

# Wake Up Money

Ideas for Today and Tomorrow In Commercial Investments



# Commercial Real Estate Investment

Steve Kawulok

**2006**  
\$1.3 Billion

**2007**

**2008**

**2009**  
\$660 Million

**2010**  
\$930 Million

**2011**  
???

John Hancock Tower  
Boston, MA



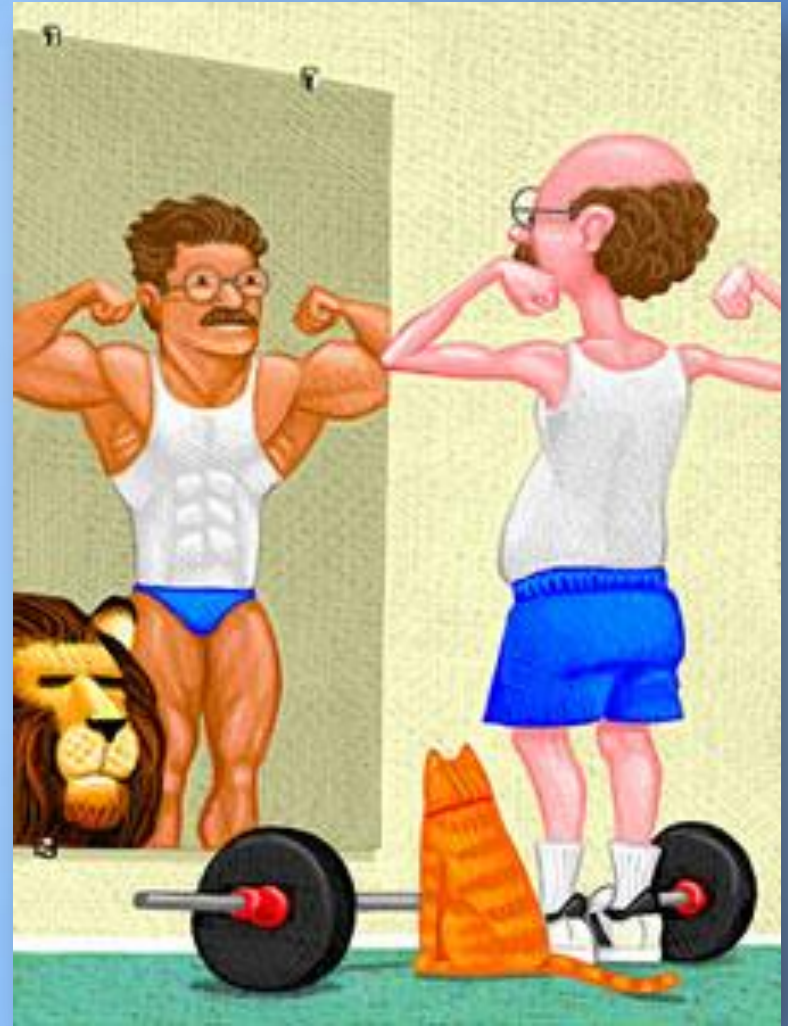
## A “Barbell” Market for Investment



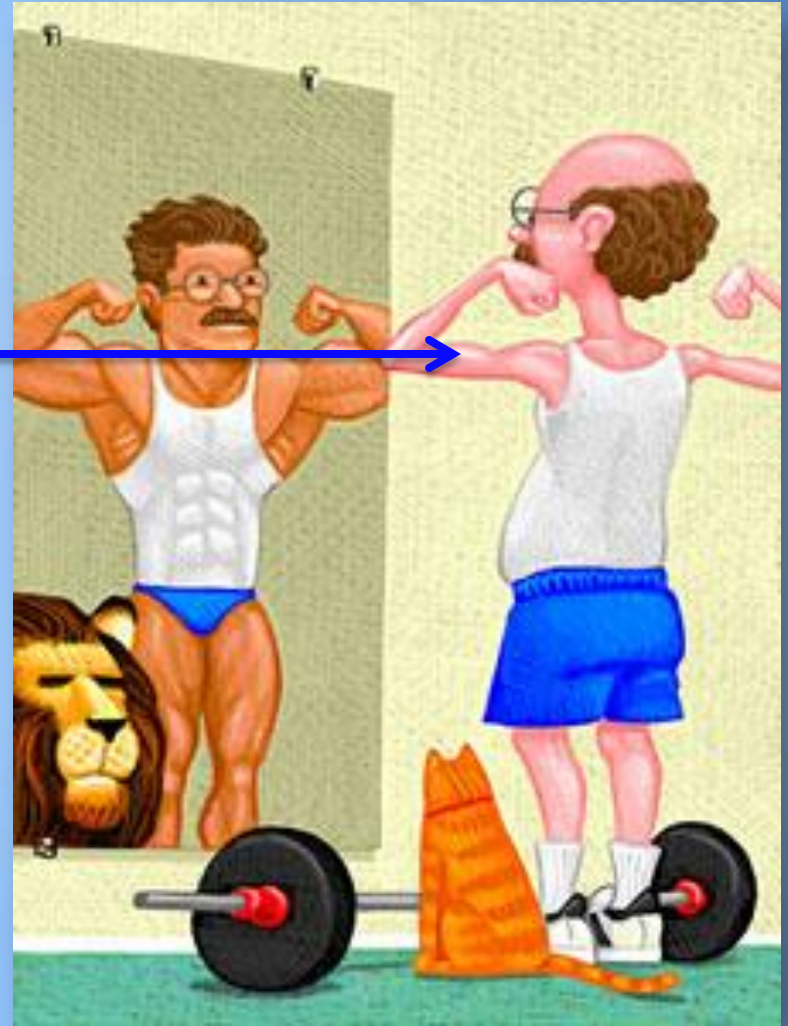
