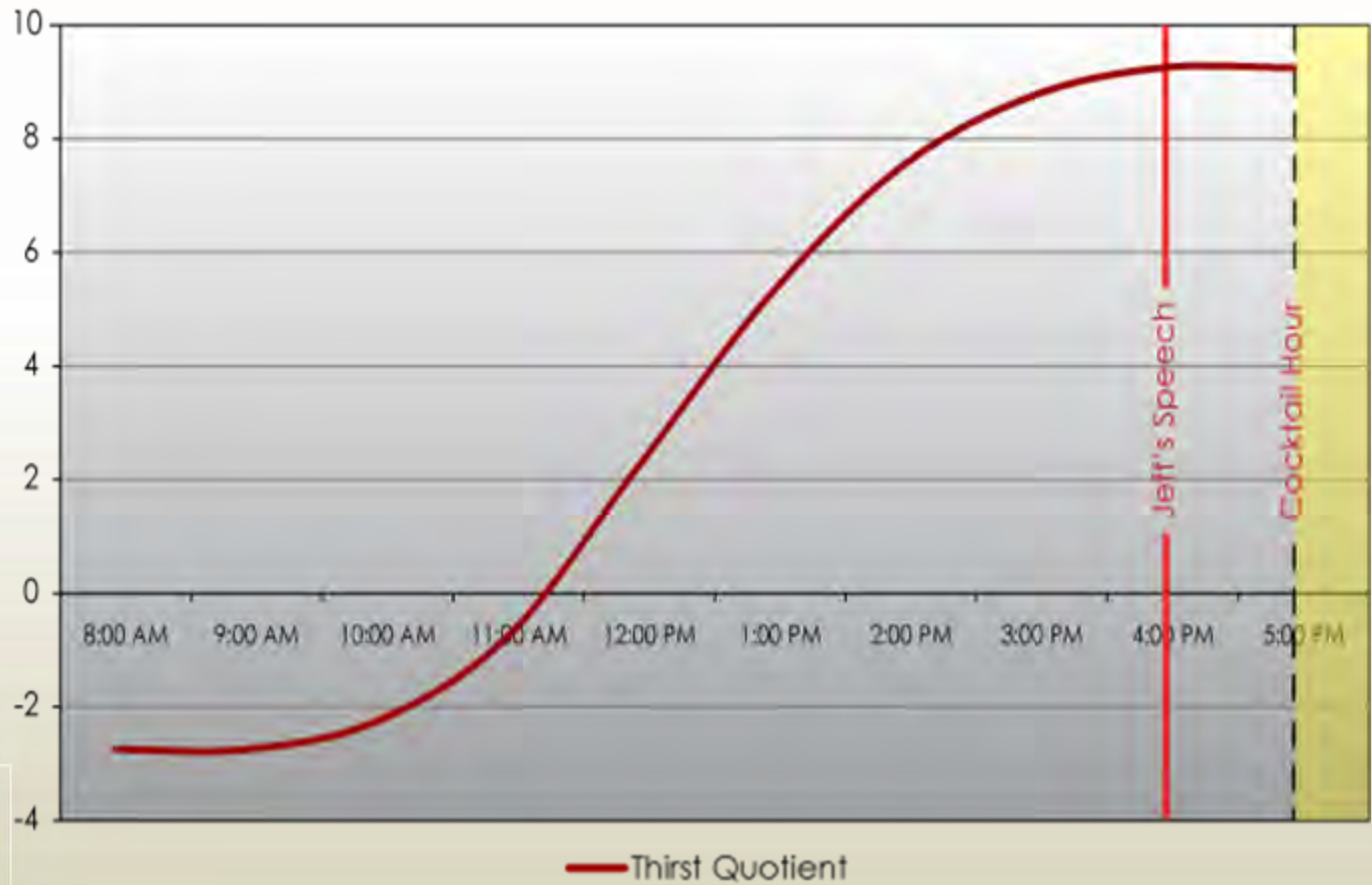
Climbing to new heights

Atlanta · Austin · Boca Raton · Boston · charlotte · Dallas · Dayton · Denver · Houston · Kansas city · las Vegas · phoenix · san Diego

