

Welcome,

The following is the fourth in a series of newsletters designed to foster a healthy dialog. I hope you enjoy it and encourage your feedback and discussion. The full piece is available on the web at:



<http://www.caswell.org/newsletters/20090706page1.asp>

Take a look on <http://www.caswell.org> for prior articles, access to resources and information on what I can do for you. If you know someone who would benefit from this piece, please forward it, or just let me know and I'll send it to them directly.

Please drop me a line and let me know your thoughts.

Regards,

Ward S Caswell
ward@caswell.org
(617) 304-2689

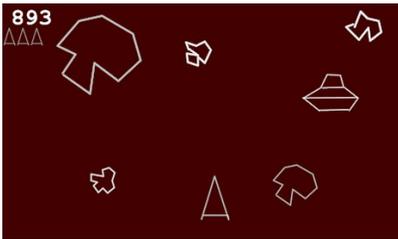
Finding Value

Initiative is the starting point for any venture. If you want to catch a fish, you can hire a guide, or buy your own equipment, or even tie your own flies. But first, you have to decide you want to catch a fish. The of will importance power can not be over stated in analyzing successful enterprises. Proponents of Zen suggest that letting go of ego driven ambition will help you succeed by allowing you to better recognizing patterns in life, allowing for a more direct path to your objectives. Imagine playing the old video game of asteroids, and being able to see all the objects in motion so well that you could steer and move with the minimal effort to glide through the asteroid field without ever firing your blaster. The alternative strategy of shoot everything and fly fast is much easier on the brain, but creates a lot of rubble which eventually makes it impossible to fly without getting hit by the



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debris of your own destruction. Perhaps the Zen enthusiasts have it right. In either case, it takes a sense of purpose to care enough to fly, or to fire. Applying the analogy to today's commercial real estate markets, there is clearly a lot of flying debris. Turning that debris into lucrative assets is how we turn the game around and how we define winning. To see the game clearly, you need good information and a clear head. In this edition we will explore some of the sources of information on distressed properties and see how to use them to find opportunities.