**Distressed  
Properties**

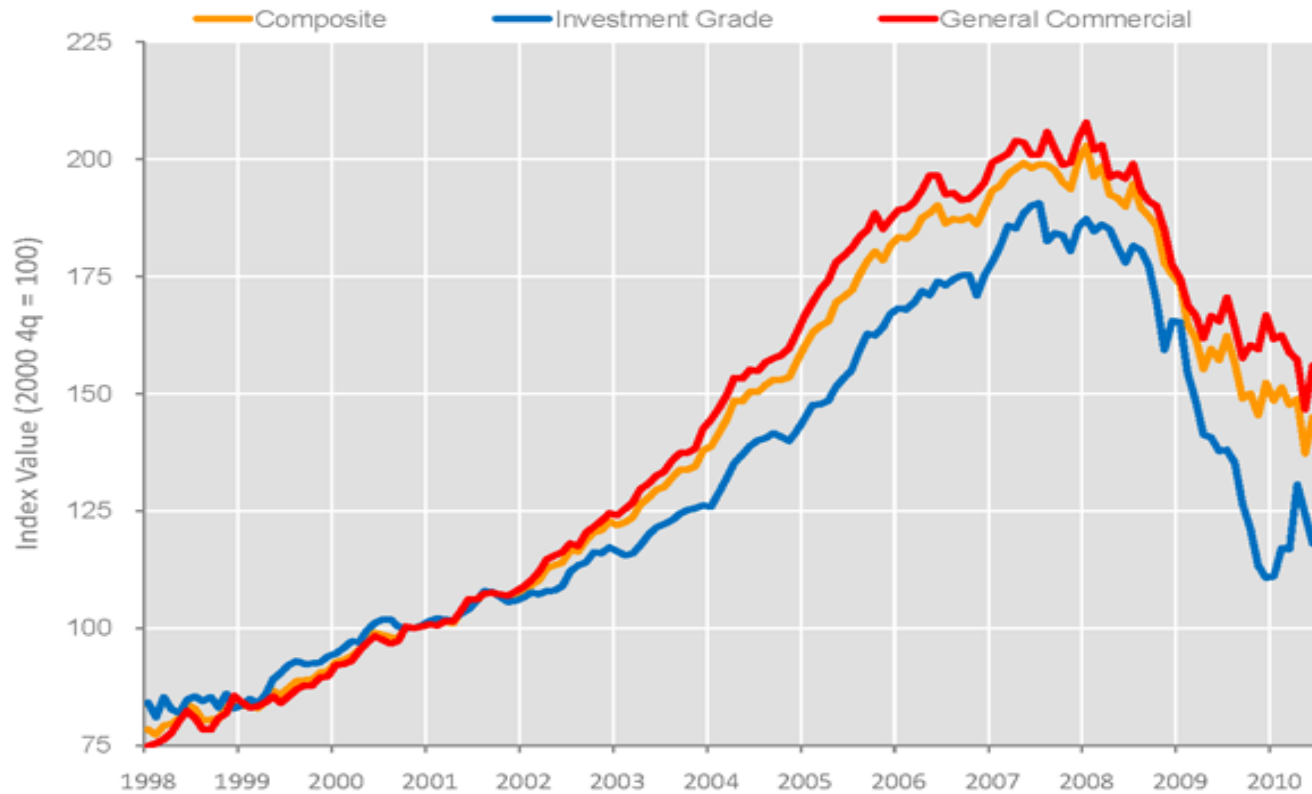
**Core  
Properties**

## Everything Else...



## Is a 98 Pound Weakling...





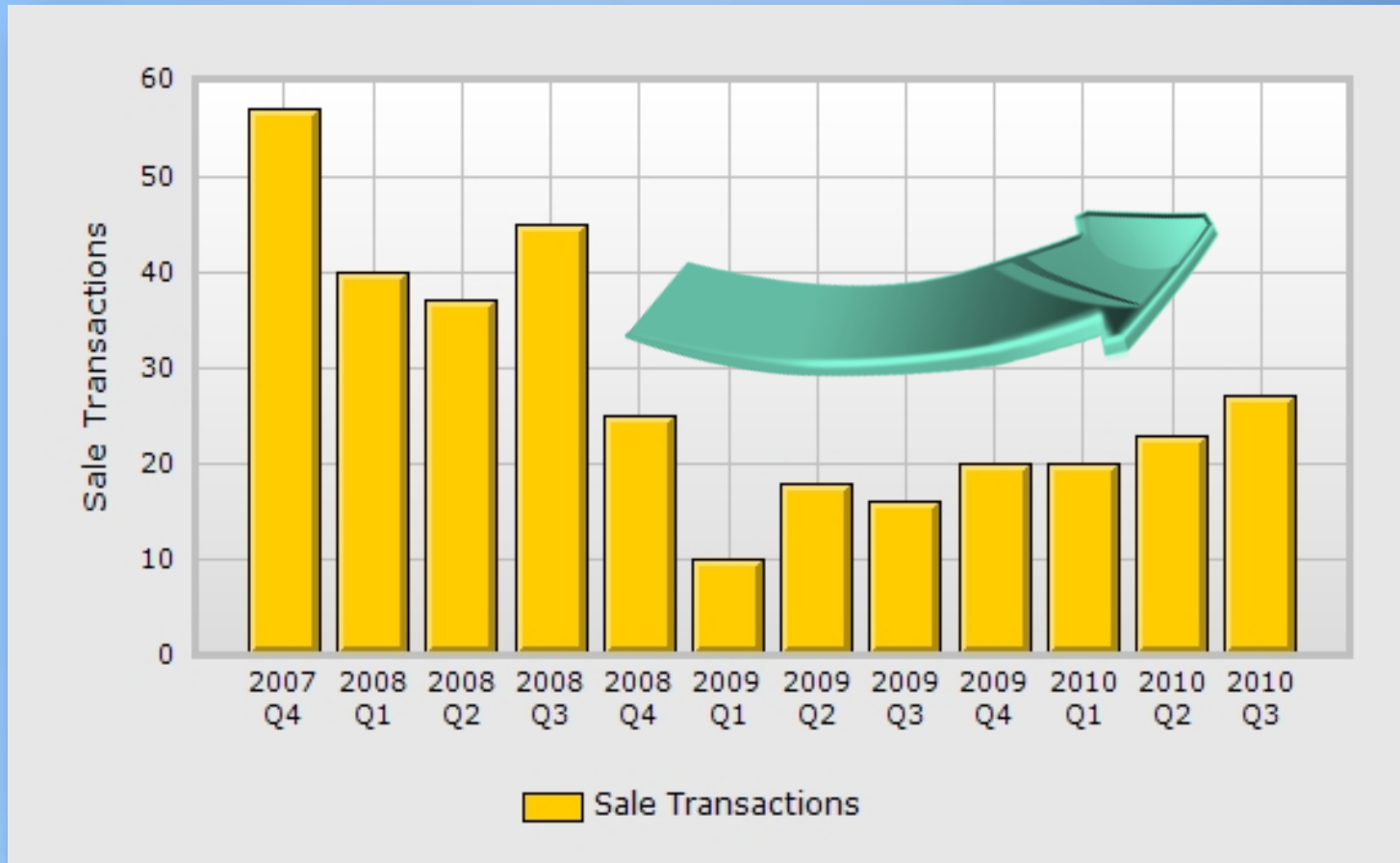
## What Happened Over Two Years?

- CRE values fall 20% - 30%
- Slight Uptick Starting in 2010
- Liquidity and Demand Recession

