

In “Kahr Notes” this month:

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1. Launching a Fund is as Easy as 1, 2, 3

One of the challenges of running a consulting company is that it's hard to explain what one does. “Consulting” is a very generic word. I've found that it's much easier to explain the problem that we solve instead of just describing a list of services. After all, clients call you because they want to solve a problem.

For example, we are regularly approached by entrepreneurs that are looking to launch a real estate private equity fund. They know that they need help, but they're not sure what they need to do in order to launch a fund.

Other than the legal work, here's the short list of items that you need in order to launch a fund.

1. Research and write the business plan for the offering book. At the least, you need to cover the following:

- i. Executive Summary
- ii. Market Overview
- iii. Investment Strategy
- iv. Fund Structure
- v. Management Team
- vi. Transaction Case Studies and Track Record
- vii. Risk Factors

While length will vary greatly, most books will run in excess of 50 pages. Of course, 90% of people don't read it beyond the first page, but it's still important that it's all in there. If nothing else, a well written book consolidates the thoughts of the team, and it is the first step towards making an effective pitch.

2. Build a set of financial models to track the cash flows for the partnership, the individual investors, and the management team. As every deal is dif-

Class Schedule

We continue to offer Argus and Excel for Real Estate

Analysis classes in:

New York City

Boston

Chicago

Washington DC

Dallas

Miami

Los Angeles

All classes are offered on the weekend.

Argus

- **New York City:**

March 28, 29 2009

- **New York City**

May 30, 31 2009

- **Excel for Real Estate**

Analysis

- **New York City:**

March 7 & 8, 2009

ferent, and different investors may receive different deals, this can be very complex.

3. Create the presentation materials that you'll need to deliver a high quality road show. While this is in great part based on the offering book, no one wants to read the book. Investors would much rather have the information spoon-fed to them, one slide at a time.

If this sounds like a problem that you'd like to solve, we can provide the needed research, writing, market expertise, and financial support. We also have a pretty deep bench of contacts and relationships that we can draw on for the services that we don't provide such as legal. To discuss this, or other projects you're wrestling with, you can contact me at josh@kahrrealestate.com.

