

**In “Kahr Notes” this month:**

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## *1. Hail? The Storms in the Economy*

I've never been aboard a ship during a storm, yet from my computer over the last three weeks I can relate. The market turbulence, along with volatile high waves makes steering - much less the construction of an accurate map - nauseating. Even when confidence ought to return after a historic bail-out.

While the effects of the bailout are unknown, some economists suggest an alternative plan, buying bank stock rather than (defaulting) assets. This could give the banks leverage to lend thanks to the resulting 10:1 asset-to-equity ratio. This plan would also be less expensive for taxpayers.

Ultimately, the government's bailout and subsequent actions must overcome its stigma of inefficiency, and establish boundaries acceptable to the free market that will keep capital market participants from threatening the overall economy. In the long run, I am optimistic - never before has there been such an opportunity for constructive change. The government will have the chance to prove itself. On the the other hand, the cash-capped private sector will have many opportunites.

A quick summary of my forecasts on the bailout's effect on the economy, and how it may affect the real estate market:

### **Bailout's Effects**

- Businesses and individuals will find it harder to obtain loans and may be reluctant to take on debt, catalyzing spending constraints
- More regulation, with possible repercussions with market inefficiencies
- Demand for more transparency within large players
- Credit default swaps: regulation, reporting, etc.

### **Real Estate Forecast**

- With the lack of capital availability, partnerships will increase
- Opportunistic deals increase
- High Yield mezz loan opportunities
- Value-added deals always in play
- Retail (in some areas) will take a hit
- Office suffers, but less so
- Warehouse/Distribution centers will suffer least, and only on the tail end

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## Class Schedule

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“Tangibility” defines the difference between the real estate world and the financial world. In more constrained times, I am glad that my profession implies roofs. Yet even as the capital constraint may affect real estate professionals, the truth is that there is always an abundance of capital for intelligent investments. Currently, cash is reigning as king, and his court demands a wiser fool. One who instead of making magic tricks, waved his Berkshire wand and pointed at a castle made of cards.

At least a 20/20 hindsight still indicates that today solid real estate investments and opportunity are plentiful so long as the ships survive the storm. And even if they don't, you can count on the pirates.

### 2. Market of the Month – Salt Lake City

Unlike many of the oceanic markets, Salt Lake City is landlocked, and best known for its placid income-generating lake.

**Population:** Expectations of significant growth in population due to preferential geography keep strong demographic and employment trends. Currently, population is around 180,000. 40% have obtained a Bachelors degree or higher, close to double the national average. Of this population, 40% are at the median age of 32, and only 10% are 65 years or older. Overall Salt Lake has a young and competitive workforce. Long term projections estimate SaltLake City will benefit from the U.S. population trend of relocating to sunny locales.

**Housing:** The average house price is \$210,000, which is higher than the national average. Median family income is estimated at \$48, 500. Fortuitously, mortgage payments are lower. Salt Lake City, will still feel the effects of the national debt strain, and prices in some areas have decreased. The percentage of occupied housing units is 91%, significantly higher than the national level. Of the occupied housing units more than half are owner occupied, suggesting that the majority of the citizens are seriously invested in their community, and future of Salt Lake City.

**Commerce:** As of June 2008, Utah unemployment was 3.2%, compared to the national 5.5%. Employment opportunities are growing, especially in the high-tech industry, increasing 7% to 34,300 jobs as of 2006. Other primary industries in the Salt Lake City region include retail trade, healthcare, manufacturing, construction, and hospitality. Utah's ski industry is \$1 billion business. Furthermore, the Salt Lake City is a hub and recently Delta Airlines began a non-stop service between Salt Lake City and Paris.

The Salt Lake metro area is strong growth and development fundamentals due to its unique geographic assets, demographics, and employment levels.

We continue to offer Argus and Excel for Real Estate Analysis classes in NYC, Boston, Chicago, Washington DC, and Los Angeles. All classes are offered on the weekend so you don't have to miss a single day of work. Don't thank me; signing up for the classes is enough thanks.

#### Argus

- **New York City:**  
November 22 & 23,  
2008

#### Excel for Real Estate

##### Analysis

- **New York City:**  
November 15 & 16,  
2008
- **Washington, DC:**  
December 5 & 6,  
2008
- **Chicago:**  
December 13 & 14,  
2008

### 3. “Insane Project” Winchester Mystery House

For those who aren't familiar with the Winchester Mystery House, you are in for a treat. Beginning in 1884, Sarah Winchester built the Winchester House for 24 hours a day, until her death in 1922. Ms. Winchester was the \$20 million dollar widowed heiress to the Winchester Rifle Company, the new technology of it's time that “won the west” while killing thousands along the way. A medium in Boston, told her that all the ghosts killed by her family's rifle were for revenge on her and that she should move California and start building a house to confuse them. The Winchester's architecture is actually intended to keep evil spirits away.

Seriously, and she did. So the architecture is intended to keep evil spirits away. Inside the mansion there doors and staircases leading to nowhere, and a single séance, all designed spontaneously by Ms. Winchester. In total there are 160 rooms, 10,000 windows, 950 doors, 47 fire places (but only 17 chimneys), and used 20,000 gallons of paint, and a séance room. Inside the house the number 13 repeated, in steps, ceiling panels, steps, stairways, panels in the ceiling. Today the house is a landmark, operates year round as a museum, and is owned by Winchester Investments LLC.



*For those of you looking for your own value-add haunted house deal, don't forget to make it “green.”*

To register, please visit our website:  
[www.kahrreestate.com](http://www.kahrreestate.com)

#### 4. Class Information: Excel for Real Estate, Negotiations (new) & Argus

Our Excel for Real Estate Analysis class draws students from across the country. It provides what many attendees say they never learned in business school - they learn how to model complex real estate transactions and use Excel to its fullest. The class is informative, challenging and practical in nature. All attendees will develop an understanding of how to use the power of Excel to analyze cash flow, leverage, partnerships and joint ventures, and construction projects.

Financial topics include: Building effective cash flow assumptions, cash flow statements, valuation of an asset using discounted cash flow analysis, amortization schedules for mortgages, Impact of leverage, depreciation schedules, impact of taxation (income, capital gains, and accumulated depreciation), partitioning the IRR, partnerships (preferred returns, waterfalls, and IRR look backs), sensitivity tables and graphs for presentation and analysis, and how to use Excel and Argus together for effective analysis.

The Argus course consists of lecture format, case studies, and classroom discussion in a collaborative environment. The class combines both financial theory and practical real world examples so all attendees will benefit from the class regardless of their individual backgrounds. By the end of the class, attendees will have a firm understanding of how to use the software and will be well prepared to analyze real estate in a high production environment.

By the end of the class, you will know how to do the following: Build ARGUS financial models using nothing more than a few assumptions, edit and audit existing models for errors and unreasonable assumptions, determine an appropriate purchase price and leverage based on desired rates of return and risk tolerance, build detailed cash flow projections, sources and uses schedules, and other financial reporting tools such as discounted cash flow analysis (Net Present Value and IRR), estimate future sale prices based on cash flow and other approaches, account for the impact of debt financing, taxes, and depreciation, model complex partnerships and determine the returns to each investor, develop detailed construction budgets for development projects, build advanced mortgages such as construction and participating mortgages, understand how to use ARGUS to model all property types (office, industrial, retail, residential, and hotel), run advanced scenario and sensitivity analyses on individual properties and portfolios, and export all data and reports to customized reports in Excel.

#### About the Publisher

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