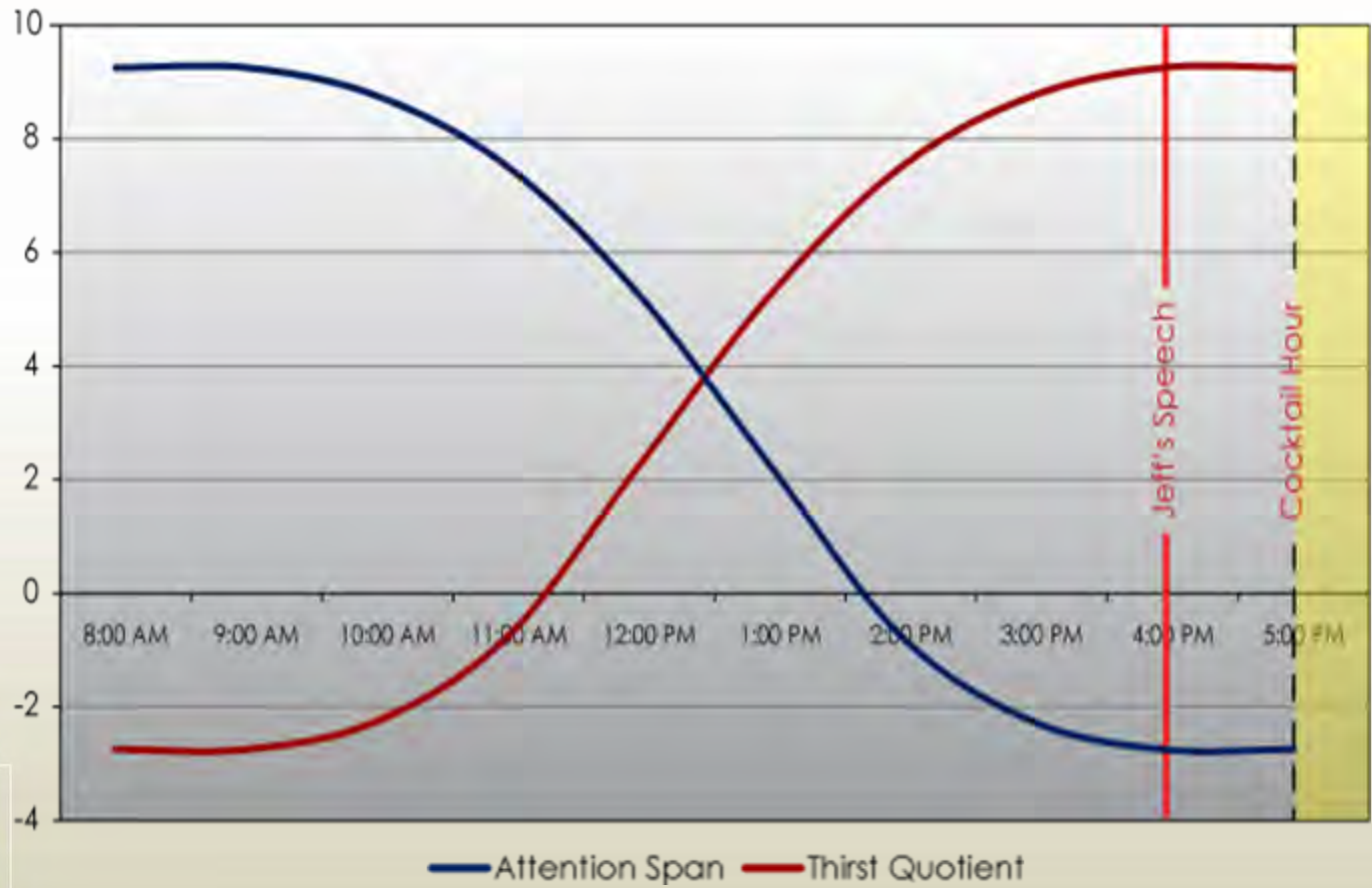
MARCH 11-13, 2008 ■ THE GRAND AMERICA HOTEL ■ SALT LAKE CITY, UTAH



Climbing to new heights

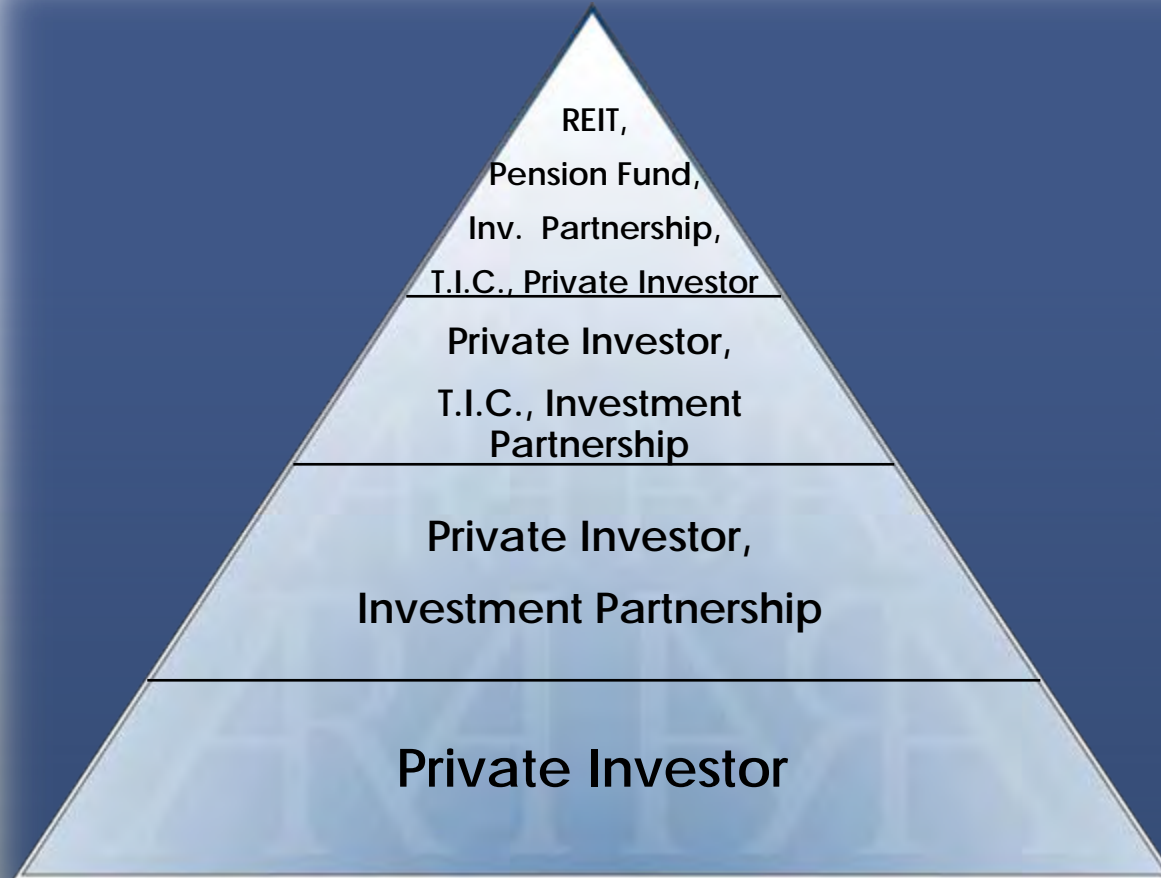


Climbing to new heights



Climbing to new heights

Purchaser by Asset Class



Purchase by Asset Class



Climbing to new heights

Investor Ability



Climbing to new heights

“Greater Fool” Theory

(1970’s Product, Denver Co)

<u>Size of Property</u>	<u>Price per Unit</u>
2 Units	\$125,000
4 Units	\$100,000
10 Units	\$75,000
20 Units	\$60,000
50 Units	\$55,000
100+ Units	\$50,000



Climbing to new heights

Financial Analysis

5 Unit Property

Rental Income \$ _____

Expenses:

Property Tax

Insurance

Utilities \$(_____)

Mortgage Pmt. \$(_____)

Profit \$ _____



Climbing to new heights

Financial Analysis

100+ Unit Property

Income

Rental Income

\$ _____

Other Income

\$ _____

Expenses

Property Tax

Insurance

Utilities

- Phone · Advertising · Design Ad · Legal · Bank Charges · Manager · Maintenance
- Furnace · Filters · Locks · Windows · Valves · Fliers · Keys · Light Bulbs · Roofer
- Accounting · Landscaping · Snow Removal · Paving · Fire Alarms · Inspections
- Website · WiFi · Carpet · Appliances · Tree Trimming · Fencing · Signs · Painting
- Pool Repair · Tax Protests

Mortgage Pmt.

\$(_____)

Profit (Loss)

\$ _____

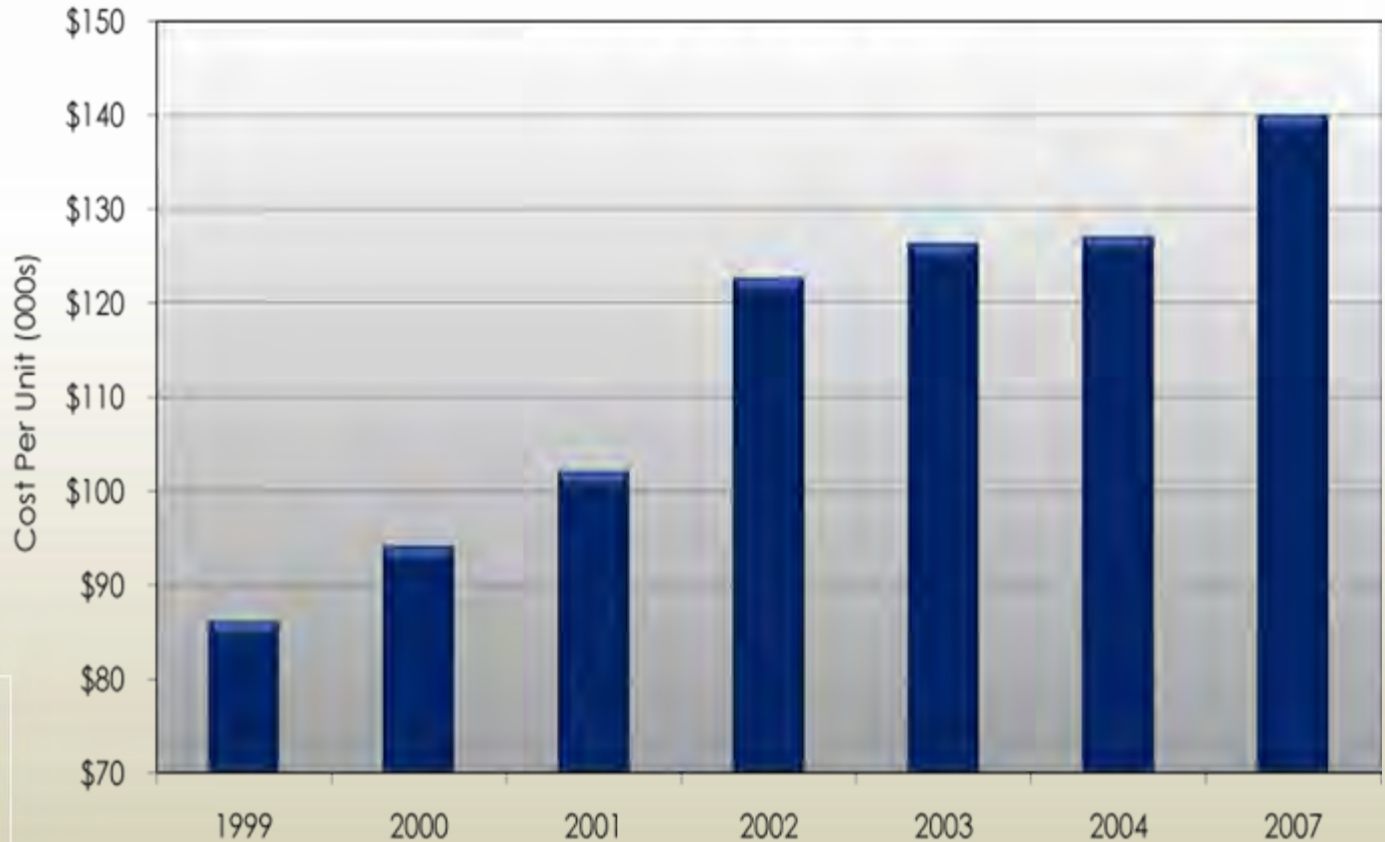


Climbing to new heights

Average Construction Cost

Metro Denver

Metro Denver
Construction Cost



Source: Apartment Realty Advisors



Climbing to new heights

2007 “All-In” Construction Cost

Metro Denver

- Garden Product \$140,000 per unit
- Mid Density \$180,000 per unit
- Downtown \$300,000 per unit



Climbing to new heights

There has been an
alarming increase in the
number of things we
know absolutely nothing
about

- Scientific American



Climbing to new heights

Valuation Dip



Climbing to new heights

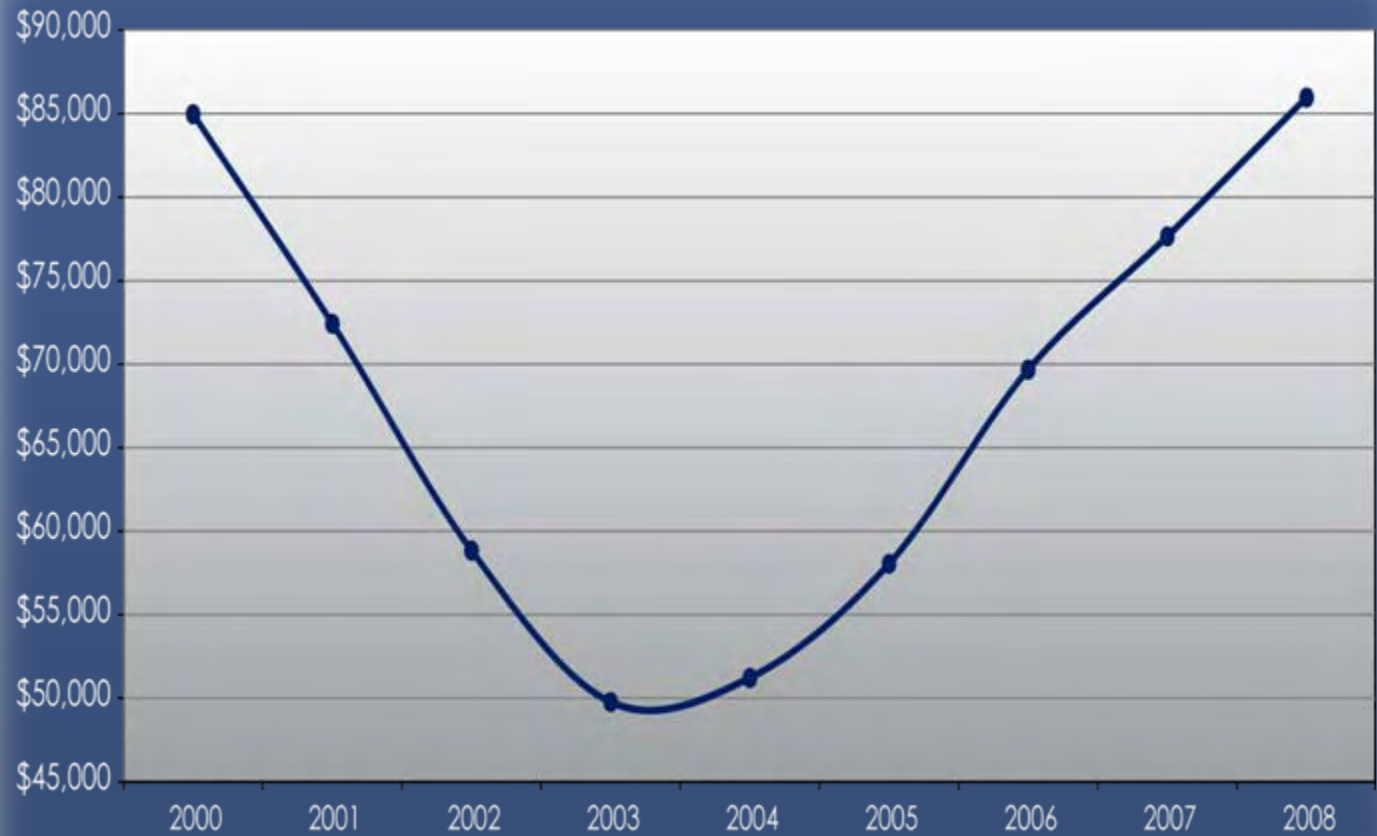
MARCH 11-13, 2008 ■ THE GRAND AMERICA HOTEL ■ SALT LAKE CITY, UTAH

A 1.5% rise in Interest Rates, equals a 1% rise in Cap Rates to yield the same Cash on Cash



Climbing to new heights

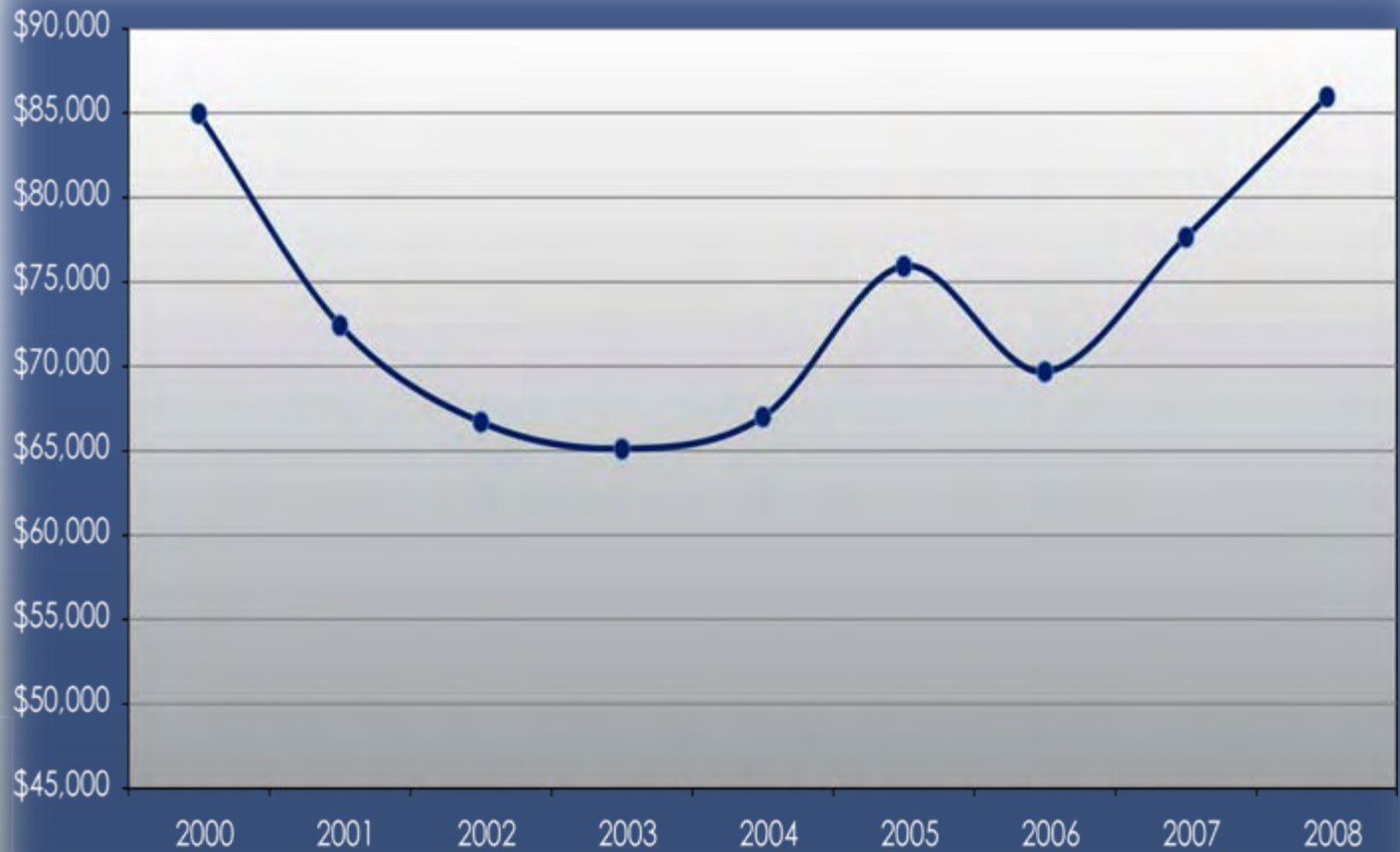
Value Drop



Climbing to new heights

MARCH 11-13, 2008 ■ THE GRAND AMERICA HOTEL ■ SALT LAKE CITY, UTAH

