

# Opportunistic Transactions- Condominium Investing

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COURSE #6

# Course Objectives

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1. Explain the key metrics used to value condominiums
2. Discuss how to conduct condominium due diligence.
3. Discuss the different options for financing the condo deals

# Lesson 1 - **Start Here**

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# Types of Commercial Real Estate Transactions

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## 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

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## 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

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## Opportunistic Properties

- These properties typically require “specialized” financing.

# The Total Commercial Real Estate Strategy

## INSIDE BASEBALL THE TOTAL REAL ESTATE CAPITAL 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.

### 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".

### 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").



- 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.

### 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").

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# Sponsor and Sponsorship Equity

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

The good investor will know the sponsor’s sources of equity. The first is cash equity.

The second equity type is market equity.

The third equity type is syndicated equity.

The fourth equity type is large investor or limited partner equity.

One final factor to consider for equity transactions is debt equity.



# Sponsor and Sponsorship Equity

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**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

## SPONSORSHIP and SPONSOR EQUITY

THE KEYS TO SELECTING THE RIGHT SPONSOR	GUIDELINES FOR SPONSOR CO-INVESTMENT AMOUNTS
<p>The sponsor, or owner / operator, in a commercial real estate transaction needs to be suitably qualified in the following areas:</p>	<p><b>5%</b> <b>CO-INVESTMENT:</b> 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.</p>
<p><b>INFRASTRUCTURE:</b> Have the appropriate organization to take on the project</p>	<p><b>10%</b> <b>CO-INVESTMENT:</b> Marginal; must have "going-in" merits that make the probability of success high.</p>
<p><b>CONSTRUCTION:</b> Be qualified to manage the construction needed to rehabilitate the property</p>	<p><b>15%</b> <b>CO-INVESTMENT:</b> Normal and acceptable, a good starting point.</p>
<p><b>MANAGEMENT:</b> Be qualified to manage or oversee the day-to-day operations of the property and tenant marketing plan</p>	<p><b>20% or MORE CO-INVESTMENT:</b> Indicates a sponsor who truly believes in the asset and business plan.</p>
<p><b>LEASING:</b> Be qualified to oversee the leasing effort.</p>	
<p><b>STAYING POWER:</b> Having sufficient net worth to support the property if unexpected costs overrun the budget or delays occur.</p>	

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# Lesson 2 - Condominium Overview

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# Condo Types

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The first type is the one-family structure.

The second condo structure type is the small multi-unit building of usually 2 to 19 units.

The third condo structure is the large building structure with 20 or more condo units in the building.

# Condominiums – Factors to Consider Before Investing

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One of the first aspects is the location and accessibility of the condo unit.

The second aspect is the price range. Condo prices have a wide-range depending on which structure you consider.

The third aspect is the vacancy of the units.

The fourth aspect is the additional living related expenses.

# Condominium ROI

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Estimated cost of a 30 unit of condo	1,000,000
Estimated rental income per year	540,000
Less:	
Vacancy costs (2 months)	30,000
Monthly Dues	13,800
Taxes	10,500
Maintenance	6,000
Insurance	2,500
Net Income	477,200
ROI = (Net Income / Total Cost of Unit) * 100	
ROI	47% per year or about 5 years

# Lesson 3 - Condominiums: Finding the Right Deal

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# Condo Trends

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The location will determine a great deal in terms of price.

Another trend is the market. Selling condos can be a bit more challenging than single-family homes in some areas.

Finally, you need to decide on what is most important. Remember, you cannot move these condos.



# Determining the Condo Value

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When considering the condo's value, the only way you can think about condominiums today is as apartments, and that is how everyone is valuing them.

At this time, it is not recommended to buy a failed condo or a single unit because you don't know what's going to happen to that unit or that building as a whole.

Another determination of the value is the HOA requirements.

Condos are talked about in basis per door, basis per foot, and cap rate as a rental.

# Metrics to Consider

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The first metric is the loan to net sales.

The second metric is the number of units sold to exit the deal.

The third metric is the profit margin.

# Condominiums: Valuing Them Today

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There are three considerations that you need to take into account.

First, what are the pitfalls of investing in condos?

Second, what are the opportunities in investing in condos?

Third, how can you still make money in a down market if you make the investment?

# Lesson 4 - Condo Due Diligence & Condo Financing and Investment Characteristics

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# Due Diligence Factors

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The first concern is **Location Information**.

The second concern is **HOA Information**.

The final issue is **property information**.

# Condo Financing and Investment Characteristics

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Of all other real estate investments, condos would be seen on the bottom of the ladder rung in terms of a good investment.

Condo investments can usually use cash for years before it generates any cash flow; especially if you expect to rehab and hold.

To purchase a condo building, buyers must come up with a big share of cash than when buying other income properties.

# Condo Financing Options

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There are three financing options that we will focus on in addition to the traditional bank financing. The first is the **Seller Carry-Back**.

The second financing option is the **Contract for Deed**.

The third option is the **Seller Joint Venture**.

# Structuring the Condo Acquisition Transaction

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The first concern is the source of funds.

The second concern is the use of funds.