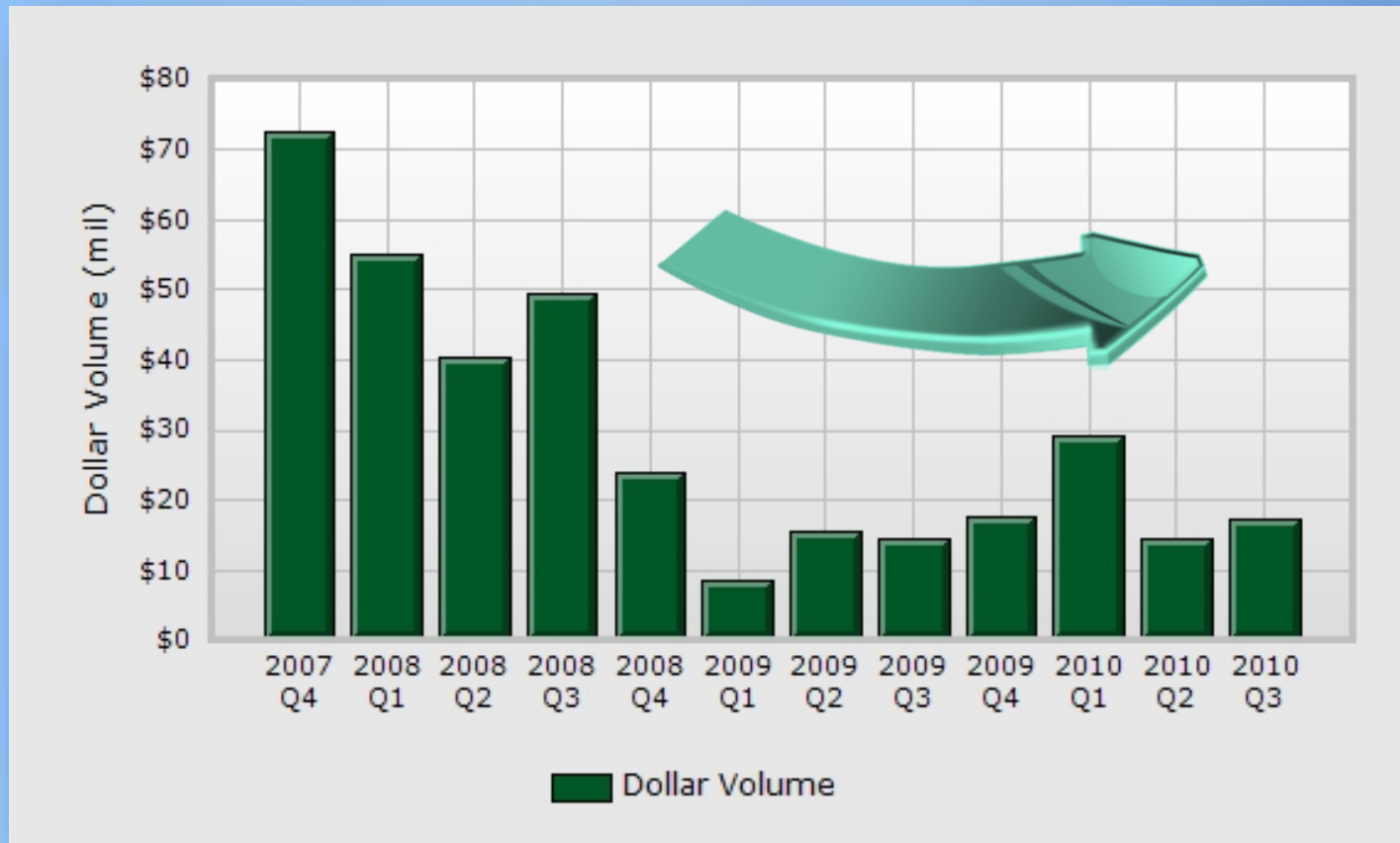
# **Northern Colorado Commercial Real Estate Market**

North of Highway 66, Front Range Area

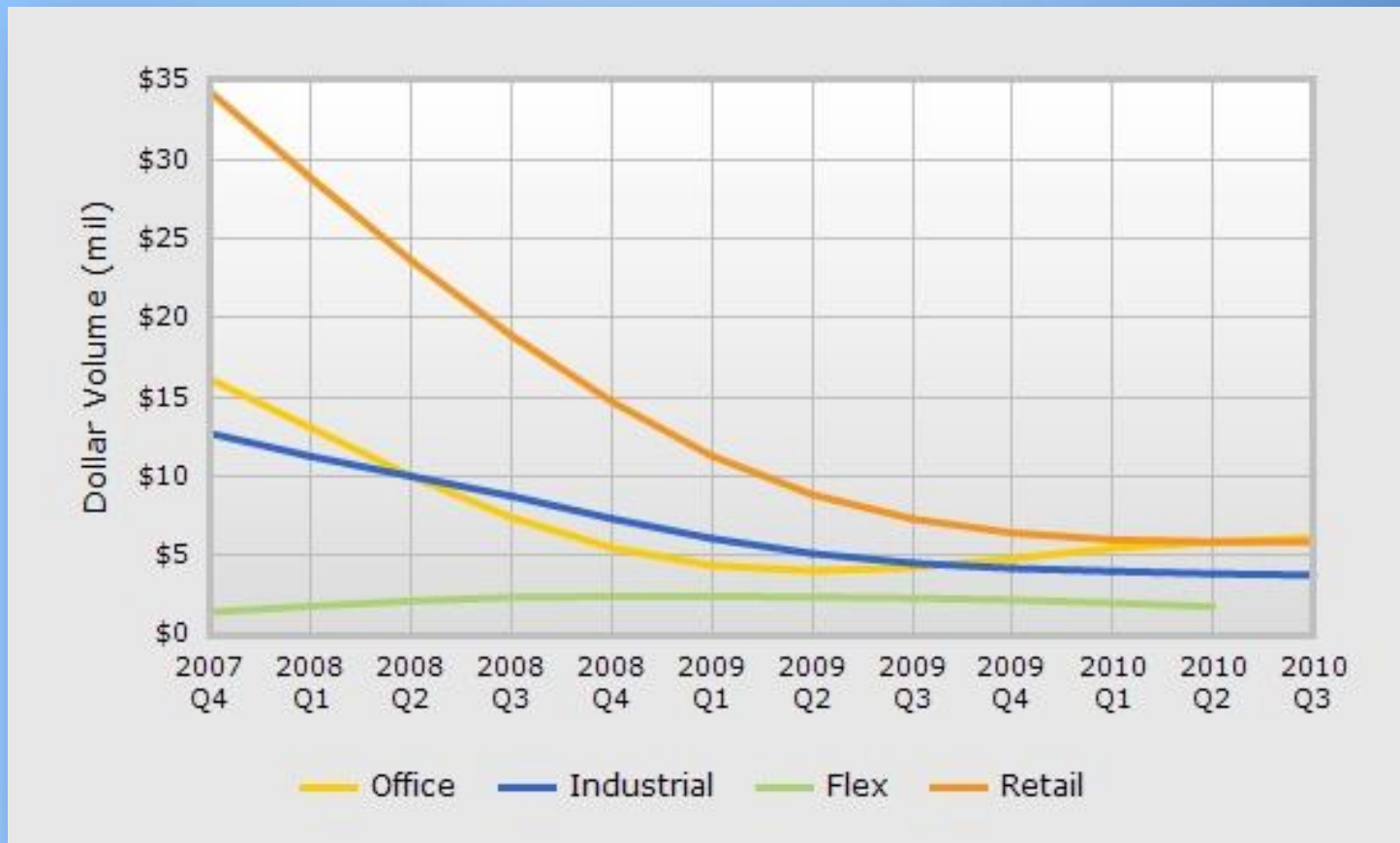
**SALES TRANSACTIONS CLIMBING...BUT LESS THAN HALF THE AMOUNT OF 2007**



**SALES VOLUME STABLE, BUT ONLY ONE-FOURTH OF THAT IN 2008 –  
SMALLER DOLLAR TRANSACTIONS ARE THE NORM NOW**



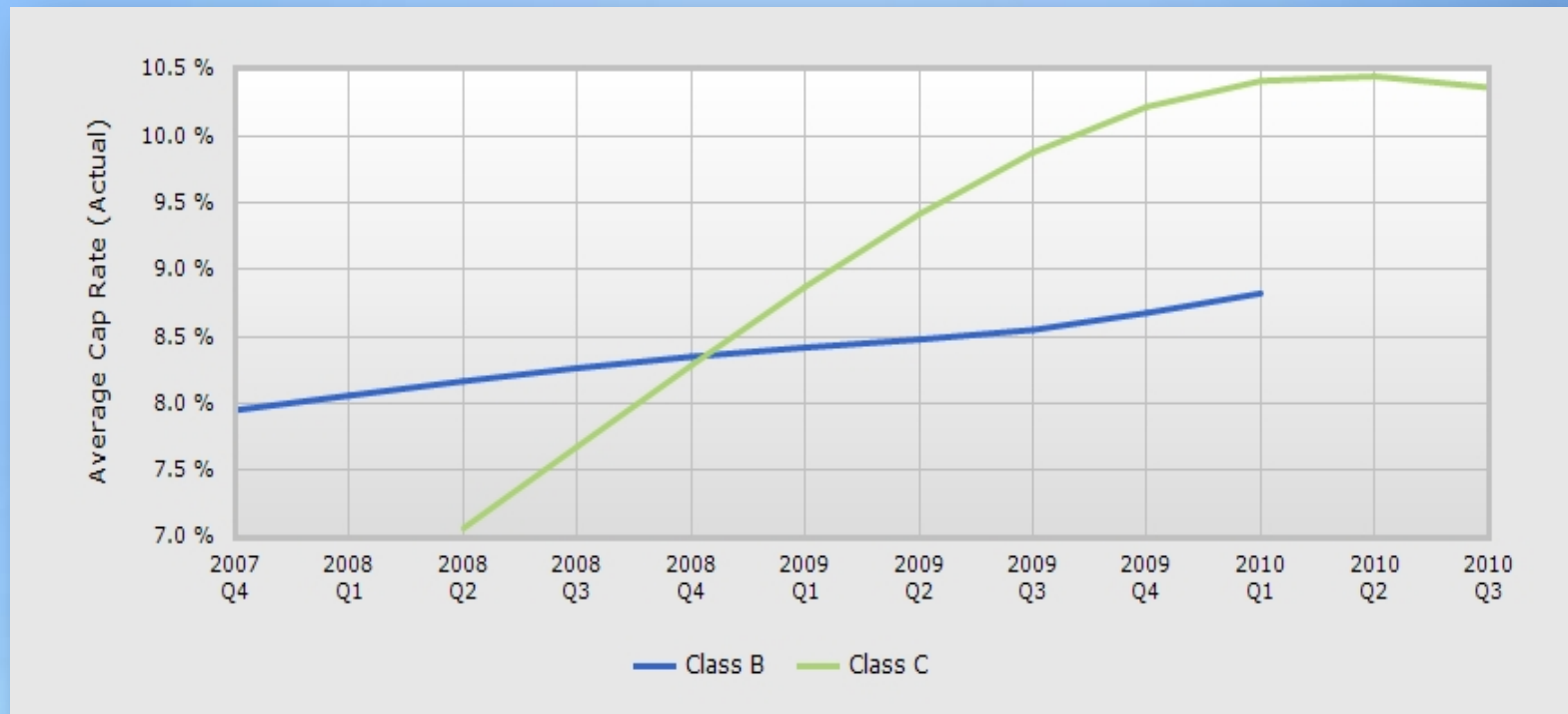
## ALL PROPERTY TYPES HAVE BEEN AFFECTED



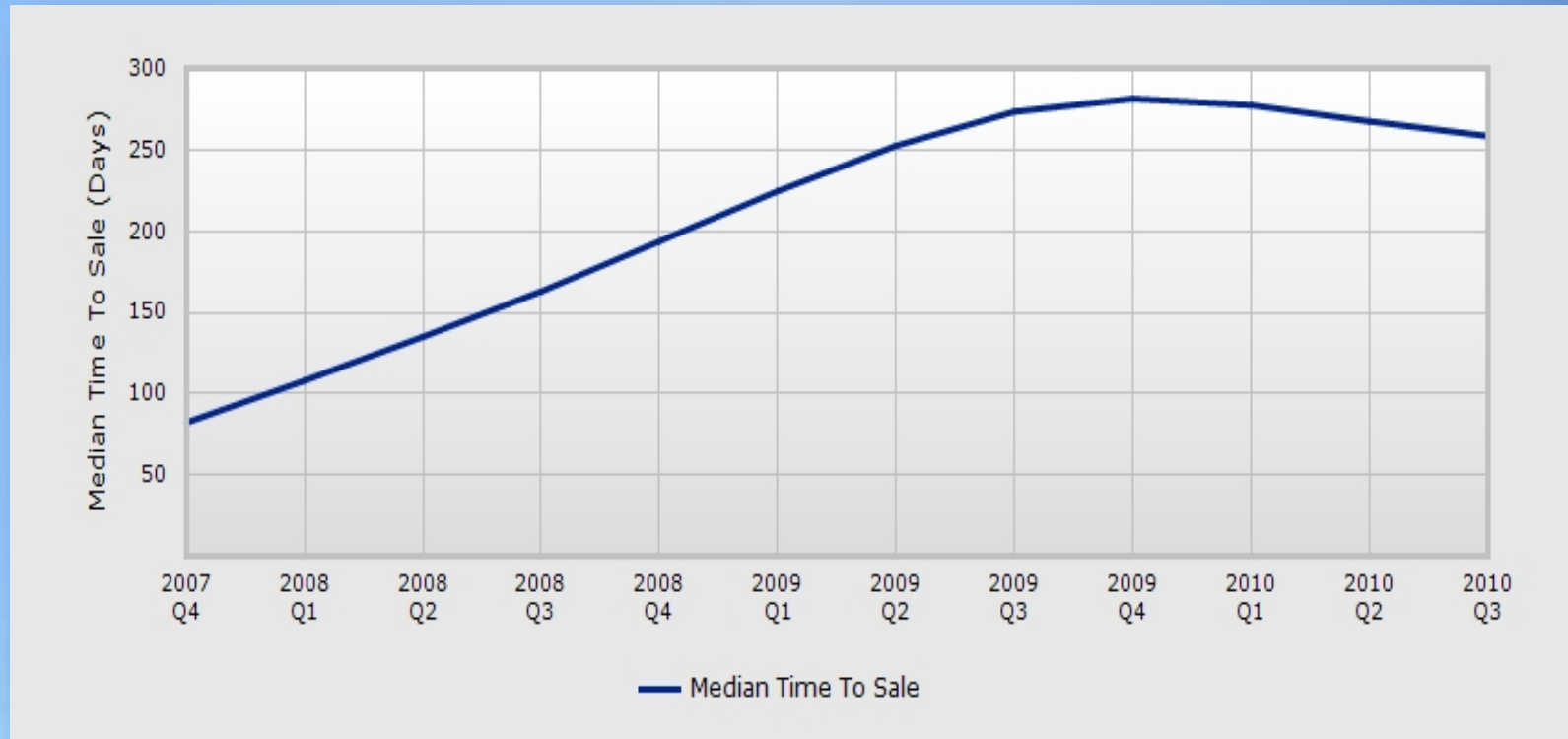
**SALES PRICE TO ASKING PRICE TIGHTENING SINCE 2009, BUT STILL ABOUT 15% DIFFERENTIAL**



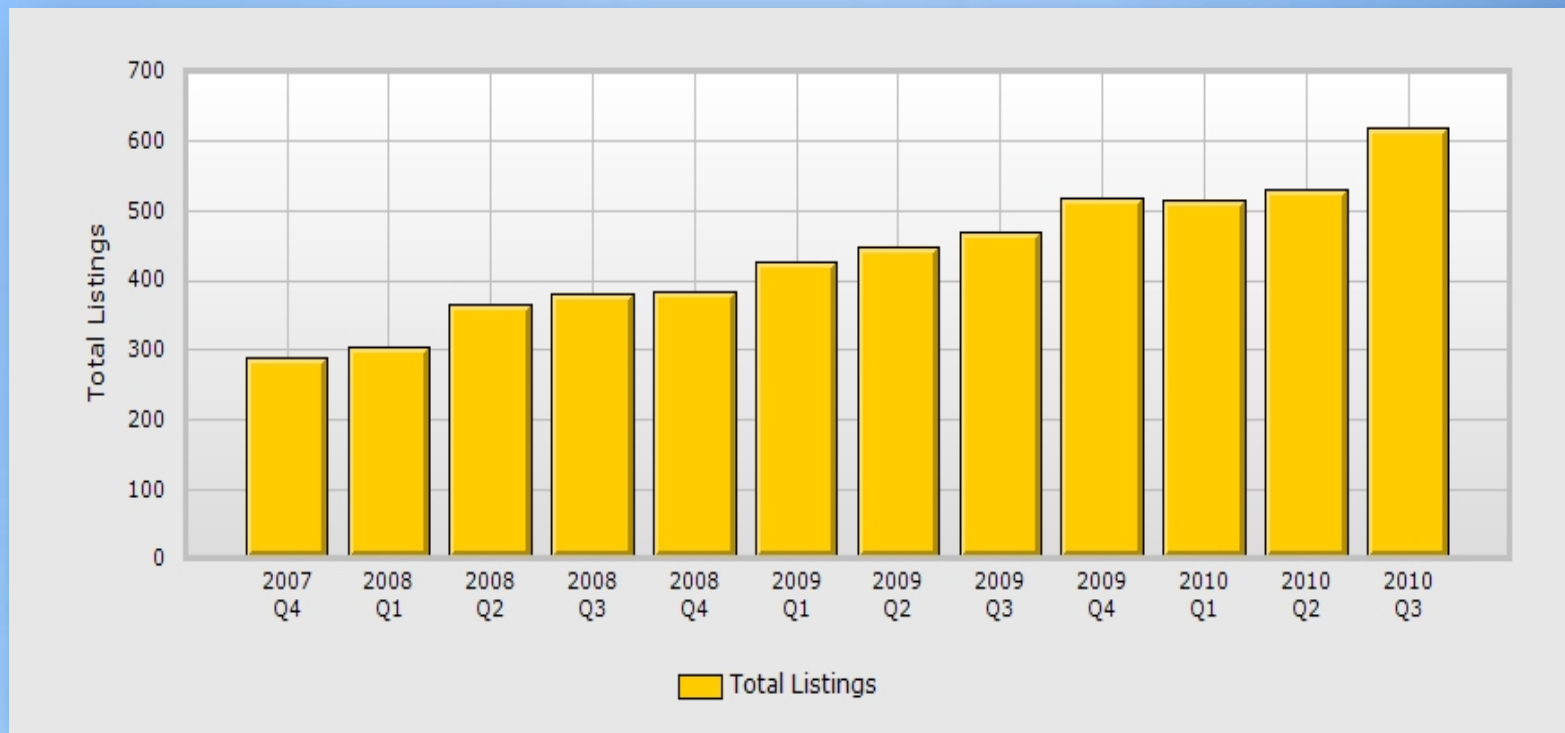
## HIGHEST QUALITY PROPERTIES SELL FOR MORE (LOWER CAPITALIZATION RATE)



## PROPERTIES THAT DO SELL, TAKE ABOUT A YEAR TO CLOSE

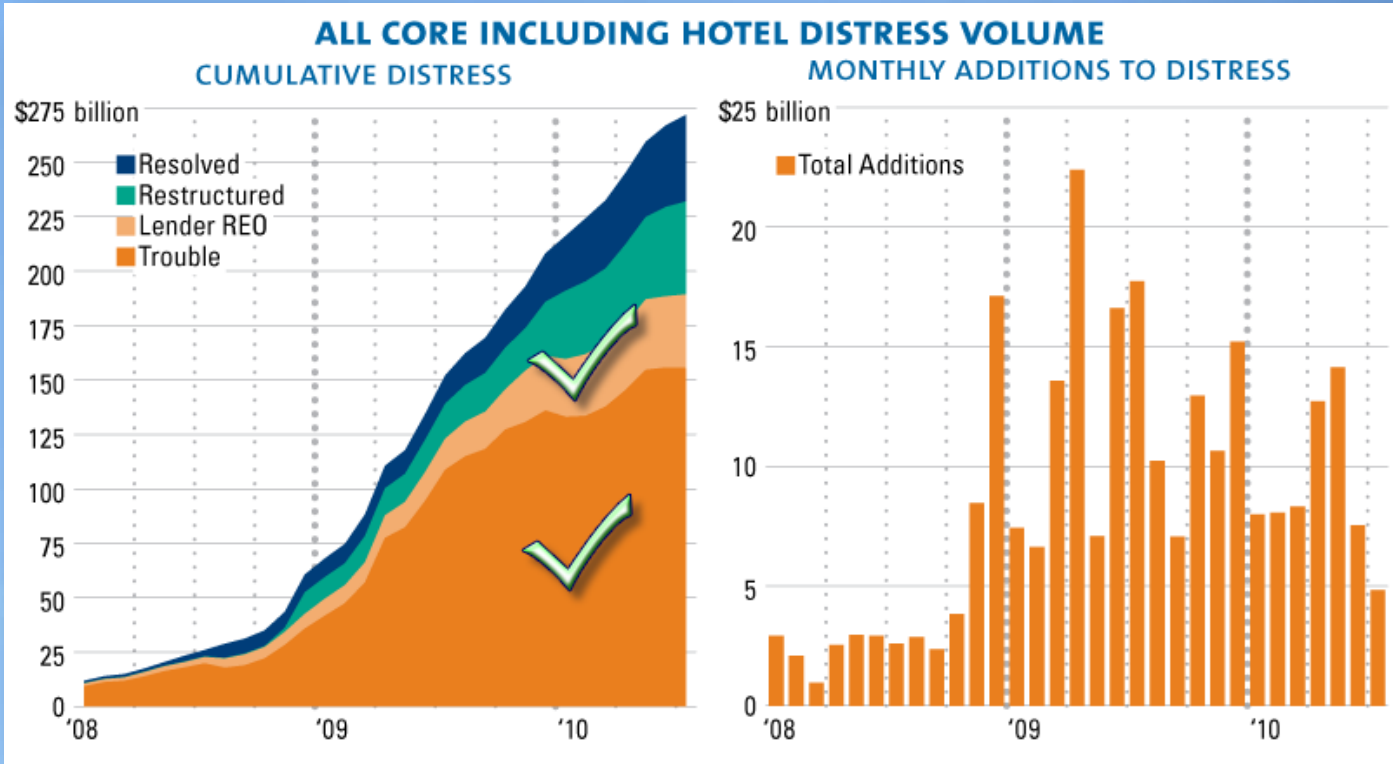


**OVER 600 FOR SALE LISTINGS, APPROXIMATELY A 6 YEAR SUPPLY. 6 SELLERS FOR EVERY 1 BUYER**

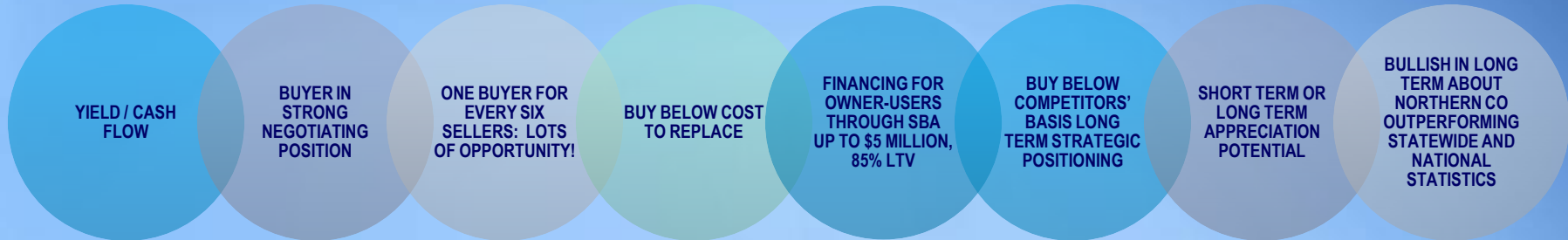


## **Distressed Properties**

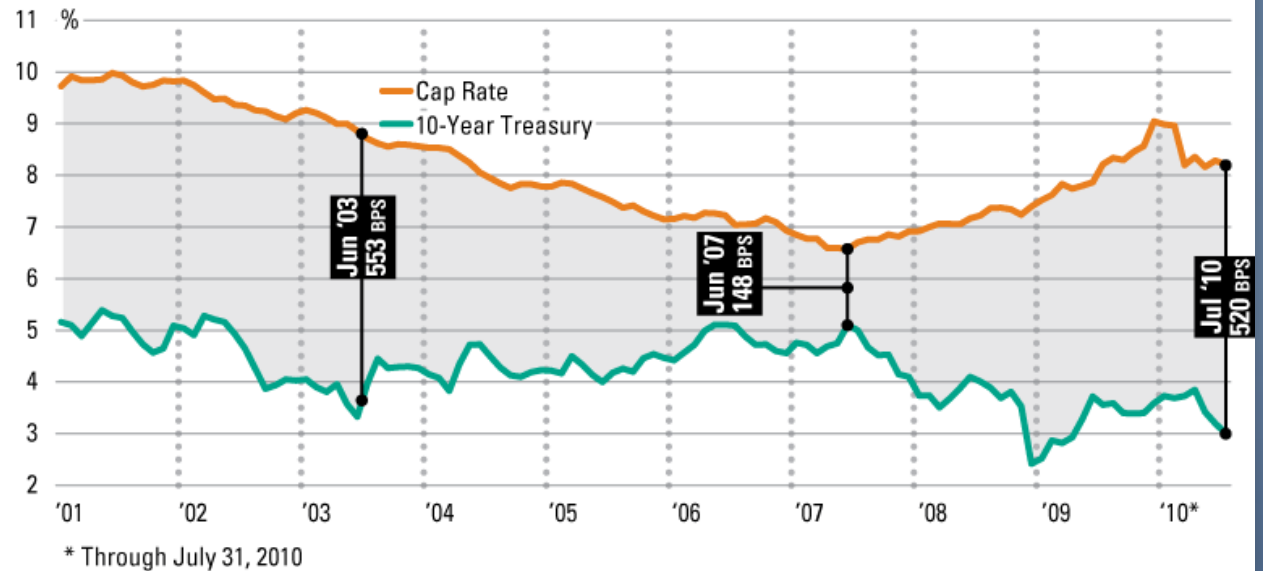
Why Buy Commercial Real Estate Now?



- Lots of Distress to Resolve!
- FDIC controlled
- Bank-owned
- Pre-foreclosure Short Sales



**SPREAD BETWEEN CAP RATE AND 10-YEAR TREASURY**  
SUBURBAN OFFICE



**YIELD / CASH FLOW**

**BUYER IN STRONG  
NEGOTIATING  
POSITION**

**ONE BUYER FOR EVERY  
SIX SELLERS: LOTS OF  
OPPORTUNITY!**

**BUY BELOW COST TO  
REPLACE**

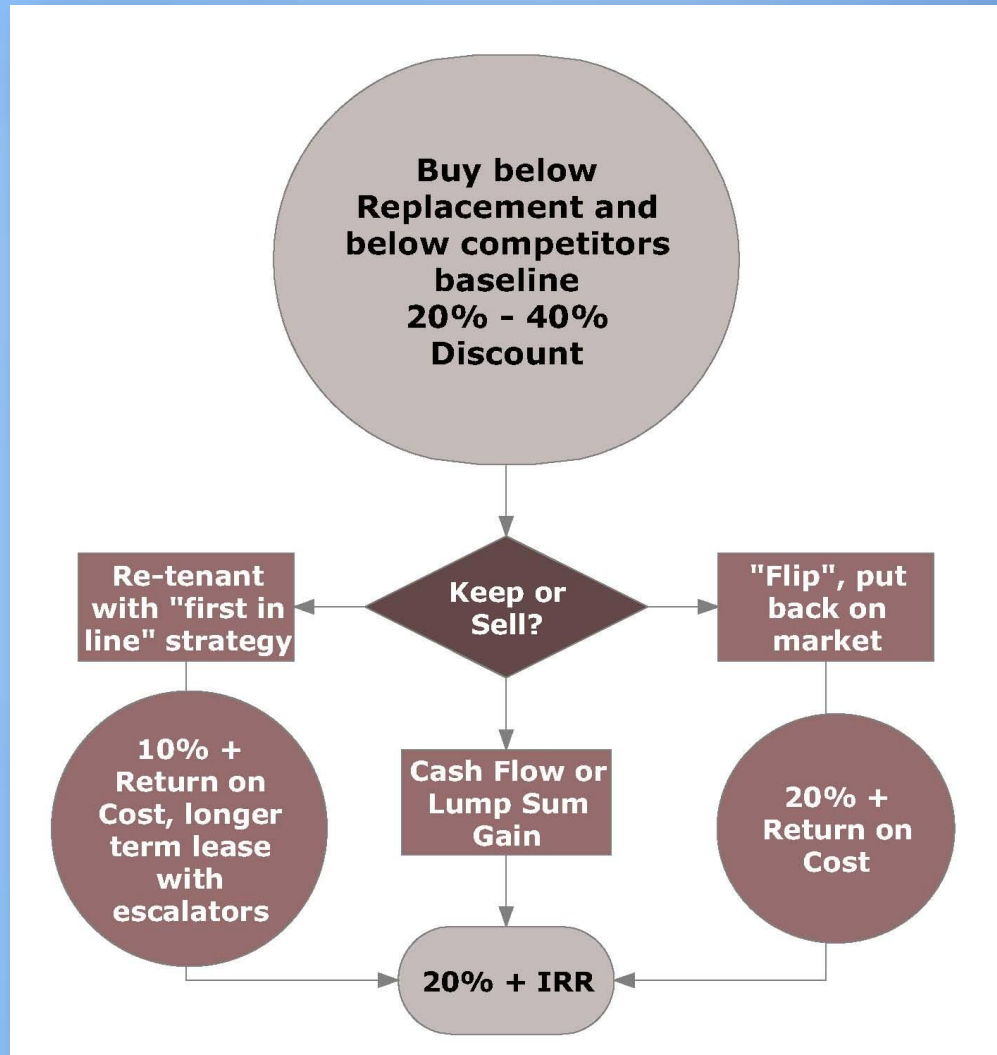
**FINANCING FOR  
OWNER-USERS  
THROUGH SBA UP TO  
\$5 MILLION, 85% LTV**

**BUY BELOW  
COMPETITORS' BASIS  
LONG TERM  
STRATEGIC  
POSITIONING**

**SHORT TERM OR LONG  
TERM APPRECIATION  
POTENTIAL**

**BULLISH IN LONG  
TERM ABOUT  
NORTHERN CO  
OUTPERFORMING  
STATEWIDE AND  
NATIONAL STATISTICS**

## BUYING DISTRESSED PROPERTY: STRATEGIES & OUTCOMES ANTICIPATED



**MARKET AND TIMING RISK FOR BOTH APPROACHES!**

## **Distressed Properties Examples**

Why Buy Commercial Real Estate Now?



- Loveland area flex / industrial property
- Short sale acquisition. Low basis
- Sold for \$1.8 million. Cost almost \$2.5 million to build
- Employed SBA financing for owner-user
- Strategy: Buy for own use (55%) and lease out remainder to tenant



- Former bank facility in Windsor – FDIC controlled
- Originally listed for \$1.6 million as a bank property, with Class A finishes
- Price lowered to \$925,000 to reflect value as an office property
- Sold for \$675,000 to investors
- Strategy: Re-tenant for cash flow - Low basis acquisition

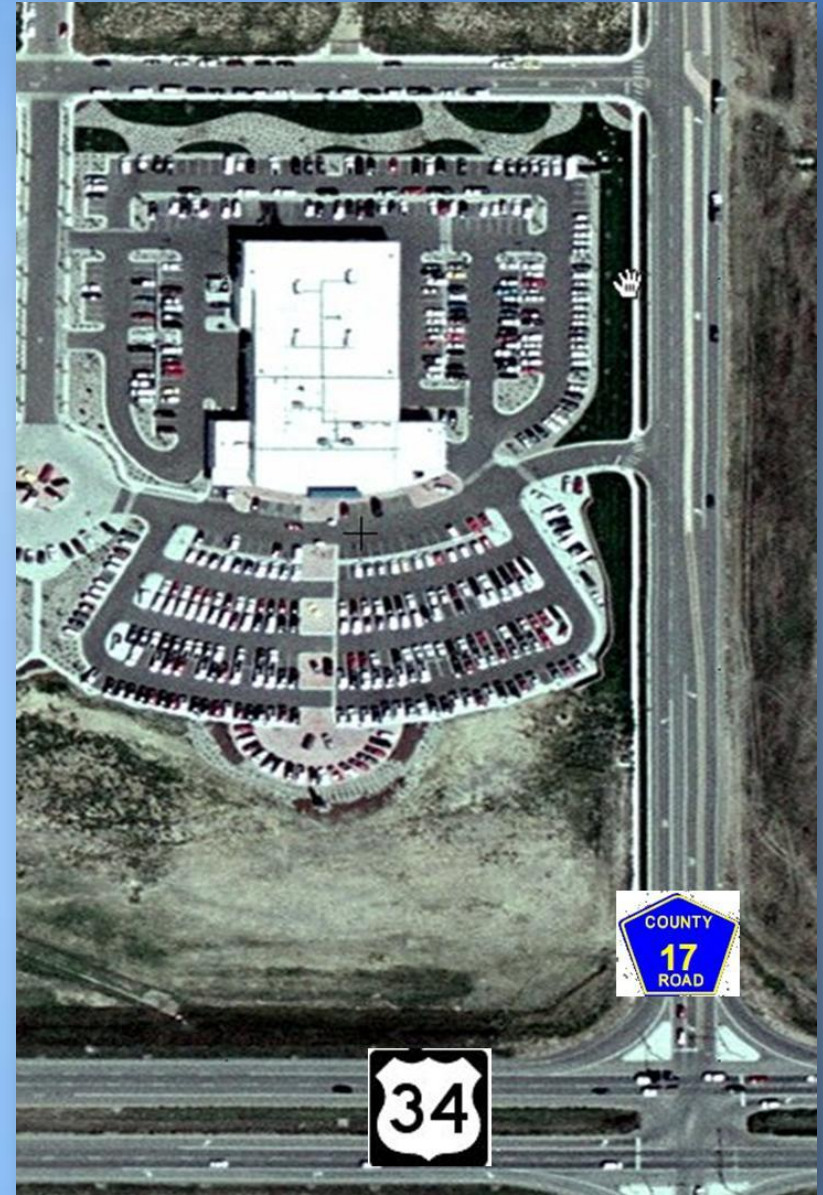


- Loveland industrial condominium
- Bank owned
- County Assessed at \$340,000
- Sold for \$250,000 or \$61 PSF
- Strategy: Flip to pre-arranged user opportunity - Employed SBA financing



- 7,400 SF Restaurant, Fort Collins
- Bank owned sale
- Sold for \$1.8 million
- County Assessed at \$2.1 million
- Strategy: Owner-user opportunity below cost of construction

- Former automobile dealership, Windsor
- 40,000 SF, 400 parking spaces
- Bank owned
- Original Appraisal \$8 Million as an automobile dealership
- Original Loan \$6 Million
- Offered to Market at \$3.1 Million as a general office / flex property
- Possible Strategy: Low cost basis acquisition
- Re-tenant for cash flow 12% ROC



# Single Tenant Net Leased Properties

Julius Tabert and Mike Eyer

# Investment Grade Tenants



# STNL Properties

- **Freestanding Building**
- **One Single Tenant**
- **Long Term Leases (15 Years +)**
- **No Landlord Responsibilities**

# STNL Properties Financing

- **Who Wants to Finance STNL Properties?**
- **Everybody!**
  - **Local Banks**
  - **National Banks**
  - **Life Insurance Companies**
- **Loan to Value Ratio: 60% to 75%**

# STNL Properties - Yield

- **STNL Cap Rates:** 7.75% to 9.25%
- **Corporate Bonds:** 4.0% to 6.0%
- **Treasury Rate:** 2.5%
- **Leverage Returns on Equity: Double Digit**
  - **Depends on Equity / Loan Ratio**
  - **Interest Rate Available to Buyer**

# STNL Properties - Involvement

- No Time Involvement
  - No Maintenance Expenditures
  - No Property Management Fees
  - No Decisions
- Therefore,
- Investor Can Own Them Anywhere!

# STNL Properties – Acquisition

- **Alone - \$200,000 to \$500,000 Equity**
- **With Partners, Due to Unique Features of the STNL Property**
  - **No Vacancy**
  - **No Tenant Improvements**
  - **No Management**
  - **No Decisions**
- **Partnership Disputes Happen when Things go Bad with the Property!**

# STNL Properties – Other Benefits

- Long Lease Terms Weather Market Cycles
- Superior Locations Offer Higher Land Appreciation
- Sellable Asset at Anytime
- Only Market that Stays Liquid in Down Cycles

# Example 1

## •Advanced Auto Parts, Denver, CO



Sale Price	\$1,690,000
Down Payment	\$ 676,000
Loan Amount	\$1,014,000
Remaining Lease Term	13 yrs
Interest Rate	5.5%
Scheduled Gross Income	\$ 135,200
Debt Service	\$ 74,722
Cash Flow	\$ 60,478
Principal Reduction (Year 1)	\$ 19,437
Return	11.8%

## Example 2

•TruGreen, Loveland, CO



Sale Price	\$1,275,000
Down Payment	\$ 446,250
Loan Amount	\$ 828,750
Interest Rate	6.0%
Remaining Lease Term	7 yrs
Scheduled Gross Income	\$107,672
Debt Service	\$ 64,076
Cash Flow	\$ 43,596
Principal Reduction (Year 1)	\$ 14,752
Return	13%

## Example 3



### •Fresenius Medical Care, Loveland, CO

Sale Price	\$1,140,000
Down Payment	\$ 399,000
Loan Amount	\$ 741,000
Interest Rate	6.0%
Remaining Lease Term	5 yrs
Scheduled Gross Income	\$ 110,541
Debt Service	\$ 57,291
Cash Flow	\$ 53,250
Principal Reduction (Year 1)	\$ 13,190
Return	16.65%

# **Multi-Tenant Investment**

Jared Goodman and Cole Herk

# Diversification

- **Spread Out Exposure**
  - **Multiple Tenants**
  - **Staggered Lease Expirations**
- **Limited Landlord Responsibility**
- **Property Management paid by Tenant**

# Financing

- **LTV 60% - 75%**
- **No SBA**
- **DCR 1.25+**
- **Non-Recourse vs. Recourse**

# Investment Considerations

- Returns
  - CAP
  - Cash on Cash
  - Principal Reduction
  - Depreciation
    - 39-Year Straight Line
    - Cost Segregation
  - Appreciation
  - Vacancies
    - Buyer
    - Seller

# Example 1

•925 E. Harmony Road

## Tenant List



	<u>% of Total SF</u>	<u>% of Total Income</u>
Jackson's Sports Grill	27.56%	27.29%
Anglers Roost	4.82%	5.73%
D&G Pets	14.95%	10.62%
Silver Mine Subs (Retail)	6.15%	6.72%
<b>Harmony Kids</b>	<b>9.49%</b>	<b>6.76%</b>
Silver Mine Subs (Office)	14.75%	5.90%
Roll Café	5.50%	9.69%
Nail Salon	5.47%	9.63%
Rug Décor	11.30%	17.64%

# Example 2

## •Berthoud Village (1 of 2)

List Price	\$ 3,495,000
New Loan	\$ 2,446,500
Down Payment	\$ 1,048,500
Loan to value	70%
Interest Rate	6.5%
Amortization	25
Building SF	43,601
Land Acres	3.15



# Example 2 cont.

## •Berthoud Village (2 of 2)



	<u>Actual</u>	<u>Projected: 2,708 SF Leased</u>
Scheduled Gross Income	\$287,995	\$323,199
Other Income	\$148,398	\$160,584
Total Scheduled Income	\$436,393	\$483,783
Operating Expenses	\$159,685	\$159,685
Net Operating Income	\$276,708	\$324,098
Debt Service	\$(198,227)	\$(198,227)
Cash Flow	\$ 78,481	\$125,871
Cash on Cash	7.49%	12.00%
Principal Reduction (Yr 1)	\$ 40,394	\$ 40,394
Total Return after Principal Reduction	\$118,875	\$166,265
Debt Coverage Ratio	1.40	1.63
Cap Rate	7.92%	9.27%

**\$598,566 Increased Value**

Your Creative

Edge

# Example 3

## •Poudre Valley Plaza (1 of 3)

List Price	\$ 8,250,000
New Loan	\$ 5,775,000
Down Payment	\$ 2,475,000
Loan to value	70%
Interest Rate	6.5%
Amortization	25
Building SF	67,032
Land Acres	6.73



# Example 3 cont.

## •Poudre Valley Plaza (2 of 3)

### Actual

Scheduled Gross Income	\$ 767,184
Other Income	\$ 334,713
Total Scheduled Income	\$1,101,897
Operating Expenses	\$ 467,416
Net Operating Income	\$ 634,481
Debt Service	\$ (467,919)
Cash Flow	\$ 166,562
Cash on Cash	6.73%
Principal Reduction (Yr 1)	\$ 95,350
Total Return after Principal Reduction	\$ 261,912
Debt Coverage Ratio	1.36
Cap Rate	7.69%



# Example 3 cont.

## •Poudre Valley Plaza (3 of 3)

### Poudre Valley Plaza Exit Strategy



#### Sell Individual Buildings

- 1015 W. Horsetooth Road
- 1027 W. Horsetooth Road
- 1051 W. Horsetooth Road
- 1063 W. Horsetooth Road
- 1075 W. Horsetooth Road

#### Value Sold Separately

\$ 2,575,000  
\$ 2,350,000  
\$ 1,350,000  
\$ 1,290,000  
\$ 3,475,000

Total Value Sold Individually

\$ 11,040,000

Packaged Value

\$ 8,250,000

**Increased Value**

**\$ 2,790,000**

The Sperry Van Ness/The Group Commercial, LLC Team



**Travis Ackerman**



**Mike Eyer**



**Ronn Frank**



**Jared Goodman**

**Thank You**



**Pat Gonsior**



**Craig C. Hau**



**Robert Hau**



**Larry Hawe**



**Cole Herk**



**Steve Kawulok**  
Managing Director



**Dan Leuschen**



**Randy Marshall**



**Jim Neufeld**



**Bill Reilly**



**Julius Tabert**



**Cobey Wess**