

In “Kahr Notes” this
month:

1. Zen and Real Estate
2. Kahr Real Estate
Investment
3. Consulting and Class
Information

1. Zen and Real Estate

“In the beginner’s mind there are many possibilities, in the expert’s mind there are few.”

- Shunryu Suzuki, Zen Master

I recently read The Big Short by Michael Lewis and this quote immediately came to my mind.

If you haven’t read The Big Short, you probably should. It’s basically about how a small group of people made huge bets on the housing market failing, and when it did, they made an obscene amount of money. It’s a good read, and it also illuminates the concept of “beginner’s mind”.

What enables someone to go short when everyone else is going long? To a certain extent, part of it can be chalked up to personality. Just as some people enjoy a good laugh, other people need a horror movie to unwind. Another factor is that in order to see that the house is on fire when everyone else swears that it is not, one should have no previous knowledge, experience, or allegiance to the outcome. The “experts” are often wrong, and your ability to see if the house is on fire is directly related to whether or not it’s your home.

All of this theorizing about beginner’s mind is a somewhat roundabout way of making another point.

Real estate markets are famously inefficient in their transmission of information. The reason for this, of course, is that most of the information is generated by private companies and they have no incentive to disseminate this information to the public. If you had knowledge that gave you an edge on your competition, why would you tell anyone?

The public market, on the other hand, is different. One of the basic ideas underlying the public market is that investors must be provided with a constant flow of information. Of course, the investor still has to be smart enough to interpret the information, but that’s another matter.

The good news for those of us in the private market, which is most of us in real estate, is that one can sometimes infer hidden information by looking at our public market brethren.

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Class Schedule

We continue to offer Argus and Excel for Real Estate Analysis training classes in New York City. All classes are offered on the weekend. For custom training solutions, or for group enrollment, please contact us directly.

Argus

August 14 & 15

September 25 and 26

Real Estate Analysis & Excel

July 24 & 25

August 28 & 29

In the table below, I've listed the number of initial public offerings for real estate investment trusts from 2002 to the end of June 30, 2010. In specific, I've chosen to highlight the number of equity REITs and mortgage REITs and the relative number of mortgage REITs to the overall total. An equity REIT is what most people think of when they think of a real estate investment company; it buys real estate. A mortgage REIT, by comparison, is in the business of lending. It is, in a sense, acting like a bank.

Number of Initial Public Offerings by REITs				
	Equity	Mortgage	Total	Mortgage/ Total
2002	2	1	3	33%
2003	6	1	7	14%
2004	16	13	29	45%
2005	7	4	11	36%
2006	2	3	5	60%
2007	1	3	4	75%
2008	0	2	2	100%
2009	2	7	9	78%
1st half of 2010	6	0	6	0%

Source: NAREIT, Kahr Real Estate Services LLC

In a healthy market, equity REITs and mortgage REITs are launched with some regularity. This makes sense as there would be demand for both equity and debt. You can also see from the table above that mortgage REITs were especially popular over the last three years as new entrants joined the market to provide the missing capital that the real estate industry so desperately needed. Out of the 15 REITs that went public from 2007 to 2009, 12 were mortgage REITs (or 80% of total). By comparison, in the previous three years, out of 45 REITs, only 20 were mortgage REITs (or 44% of total). That's a substantial change in the ratio of mortgage REITs to the overall total.

What about 2010? As of mid-year, there has not been a single mortgage REIT launched. Why? Could this be an early sign that the market expects that the credit markets are going to loosen up and the need for new providers of debt has diminished? After all, if the capital markets aren't seeing a need for new mortgage REITs, the implication is that in the near term, the existing lenders will be meeting the demand for debt.

This isn't to say that we're there yet. Banks are still, at best, difficult to deal with. It's not a loose market for debt. However, I do think this may be a case of where having a "beginner's mind" is helpful. The data is saying something; we just have to listen closely and not let the battering that we just lived through taint our interpretation.

Thoughts? Email Joshua Kahr at josh@kahrrealestate.com

To register, please visit our website:

www.kahrrealestate.com

2. 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 seeks to identify both value-add and core-plus acquisition opportunities in the northeastern U.S. KREI purchases 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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3. 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.

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 Analysis & 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.

To sign up for either of our courses, go to our web site for the latest schedule:

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

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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