

KAHR NOTES

Editor's Note

We're back in the market again with an equity raise on another deal. As always, if you have some cash that you'd like to put to work, and leaving it in the bank earning 0% doesn't seem as attractive as it once was, we'd love to hear from you.

If you're interested, I may be reached at josh@kahrrealestate.com or (212) 566-4085 x. 111.

OK... back to this issue of Kahr Notes....

Where Are We Going

As some of you know, my business here at Kahr Real Estate has evolved a lot over the years that have passed since I started this circus in 2002.

To recap, I started Kahr Real Estate as a main meal of financial software training business with a side of consulting work. Over the years, I taught Excel and Argus in locations far and wide, and worked on a number of consulting projects, some of which were intellectually challenging and at least a few which weren't. Then, with the meltdown we switched gears. Consulting work dried up to such a level that I had to call a friend to ask her to call me back to make sure that the phone system was still working.

Then it hit me. After years of giving advice to people on what they needed to do to make their systems run better, we could actually put our ideas into practice. This is somewhat, and sadly, novel for most consultants. In addition, I realized that if I utilized the relationships that I had developed over the years with both equity providers and lenders, I could actually make a solid go of it.

This led to the formation of KEC Properties with my two partners, Cliff and Greg, in 2009. Since then, we've bought nine buildings, sold one (at a net 20+% IRR to the investors over the two year hold), and continue to source new deals. We've also built a nice little property management company with all of the joys and headaches that come with it. If nothing else, the tenants keep it interesting.

So where do we go from here? I'm often asked this by my investors, students, and colleagues. Basically, I'm regularly asked, in a nice way, to justify my existence.

OK. So here goes: we've tried to build a portfolio of Class B apartment assets, and manage them professionally. I admit that it may not be the sexiest plan, but hey, it has worked so far. If the 2000's taught us anything, it's that fundamentals matter. That's the plan for now.

Why Class B apartments? Well, that gets me to my next point. In short, we find the pricing of Class B assets to be very attractive.

The big question that remains for me, and many market participants is why is there such a spread in valuation between Class A and B assets? The cap rates for Class B are substantially higher than Class A.

While I can appreciate that shaky markets and/or fear often lead to a "flight to quality", I can tell you that from this market participant's view from the trenches, Class B isn't that bad. If anything, demand for both Class A and B remains strong due to the collapse of financing for single family housing. All of those people who lost their homes need to live somewhere and they keep renting apartments at a very strong pace.

So why is A so highly valued when compared to B? From what I can tell, it's not a lack of liquidity that suppresses valuation in Class B; it's a lack of adequate market data. In times like these, institutional investors only want to do deals that they can justify. After all, no one wants to make a mistake in today's market when making a mistake may mean that one would lose one's job.

Since Class A has a lot more data sources, market reports, and related studies, one can much more easily justify investment in Class A than in B. On one hand, this makes sense. Better data means that people have a higher level of confidence in their investments. Alternately, it also means that it's easier to find a "diamond in the rough" in Class B.

We obviously have bought into the idea of being diamond hunters.

Are we right? I guess we'll see at the end of the deal lifecycle, but so far, so good.

Enjoy 2012, and I'll be sure to check in at least a couple of times before the end of the year.

Classes

We still continue to offer Excel for Real Estate Analysis and Argus training classes every other month.

If you're interested in taking a class, the schedules and how to sign up online may be found here:

<http://kahrrealestate.com/exceltraining.shtml>

<http://kahrrealestate.com/argustraining.shtml>

By the way, we still have spaces open in our Argus class this weekend, so if you'd like to sign up, don't be shy. It's a great class and I continue to receive excellent feedback on it.

About the Publisher

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