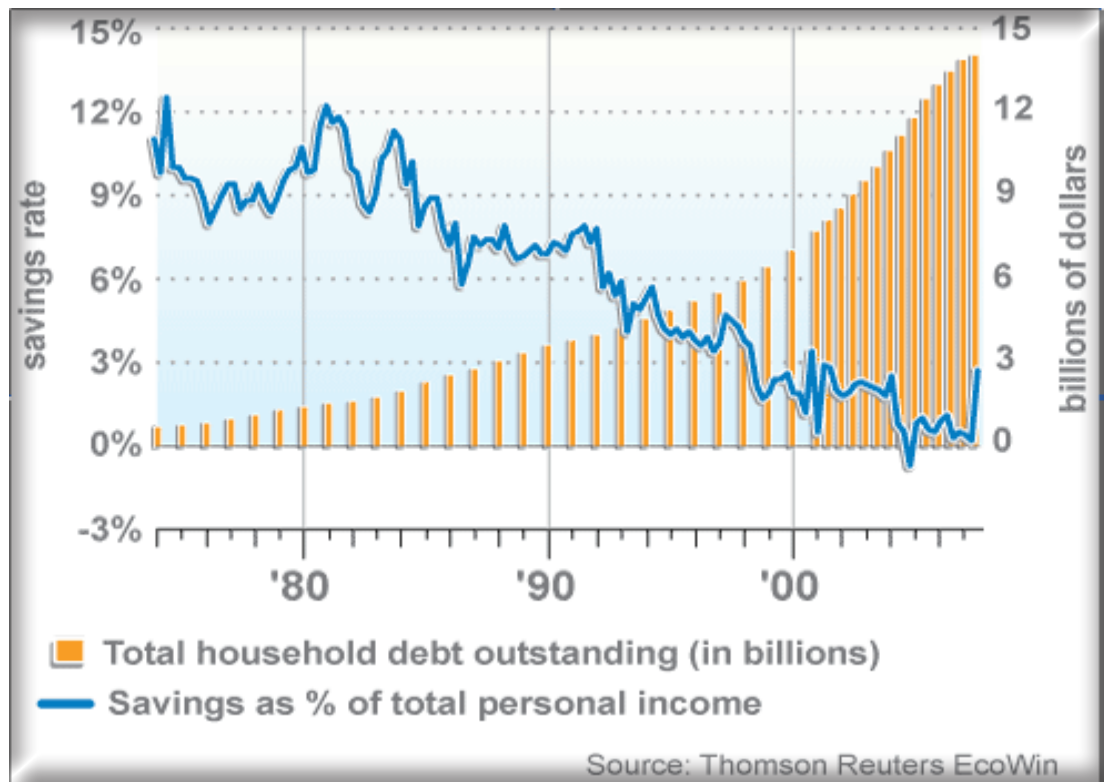
- Josh

2. The Wealth Effect and the Next Generation

On February 15th 2009, the United States passed the largest stimulus package in history, a remedy that has to date generated some degree of hope, but little else. It remains unclear if the capital injection will achieve its objective of stabilizing the economy. As a consumer based economy, the US is highly dependent on consumption and household spending. Over the past 10 years, Americans have been spending more and more as a percentage of their income, while allowing savings levels to drop to historical lows. This was due partially to the availability of cheap and easily accessible debt. The economic bubble that resulted increased home prices significantly, and led to what is called the 'wealth effect.'

What's the wealth effect? Simply put, the wealth effect is when one spends more when one's perceived wealth increases, even if one's income remains the same. The housing wealth effect has been well documented throughout the last several decades. As home values kept rising, homeowners would spend more, and deplete their savings. After all, they were wealthy. The problem is that a lot of people were house rich and cash poor. No one considered that their house price was directly related to the broader economic conditions, and unlike cash in the bank, the value could go down.

- **Excel for Real Estate**
Analysis Continued
- **New York City**
April 18, 19 2009
- **Washington DC**
April 18, 19 2009
- **Chicago**
April 25, 26 2009
- **Miami**
May 2, 3 2009
- **Boston**
May 2, 3 2009
- **Los Angeles**
May 30, 31 2009
- **Washington DC**
June 13, 14 2009



Take for example the graph above. It shows that three decades of declining savings and increasing debt. Extracting home equity through refinancing was particularly common beginning in 2001 which you can see in the trend.

What’s especially interesting is that the wealth effect varies in its power depending on where the wealth comes from. In “Comparing Wealth Effects: The Stock Market versus the Housing Market” by Case, Quigley, and Shiller (<http://www.bepress.com/bejm/advances/vol5/iss1/art1/>), the authors find that the effect on consumer spending is different depending on if the wealth comes from housing prices increases or financial investments such as stocks. They find that an increase in housing values has a significant increase in spending levels, but financial investments do not.

This finding is counter to what one would logically expect. Financial investments are far more liquid than houses. In aggregate, people tend to believe that housing values, unlike investment in public markets, are less volatile and more resistant to downward economic pressure. In large part, this thinking has contributed to the collapse in the housing market. A significant number of

To register, please visit our website:
www.kahrrealestate.com

Real Estate Negotiations

Call or email for availability.

Group Classes

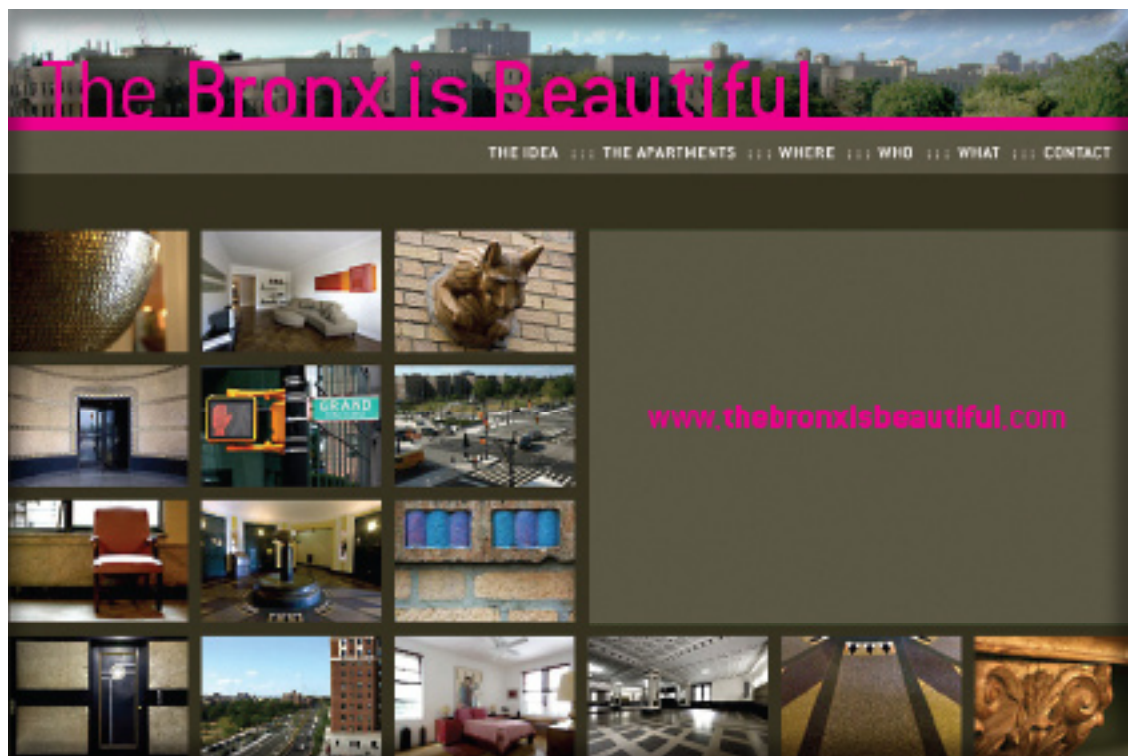
For custom training solutions, or for group enrollment, please contact us directly.