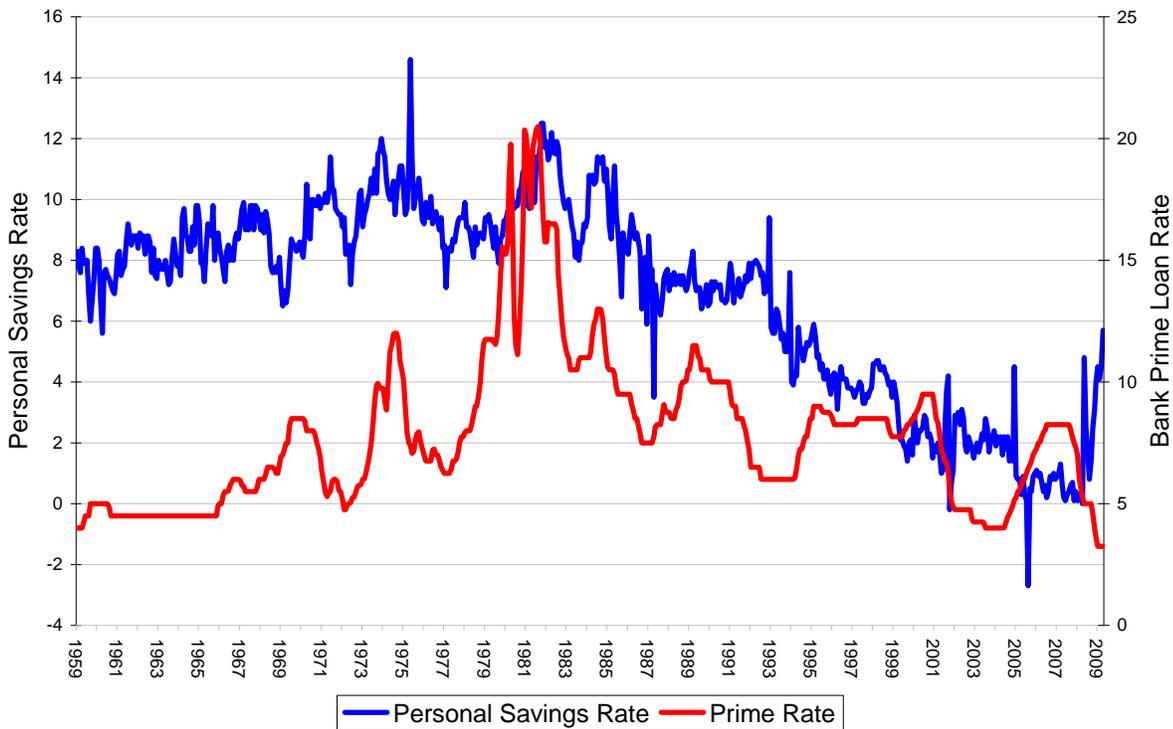


“The Great Recession” is not over quite yet. Many of the “green shoots” of Spring have shriveled in the continued debt drought and the consumer has yet to pull out their wallet and spend. Still, confidence has turned from record lows and the majority of economists expect a recovery by the end of 2009. The national savings rate pulled from negative 2.7 to values not seen in over sixteen years. At the same time, mortgage and other lending rates are relatively low. In this environment, there is certainly plenty of capital to invest or lend. The trick for the deal maker is in convincing others to part with their cash.

Tighter lending standards require much higher cash outlays when purchasing real estate. That means lower debt levels and with them, lower leverage of earnings. In essence more of the risk is shifted to the property owner and less risk is taken by the lender. The chart to the right shows the return on investment for a property owner with a loan to value ratio (LTV) of 80% at different levels of property value changes. The returns are then show for a 60% LTV. As an example, what if you borrow \$80, add \$20 of your own money, to buy a building for \$100, what is the return on your investment of \$20 if that building is later worth 10% more? From the table, you can see the return would be 50%. If instead, you had to put in \$40 of your own money and borrowed just \$60, the return would be cut in half. This makes it easy to see why so many were willing to invest in real estate when the LTV's were so generous, and why they are having so much trouble now when LTV's of 60 or even 50 are demanded by lenders. With these challenges however, there are also great opportunities. As distressed properties hit the market at prices well below the amounts paid only a few years ago, the

Simple Leveraged Returns		
% Asset Value Increase (Decrease)	LTV	% Return on Investment
(30)	80	DEFAULT
(20)	80	(100)
(10)	80	(50)
0	80	0
10	80	50
20	80	100
30	80	150
(30)	60	(75)
(20)	60	(50)
(10)	60	(25)
0	60	0
10	60	25
20	60	50
30	60	75

Personal Savings and Prime Loan Rates



Source: St. Louis Federal Reserve Bank

savvy investor can put in the same cash amount they would have before, for the same property. While the returns would be damped by the lower leverage, the opportunity to own prized assets with less competition on the bidding is very real. One key is to find those assets before the mass of competing potential buyers. Commercial real estate brokers specializing in investment sales have the inside track on their clients' situations. By working with an experienced broker, you can register your investment criteria and be invited to bid on available properties. For those wanting to target properties across geographies and not be tied to an individual broker, work with a national firm. The Private Client structures set up by the major brokerage firms allow you to tap into networks of brokers within those firms who share listings across the platform, providing the buyer with a broader pool of listings and the seller with a much faster time to sale and usually a better fit with the buyer's criteria. If you are a broker or buyer looking for properties to target, there are several tools to assist.

Real Capital Analytics (RCA) offers a set of tools useful to the investor. Their Capital Trends Monthly® reports track the changes in sales volumes, cap rates, and price per square foot for major U.S. markets and property types. If you are willing to look outside the U.S., RCA offers a Global Capital Trends™ report. A Property Trade Search helps you research specific recent sales to determine pricing levels at a granular level. A new tool offered by RCA called the Troubled Asset Search lets you search for specific properties in some form of distress. The types of distress include the bankruptcy of the owner, lender, or major tenant. Finally, the Troubled Asset Radar report provides meaningful statistics and analysis for each market. Check out <http://www.rcanalytics.com> for more details on RCA's subscription products.

LoopNet offers another set of useful tools with their Distressed Properties Search. Available to premium members, this new feature lets you search for properties marketed for sale that are either foreclosed,

bank owned, or otherwise noted as distressed. You can combine these criteria with other limits to hone your search. There are hundreds of listings in each major market spanning the major property types. Similar to RCA, there are mapping features to help you plot the results. In addition, most listings contain photos, property details and links to contact the listing broker or seller directly. LoopNet's Recent Sales service also helps you figure out the latest in pricing by reviewing recent sale transactions for a low fee to subscribe. CoStar also offers extensive search capabilities and detailed property data, but at a higher subscription cost.

An exciting new source of information is now available that can help you find properties before they are listed as distressed or marketed for sale. First American Corelogic is opening up more detailed access to data they have collected from most U.S. counties. While their existing products have helped many people research the assessed value, owner of record, zoning, plat maps and other data, the mortgage information has not been readily available in their products such as RealQuest, CommercialList, or Metroscan. But now you can view the mortgage data in a new service available by subscription upon request. In reviewing the data, it is clear that the patient analyst can use it to find properties under pressure. Here's an oversimplified description of how.

1. Review a group of recently sold properties in LoopNet, RCA, CoStar, or other source for a particular property type and market.
2. Research the properties to determine their assessed value. You can easily do this with First American's tools.
3. Determine the percentage difference between assessed value and sale price. Call this the assessed to sold adjustment.
4. Obtain the mortgage maturity data from First American.
5. Add a column to the data that computes the estimated sale price by applying the assessed to sold adjustment to the assessed value.
6. Add another column that compares the estimated sale price to the mortgage balance as a percentage of the estimated sale price. Sort by this column.
7. Now review those records at the top or bottom of the spreadsheet. These will be ones where the estimated sale price is much less than the outstanding mortgage. These are underwater. Flag them.
8. Look for the flagged properties in LoopNet and RCA's distressed searches. Any flagged properties that you can not find in LoopNet or RCA are your targets.

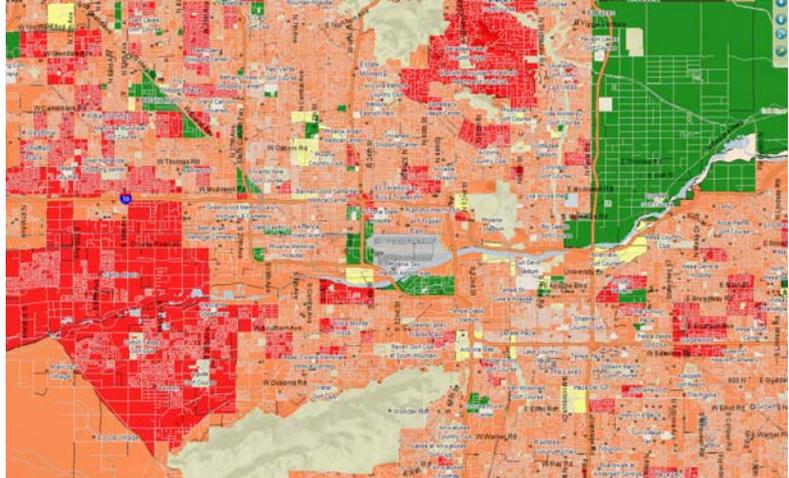
Note that this process is not a complete list of all properties in any given market. First American is able to find mortgage data on many, but not all properties. Also, timing issues with the data and process of each provider may mean that targeted properties may already be in the process of foreclosure, sale, or refinance. Also, the relationship between assessed value and saleable value is highly tenuous. You have to be very careful in applying the concept to recently constructed properties, commercial land, and special use types. Still, the resulting list is likely to produce targets that have a high degree of financing pressure and have not yet been inundated with offers. One of the most common property types that the process will successfully target is multi-family housing. This is good news since apartment complexes are one of the more desirable asset classes, and the determination of income is fairly simple as well.

For those willing to put in more time and effort to find more opportunities, and weed out targets not likely to entertain offers, you can work to aggregate the data by owner and lender. This is easier for the lenders who tend to operate under a small set of names. Owners however will usually operate through a single purpose entity (SPE) that holds the property and debt along with cash reserves. These SPE's rarely have names that clearly identify their principal owners. Using state attorney general web sites, you can sometimes find the individuals associated with an SPE. Use of a service such as LexisNexis SmartLinx is even more efficient. Some large lenders and opportunity funds use the process above along with

LexisNexis in automated databases to constantly generate high quality target lists. With the new offering from First American, some effort, experience, and skill, you can produce a list nearly as good.

Once you have your target list, it's also a good idea to perform a few other searches and processes to narrow it down to viable properties.

First, mapping the properties is a good way to get a sense of what you are dealing with. Tools like Google Earth and Virtual Earth are free and easy to use. More sophisticated solutions such as those from Trade Area Systems provide an excellent vehicle for in-depth analysis. Importing data and comparing to census and other data is a great start. Looking at your targets compared to mortgage risk zones from PopStats can help you find diamonds in the rough, or even better, diamonds in good neighborhoods.



Source: Synergos Technologies, Inc. STI: PopStats; Trade Area Systems, Inc. Trade Area Analyst & TAS Retrieval

Now that you have your target list, you need to start the more meticulous part of the hunt. This involves a deeper analysis of each property, carefully looking into the situation to ensure it is worth the effort. You don't want to start something you can't finish. Look for issues clouding the property such as active lawsuits, possible public works projects, crime statistics, etc. If you have already determined the locations of each property on a map, simple Google searches can help uncover important news. Conversations with businesses in the area of the target property can shed more light on the neighborhoods as well. Remember that many problems create opportunities. If the current owner bought the property under one set of assumptions, but the situation changed and they are not able to adapt, too bad for them. You may have different ideas for the location more in tune with the realities.

The data from First American in this example contains records where the maturity date of the primary or secondary debt is within the next 18 months. In these cases, balloon payments for the outstanding balance are coming due soon and the current owner may be having trouble refinancing the full amount. There are two approaches you could take to purchasing such a property. The first is to negotiate with the current owner for an amount up to the balance of the mortgage thus allowing the owner to exit the property without taking a significant hit. A better approach is to negotiate a takeover of the loan, from the lender, at a discount. In this scenario, you could then receive full payment from the current owner and pocket the amount of the loan discount as a quick profit. If instead, the owner fails to make a full payment, you could take possession of the property, effectively purchasing it an amount less than the outstanding mortgage. In either scenario, you will need the services of an experienced real estate attorney to ensure the terms of the purchase adequately protect your interests and to explain the risks.

Throughout the process, you will need to stay organized. Excel is sufficient for the initial work, but once you have created your target list, use a well structured property database such as Leo Software to manage the many important details of each property and conversations surrounding the negotiations. Of course, the benefits of working with a skilled and experienced real estate researcher can make the entire process more efficient and effective. Please give me a call to discuss further at (617) 304-2689. If you have the necessary drive, you can win big in a down market.

What Really Happened Here?

This newsletter is more than it appears. It is a mix of the following skills:

Research - Writing in an accurate, informative and compelling manner.

Marketing – Getting the message in front of the right people – You! Finding topics of interest, and gauging that interest to increase response.

I.T. – The distribution email was generated from a program I wrote that embeds unique links into each email while still sending it through Microsoft Outlook so I can find it in my Sent Items. The embedded links help me track when you viewed the email. When you continued to the web to view the article, it tracked that too, linking it to the originating email. These databases, programs, emails, and web pages are all integrated around campaigns. I wrote each component using simple tools to avoid constraints and costs of third party tools as well as wasted time dealing with version upgrades.

Project Management – Getting it all done in a reasonable amount of time meant making choices around content, quality, timeliness, tool sets, speed, and more. Incorporating the efforts of proofreaders, editors, permissions from sources, and other demands on time requires strong project management experience.

Strategy – You are looking at it. I am an experienced professional with success in multiple disciplines. The best way to explain what I can do is to show you. In searching for work, I apply strategies to networking and self promotion. The point is not the content, but the approach. Wouldn't you want someone who puts this much thought and care into everything they do, working for you?

So how can I help you? I am available to work full time or as a consultant. Let me help you take your business to the next level. Please call today to discuss your ideas.

Regards,



Ward S. Caswell
ward@caswell.org
(617) 304-2689