Valuation Dip



Climbing to new heights

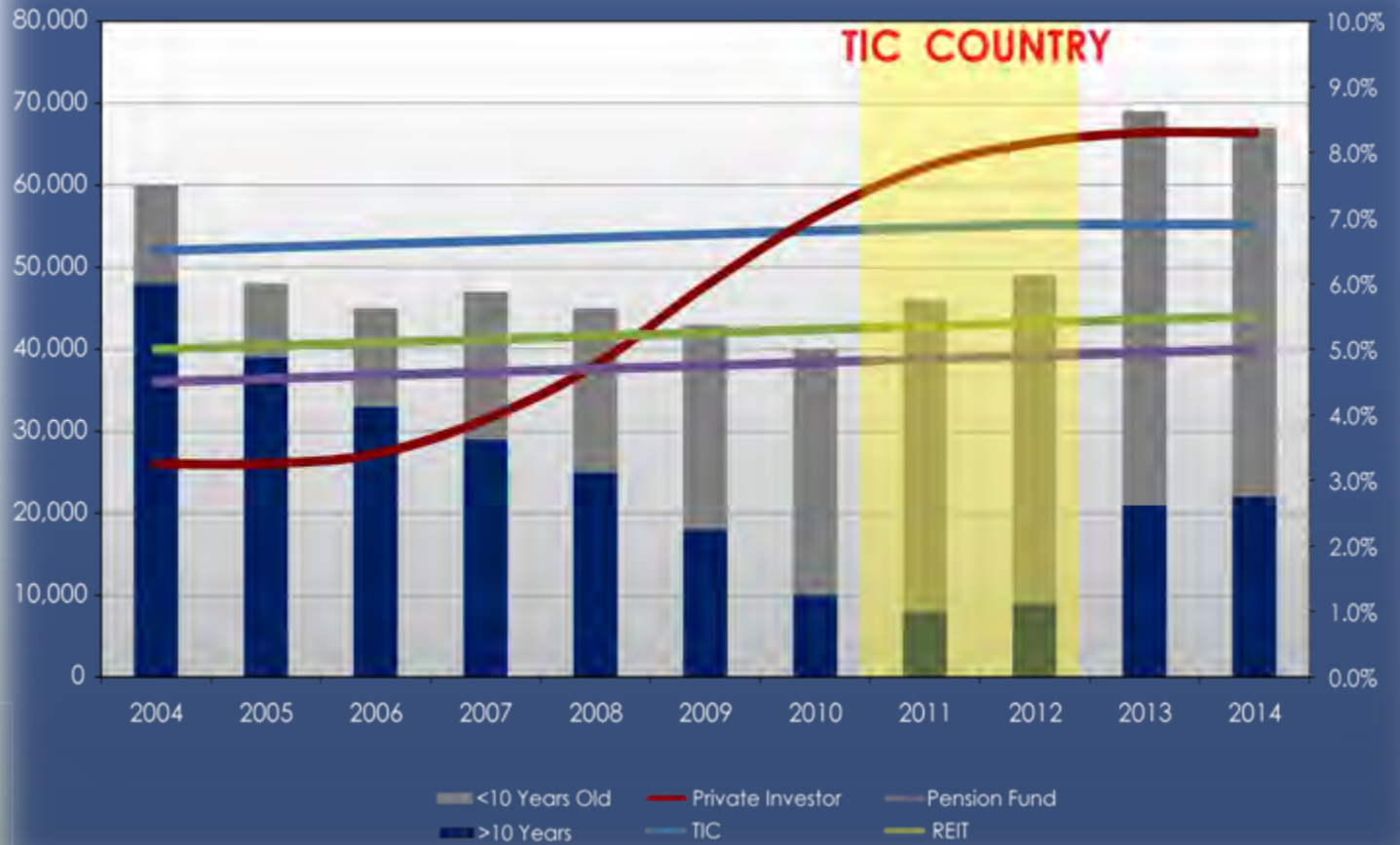
Counter Thinking

- Foreclosures
- Vacant Office Space
- Divorce
- Roommate in Bad Times
- Baby Boomers



Climbing to new heights

TIC Country



Climbing to new heights