American homeowners who had tapped into their home equity through re-finance, are now either unable to make mortgage payments or have mortgages that are in excess of their current home values. In a “normal” credit and housing market, it may be reasonable for an increase in housing prices to trigger a wealth effect. However, no investment is immune to systemic risk, as up to nine million Americans facing foreclosure have discovered.

3. Insane Project: The Bronx is Beautiful

There’s the old saying that the more things change, the more things stay the same. This is as true for cities as it is for anywhere else. Take New York City for example. It was founded by the Dutch, who unwittingly set the precedent for multi-culturalism, unrestrained commerce, and the cramped housing that defines the city to this day. Over time, the city changed, but the trading culture remained the same. The city evolved from fur traders selling pelts to the Old World, to one of trading houses that financed Westward expansion and the cotton fields of the South, and finally to cufflink clad bankers doing deals in ‘emerging markets.’

Of course, some areas do change – sometimes for the better, sometimes for the worse, and sometimes on national TV.



If you remember 1977, you remember President Carter standing on Charlotte Street. From the picture, he could have been in a war-torn country, but he was actually in the South Bronx. The World Series was equally as unkind. Television cameras caught images of the Bronx on fire and Howard Cosell famously intoned that “There it is, ladies and gentlemen, the Bronx is burning.” It was not a proud moment for the city.

Perception is reality. How can one redevelop a community that is synonymous with urban decay and blight? If you have a moment, take a look at www.thebronxisbeautiful.com. Its goal is to portray the South Bronx as a place of beauty. In 30 years, there has been substantial redevelopment. The problem is that no one has recognized it, either in the city or nationally. While this could sound like the beginning of a cruel joke, if you look at the web site or for that matter, visit the borough, the web site has a point. There are some beautiful buildings and images, and like any neighborhood, it has its charms. To put it another way, it’s no longer 1977.

While the cynics amongst you wonder why this matters, it does. These initiatives can be better indicators of potential economic success than almost anything else, including job growth. What can change a community is the people, and when people care enough about their community to actually document its beauty, that’s a good sign. We’re not naive enough to believe that all it takes to change an urban community are some pretty photos, but it is a major step. It’s also a great indication of future growth in income and value for investors.

4. Kahr Real Estate Investment

Kahr Real Estate Services has launched a real estate investment platform, Kahr Real Estate Investment (“KRE”), to take advantage of current market conditions and its deep relationships throughout the real estate industry. Relying on its core competency in the sourcing and underwriting of assets, KRE will identify both value-add and core-plus acquisition opportunities in the northeastern US region. KRE will look to purchase assets that yield annual returns to investors in excess of 8%. KRE will identify opportunities in select markets that have solid fundamentals with long term potential.

For more information on Kahr Investments, please contact:

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5. Kahr Group Information: Consulting and Training

Financial Modeling

Regardless of deal size or type, our key objective is always to build highly functional and optimal models for our client. We can also review and analyze a client's existing financial models for inefficiencies.

Capital Advisory

We support clients in their capital raising efforts with lenders and equity providers, by delivering presentations to capital sources or making introductions. We also lend our extensive knowledge of capital markets, deal structuring, and real estate finance to help negotiate better terms on equity and debt.

Offering Memoranda

We design and write graphically appealing institutional quality offering memoranda and RFP responses for our clients. When raising capital, a high quality document will get the project in front of the right capital sources.

Market Analysis and Feasibility

Our reports take a multi-layered "hands on" approach that goes beyond identifying current market conditions; we seek to enhance the overall profitability and market acceptance of the project by identifying hidden opportunities

Excel for Real Estate, Negotiations & 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. 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.

The **Argus** course consists of lecture, case studies, and classroom discussion in a collaborative environment. 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 volume production environment.

The **Real Estate Negotiation** course consists of two full 8 hour days (with one hour each day for lunch) and provides a broad introduction to skills and techniques of negotiation. Some of the categories are covered include: preparation tactics, identification of goals and means, evaluation of the other party's position and goals, and possible points of dispute. Furthermore, we encourage creative solutions (where possible) that maximize value by considering factors beyond simple price or cost.

Contact Kahr Notes Write your feedback to info@kahrrealestate.com