

Case Study: Uptown Properties

Reasons for Case Study

This case study is presented in order to provide inspiration to any first-time syndicator or current syndicator who is hitting an investor market that is quickly or radically developing an anti-real estate syndication mind-set. When an investor climate is becoming cold, indifferent, or flat-out dismissing real estate syndication as a viable alternative investment category, the syndication business can overnight turn into a difficult, if not impossible business model. The founder of SLG, Mark Long, experienced such an investor climate in 1988. This case study is about what Mark did to launch, from scratch, Uptown Properties in 1988- a time period widely recognized as the nuclear-winter of the real estate syndication industry over the last four decades.

Starting Conditions

Some background first. Mark, while practicing law, had syndicated his own projects since 1978. From 1978 to 1988 Mark had organized 38 syndications which acquired 61 separate properties in California, Arizona, Oklahoma, and Texas. These projects were residential multifamily projects. By 1988 all but a few of Mark's 38 syndications had been fully liquidated. Some big wins and a few losses. In 1985 Mark accepted an executive position with the real estate syndication subsidiary of the Kemper Insurance Company of Chicago. The name of this subsidiary was Kemper Cymrot. Mark's position was National Marketing Director, which meant Mark was responsible for capital raising for Kemper/Cymrot's public syndication offerings.

The Nuclear Winter

In 1986 the Tax Reform Act was passed. This new tax bill literally brought to its knees the syndication and savings and loans industries. In the last 40 years the syndication industry never suffered as much as it did post 1986 Tax Reform Act. Syndication investors who invested during the 1980's all but lost everything. 90% of all syndication companies went out of business- some famously. Kemper/ Cymrot was no exception. It closed its doors in late 1986. Mark left Kemper/Cymrot and went back to San Diego to resume his law practice.

The Launch of Uptown Properties

In 1988 Mark decided to start another syndication company, betting on his experience, both positive and negative. The purpose of Uptown Properties was to syndicate undervalued apartment buildings in the Uptown area of San Diego. This meant the four neighborhoods known

as Hillcrest, North Park, Normal Heights, and Kensington. Mark was 100% owner of Uptown Properties. His goal was to syndicate in his spare time allowing his law practice, research and writing to continue evolving. Unfortunately, in 1988 Mark had several past syndications going sideways due to the recession. Mark's credit lines were exhausted. Mark determined that he had to syndicate 4 projects every year in order to have a sustainable business model.

Strategies of Uptown Properties

Against some long odds of success Mark believed that the following strategies would not only ensure the acquisition of good projects but more importantly, since the investor market was practically non-existent, a believable story for investors (if they could be found).

Strategy One: Return to Fundamental Real Estate Economics

President Ronald Reagan's de-regulation of savings and loans in 1982 had created a bubble-like real estate/finance market by 1986. In reaction Congress passed the Tax Reform Act of 1986. Quick consequences were declining real estate values and an evaporation of easy mortgage financing. Uptown Properties first strategy was to align its real estate acquisition, syndication structure and investor targets with the "story" of returning to basic real estate economics- purchase undervalued properties, at cap rates over 8, conservative leverage (60% LTV) and hands-on/ close property renovation and management tactics. In short, Mark believed that Uptown Properties had to have offering structures, operations, manager compensation, and other "syndication model" components be different than the syndication models of the 1980's.

Strategy Two: Office in the Neighborhood

Mark found a converted movie theatre building. He offered the owner to be a tenant in the movie projection room. From this central location Mark knew investors would be confident that the syndicator- Uptown Properties would be "very close" to each and every property it syndicated. In point of fact 7 of Uptown Properties 14 projects were within a very short walk from the office. Three were literally two blocks away.

Strategy Three: Buy "Class C" Apartments in "B Neighborhoods" and Renovate into "Class B" Apartments

Class C projects that could be renovated, new face-lifts, and rents raised were targeted. See Exhibit A for an investor fact sheet showing "before" and "after" pictures.

Strategy Four: Buy Direct from Owners

In the late 1980's investors were turned-off by up-front syndicator fees. In order to overcome this problem Mark systematically "cold called" all the apartment owners in the Uptown area. Mark represented himself and Uptown Properties as a "buyer" and not a "broker". This cold

calling was done by Mark in the evening. This was necessary to ensure owners were home. Each day Mark’s routine was to practice law, do a lot of property renovation monitoring, financing and supervising the in-house property management capabilities being developed by Uptown Properties.

By purchasing direct from property owners Uptown Properties sought to reduce the price of each property by 6%. The theory was that the seller would have to pay this to outside brokers any way.

Strategy Five: Outsourced Capital Raising

Mark’s time was fully utilized with his law practice, property acquisition, property renovation and property management duties. There was absolutely no time available for Mark to solicit investors for his syndications. Given these constraints, Mark turned to the strategy of raising investor capital from the FINRA broker-dealer market. With this as the target investor market Uptown Properties had to deploy the following tactics and have appropriate resources for each tactic:

<u>Tactics</u>	<u>Necessary Resources</u>
Secure selling agreement with BD’s	Lists of BD’s
Enough boutique BD’s within 100 miles	10-20 boutique BD’s in Southern California
Appropriate offering structures	10% commissions paid by each offering
Excellent marketing material	Skill and experience
Syndicator- wholesaler	Mark had to be prepared for “dog and pony” presentations at investor seminars/dinners staged by the financial planners of the various broker-dealers
Long-enough escrows	60-90-day escrow period on each property acquisition. In addition- the right for 1 or 2 30-day extensions

Convincing evidence to the property owner-sellers and lenders that an escrow extension request by Uptown Properties was worth the risk

Uptown Properties' list of broker-dealers was presented as evidence that Uptown Properties would raise its capital- even if it took 3 months.

Strategy Six: Property Tours

A systematic and methodical use of investor and broker-dealer tours of neighborhoods and properties were implemented. These investors and their broker-dealers loved the fact that the syndicator- Uptown Properties was “so very close” to the properties.

Strategy Seven: Co-Managers for Financial Statement Purposes

The mortgage financing market was in shambles in 1988-1992. With losses of some projects in 1986 Mark had a weak financial statement and liquidity. Mark had to bring in a “financial statement” partner on many of Uptown Properties' first projects (1998-1990).

Summary

Uptown Properties started from scratch in 1988. A tight geographical and property type niche story was deployed and religiously followed. Four projects per year were syndicated. Outside capital raisers were deployed- broker-dealers. Properties were bought straight from sellers. Price was reduced by 6% and this 6% was reflected in the offering size so Uptown Properties could receive an acquisition fee equal to 6%, but no brokers were involved. