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The Final Five

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1. End of Year Wrap-Up, Albeit Two Months Late

2006 was a big year for us. Major milestones included:

* We rented a real office at 139 Fulton Street and discovered that it was better than working in my dining room. Strangely enough, my dining room table is now in the middle of my office and serves as the conference table.
* We went through the saga of setting up an office including phone systems, computer networks, etc. In doing so, we decided that Verizon is not our friend.
* The company hired its first full time employee, and then we hired a second so the first one wouldn't be lonely. It's sort of like having pets but they cost more.
* We completed a number of major projects including innumerable financial models for developers and investors, market studies, and a mix of other work. At the end of year, we were able to take stock of our work by the only truly objective measure in a consulting business: frequent flyer miles.
* We sent out bottles of champagne in lieu of holiday cards; no one runs a bottle of booze through the shredder.

As for 2007, it's going well so far. We're actively looking to set up a West Coast office, and we keep hiring people (we're up to four full time people). Business is good; as always, if you want to discuss new business opportunities, drop me a line at josh@kahrrealestate.com.

Regards,
Josh Kahr

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2. Final Five Ways to Boost an Argus Run

Whenever I teach an Argus class, someone always asks, "What are the most common assumptions that brokers change when they want to boost the value of the building?"

In my last issue of Kahr Notes, I gave you my first five… here are

another set to round out the list. While my first five were about violating common underwriting guidelines, these final five are software specific to Argus.

6. Check the Magic Box - Go to Options -> Calculation Switches - > Rent and check the box that says "Inflate Market Rent monthly". The market rent will now grow monthly while everything else grows annually. This will jack up the present value of your deal by anywhere from 1.3% - 2.0%. It's one of those buttons that dates back to the dot.com bubble when rents were growing at wacky rates; in today's market it makes no sense unless you want to cheat.

I also consider this a cheat because if you check it, it's extremely unlikely that anyone will know. There is a small icon that appears in the lower left hand of the screen if you check it, but most people will ignore it and/or not see it.

7. It Depends on What You Mean by Vacancy - In the vacancy and credit loss screen, there's an Options button that can wreak havoc on the vacancy calculation. The default setting is to have the first box unchecked. If you choose to check the first box ("Percent Based on Revenue Minus Absorption and Turnover Vacancy"), Argus will calculate the vacancy loss in a manner similar to a credit loss. For example, let's say the building is 98% occupied and the vacancy rate is 5%. Normally, Argus would calculate the 5% vacancy off of the gross (100%). If the first box is checked, the 5% vacancy will be calculated off of the net (98%) and so the vacancy deduction will be lower.

In other words, you'll make more money by making a non-standard assumption about vacancy and most users will have no idea what you did.

8. Relative and Absolute Start Dates, part 1 - There are two ways to enter start dates for leases in Argus. A relative date is the number of months into the analysis that the lease starts ("3"), and a fixed date is an actual date ("3/07"). If you enter the start date as a fixed date, it will not be taken as a deduction against the vacancy loss; if you enter it as a relative date, it will.

In other words, if you want to make more money, put in all your start dates as relative dates. 95% of users will never notice.

9. Relative and Absolute Start Dates, part 2 - If you shift the start date, you can make costs disappear. Let's say you have a speculative lease that starts in the 3rd month of the analysis and the start date is fixed ("3/07"as opposed to "3"). If you change the start date of the analysis to start after a lease's start date, two things will happen:

a. You'll report cash flow that doesn't exist yet. This is obviously wrong.

b. All of the leasing costs that were incurred to bring in the tenant such as tenant improvements and leasing commissions will disappear.

While this makes sense, users need to be aware of it; Argus does not warn you when costs disappear off the left or right side of the page. You need to keep track of dates in Argus otherwise you will grossly overstate the value of the property.

10. Changing Base Rent

For every Market Leasing Assumption, you can set not only a base rent but also how fast that rent grows after the lease is signed. Usually, this is inputted in the Changing Base Rent.

While most users know to lower the rent growth inflation from the broker's projection to something more realistic, users often forget to check the Changing Base Rent. As a result, they catch only half of the over valuation.

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3. Argus and Excel/financial modeling classes

We continue to offer Argus classes in NYC, Boston, and Chicago and an Excel/financial modeling class in NYC.

If you're not in NYC, you can also take my Excel class through the Urban Land Institute. It'll be offered in Scottsdale, Arizona on April 10th and 11th; to read more go to:

http://www.uli.org/AM/Template.cfm?Section=Search&template=/CM/HTMLDisplay.cfm&ContentID=85584

The schedule for both classes is:

Argus, New York , 3/17/07 and 3/18/07
Argus, Boston , 3/10/07 and 3/11/07
Argus, Chicago, 4/7/07 and 4/8/07
Excel/financial modeling, New York , 3/31/07 and 4/1/07

The Argus class covers in only two days how to use the software to finance, invest in, and develop real estate. All attendees also receive a copy of my 230 page training manual that is the product of over five years of teaching Argus at leading universities and corporations. It is the only manual of its kind that covers both the software and provides real world examples.

The Excel/financial modeling class is a two day course in how to use Excel for real estate investment, finance, construction, and partnership modeling. We used to offer it in only one day, but we've accumulated so much material that we've expanded it to two days.

The class assumes minimal Excel knowledge, but it rapidly progresses to a high level of discussion. We show attendees how to build financial models that include the various bells and whistles that impress partners and investors in addition to the more practical matters of showing the impact of leverage and taxation. We also spend a lot of time on partnership modeling. Partnerships are one of the most complex pieces of building a financial model, and the class spends significant time hammering those issues out. We also cover development and construction models.

All classes are taught by Joshua Kahr, Principal of Kahr Real Estate Services. They run from 9:00 am to 5:00 pm. All classes run on the weekend. Weekday classes are only available for companies and universities that require on-site group training.

The fee is $595 each for the Argus and Excel class. The materials are included in the price. If you'd like to register 3 or more people from your organization, please contact us in advance and you will receive a 15% discount off the total fee. We also offer a 15% discount if you register for both classes.

To sign up for an Argus class or read more, go to:
http://www.kahrrealestate.com/argustraining.shtml

To sign up for an Excel class or read more, go to:
http://www.kahrrealestate.com/exceltraining.shtml

If you're interested in customized on-site training, contact Joshua Kahr directly at josh@kahrrealestate.com for more information.

ABOUT THE PUBLISHER:

Kahr Real Estate Services LLC is a consulting company that provides financial training, market and feasibility studies, financial modeling, and portfolio management for the real estate industry. "Kahr Notes" is the company's newsletter.

We welcome story suggestions, quotations from industry events, trend news, and feedback. Submit via e- mail to josh@kahrrealestate.com. We will contact you before using any item.

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