ACPARE

LAND DEVELOPMENT:

OPPORTUNISTIC TRANSACTIONS

WHAT TO EXPECT / COURSE OBJECTIVES

1. Explain the key metrics used to value land.
2. Discuss how to conduct land due diligence.
3. Create a plan for structuring a land deal.
4. Compare and contrast land uses and the most profitable land types.
5. Conduct residential and commercial residual analyses.

LESSON 1 - START HERE

TYPES OF COMMERCIAL REAL ESTATE TRANSACTIONS

STABILIZED PROPERTIES

- Permanent financing
- Fully leased with rents at market rate and current cash flow within the properties
- No more work to be done on the property to "grow or groom" the NOI
- Lenders are betting that nothing "bad" will happen to the project cash flows in the future

TYPES OF COMMERCIAL REAL ESTATE TRANSACTIONS

UNSTABILIZED OR VALUE-ADDED PROPERTIES

- Shorter term or floating rate financing
- Not fully leased, and/or rents are not at market
- Substantial work to be done before the property becomes stabilized
- Something “good” needs to happen to the property cash flow in order to stabilize the property and achieve the business plan objectives

TYPES OF COMMERCIAL REAL ESTATE TRANSACTIONS

OPPORTUNISTIC PROPERTIES

- These properties typically require “specialized” financing.

THE TOTAL COMMERCIAL REAL ESTATE STRATEGY

3 ASSET ARBITRAGE
("Crossing Trades", Wholesaling)

- Making incentives and fees net of the bid.
- Most commonly single commercial assets and Bulk REO/Non-Performing Residential Loan Portfolios.
- "Building the Book": Find out the axe of your Bulk REO/NPL buyers and cross smaller trades from a larger institutional seller or bank to smaller but qualified buyers.

2 CAPITAL FORMATION
("Principalling" or Syndication)

- Raising debt or equity to buy commercial real estate assets - ideally assets with assumable loans ("conduit loans").
- Advising others to raise equity capital and creating their pitchbooks for you to invest alongside them ("real estate investment banking").

1 CAPITAL PLACEMENT
(Financing Deals)

- **Providing Debt, Mezzanine** ("Mezz", "Pref") or **Preferred Equity** ("Pref") **Capital**
- **Credit Facilities** (Bulk REO Buyers, Hard Money Lenders)
- **Debtor-In-Possession Financing**

THESE WILL USUALLY FALL INTO TWO BUCKETS:

1. Real estate investors who have found something interesting to buy but don't have all the capital they need

2. Commercial owners who have been asked "buy their note back at a discount"; meaning that they have the opportunity to refinance their note for lower than the current unpaid principal balance ("UPB").

DEAL FLOW

- You will not know or really be able to control the types of deals being thrown at you due to the nature of the real estate business.
- Your job - **and where you add the most value** - is determining if you're going to hit a "single", "double", or "triple".

HOME
THE BASIS

- Any deal requires you, your investors or your buyers to get in at a strong basis (low purchase price as compared to value of asset **today**).
- The basis will either make or break the deal, **and your reputation as a deal maker.**
- Deals with the lowest possible basis are technically home runs.
- For Commercial: Use the "5 Data Points" to qualify these deals and determine your basis at bid.
  For Bulk REO/NPL: Use pricing expectations from your seller.

SPONSOR AND SPONSORSHIP EQUITY

Sponsor equity is also known as “skin in the game.” The investor should not that not all sponsor equity is created equal!

1. The good investor will know the sponsor’s sources of equity. The first is cash equity.
2. The second equity type is market equity.
3. The third equity type is syndicated equity.
4. The fourth equity type is large investor or limited partner equity.
5. One final factor to consider for equity transactions is debt equity.

SPONSOR AND SPONSORSHIP EQUITY

THE SPONSOR, OR OWNER/OPERATOR, IN A COMMERCIAL REAL ESTATE TRANSACTION NEEDS TO BE SUITABLY QUALIFIED IN THE FOLLOWING AREAS:

CAPITAL: Have sufficient capital to co-invest in the transaction

INFRASTRUCTURE: Have the appropriate organization to take on the project

CONSTRUCTION: Be qualified to manage the construction needed to rehabilitate the property

MANAGEMENT: Be qualified to manage or oversee the day-to-day operations of the property

LEASING: Be qualified to oversee the leasing effort

STAYING POWER: Have sufficient net worth to support the property if unexpected costs overrun the budget or delays occur.

SPONSOR AND SPONSORSHIP EQUITY

THE KEYS TO SELECTING THE RIGHT SPONSOR	GUIDELINES FOR SPONSOR CO-INVESTMENT AMOUNTS
The sponsor, or owner / operator, in a commercial real estate transaction needs to be suitably qualified in the following areas:	**5%** **CO-INVESTMENT:** Not very desirable, as it creates an "option value" for the sponsor. Any investor who accepts a 5-percent co-investments would be well advised to make up for this low investment amount with additional structure.
INFRASTRUCTURE: Have the appropriate organization to take on the project	**10%** **CO-INVESTMENT:** Marginal; must have "going-in" merits that make the probability of success high.
CONSTRUCTION: Be qualified to manage the contruction needed to rehabilitate the property	**15%** **CO-INVESTMENT:** Normal and acceptable; a good starting point.
MANAGEMENT: Be qualfied to manage or oversee the day-to-day operations of the property and tenant marketing plan	**20%** **or MORE CO-INVESTMENT:** Indicates a sponsor who truly believes in the asset and business plan.
LEASING: Be qualified to oversee the leasing effort	
STAYING POWER: Having sufficient net worth to support the property if unexpected costs overrun the budget or delays occur.	