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1. Working with Banks

With increasing frequency, Kahr Real Estate has been retained by local and regional banks to provide advisory services on how to value projects that are in some level of default. As is well known, the underwriting criteria that banks employed over the past few years prior to the debt implosion fell far short of conservative lending standards. As a result, banks are now inundated with projects for which there exists little in-house expertise. Meanwhile, opportunistic investors have been circling overhead and when given access to their book of business, they’ve offered low ball prices in the hope that banks are desperate enough to fire sale their inventory.

In our role as consultants, we have learned a few things that are worth mentioning.

- The approach taken by vulture investors have in many cases not yielded results. The primary reason for this is because of a basic accounting problem; if banks accepted these offers, they would quickly find themselves to be insolvent. Often this has resulted in banks holding fast and this is the primary driver of the oft mentioned theory of ‘extend and pretend’. When in doubt, the lenders are simply extending their loans beyond the initial maturity dates in the hope that prevailing economic fundamentals and sentiment will eventually improve.
- When it comes to smaller banks, relationships can make all the difference. If one is perceived as a vulture, banks will do everything in their power to not deal with you. In a recent experience with one of our banker clients, we saw our client do the deal with a lower priced bidder purely because they had developed a strong relationship. In workout situations where trust and confidentiality are important, relationships truly do matter. The days of price wars have been replaced with “comfort wars”.
- Most important of all, if one approaches banks from a slightly different angle than just pure price and one in which the sellers’ issues are taken into account, this may create a wider area in which to strike a deal.

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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**

February 20 & 21,
2010

- **New York City**

April 24 & 25, 2010

- **Excel for Real Estate**

Analysis

- **New York City**

January 9 & 10, 2010

What do we mean when we say that one needs to approach lenders from a different angle?

The key is structure.

If you are not a banker, or have little experience dealing with the banking world, bank accounting issues will seem foreign or even a little bizarre. Unlike traditional investors, hedge funds, private equity finds, or any other unregulated investment vehicle, banks must adhere to a relatively strict set of rules and regulations. In short, a bank must hold a certain amount of high grade capital in reserve for every dollar that is lent out. A banks' ability to accept a write-down today is vastly different that what it was in headier times. Therefore, if a deal could be structured in a way in which a bank could receive more today for a defaulted note or an asset than they would otherwise receive by the investor by bringing in bank as a partial owner in the purchasing entity, this might help to better align the goals of the investor and the bank. In addition, the lender will often finance the new vehicle as a way to boost the overall sales price and mitigate taking a loss today.

This process can be beneficial to both parties, because it allows the investors to reduce the equity commitment while providing the bank with a higher price today on paper. In addition to providing some percentage of the equity, a deal could be structured in which the investor must achieve a targeted rate of return prior to a bank receiving any part of its equity back. This tiered equity structure could also push a substantial amount of the equity risk back onto the bank. Then, if the write down does occur later on, the hope is that the bank will be better able to manage a write down than it can today. As with all strategies, it's a matter of getting creative and finding a way to get the deal done.

Happy hunting.

Excel for Real Estate Analysis Continued...

- **New York City**
February 27 & 28,
2010
- **New York City**
April 17 & 18,
2010

2. New Class on Distressed Real Estate and Workouts

We're going to run a new class on the distressed real estate/workout process in early March. Just as we created the Excel class to respond to customer demand, we've created this class because people keep asking us to run one.

The good news is that we didn't rush it. We didn't want to bring this class out to the market until it was ready. Joshua Kahr, our principal, has honed this class by delivering a variation of it for Urban Land Institute and also for a leading business school. Now that it's been field tested, he's ready to deliver it in a condensed two day form for industry professionals that want to learn the following:

- The business person's crash course to the legal issues surrounding foreclosure and bankruptcy
- Financial analysis of distressed real estate deals
- What are the issues that come up when you're buying a mortgage instead of "pure" real estate?
- Strategies for negotiating with borrowers and other lenders who may be either in front of you or behind you in the capital stack

Most important of all, not only have we consulted for lenders on how to better manage and dispose of their portfolios, we also are investors too so we can "walk the walk". For example, we closed in September on a defaulted mortgage on a multi-family deal in Passaic, NJ and took it through the foreclosure process. As pretty much all of the real estate investments that we're investigating are defaulted note deals, the class just made a lot of sense.

If you'd like to read more about the class or if you'd like to sign up, please visit the following web page on:

<http://www.kahrrealestate.com/workouts.shtml>

We hope to see you there.

3. *Kahr Real Estate Investment*

Kahr Real Estate Services has launched a real estate investment platform, Kahr Real Estate Investment (KREI), to take advantage of current market conditions and Kahr's deep relationships throughout the real estate industry. Relying on core competencies of sourcing and underwriting assets, KREI will identify both value-add and core-plus acquisition opportunities in the northeastern U.S. region. KREI intends to purchase assets that yield stable annual returns to investors, and that have solid fundamentals with long-term potential.

For more information on Kahr Real Estate Investments, please contact:

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4. *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

By delivering presentations to capital sources or making introductions, we support clients in their capital raising efforts with lenders and equity providers. 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.

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.

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, and 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: learning 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 provides a broad introduction to skills and techniques of negotiation. Some of the categories 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 that maximize value by considering factors beyond simple price or cost.

Contact Kahr Notes

Direct feedback to info@kahrrealestate.com

About the Publisher:

Kahr Real Estate Services LLC is a consulting company that provides financial training, market and feasibility studies, financial modeling, and capital advisory services for the real estate industry. “Kahr Notes” is the company’s newsletter.

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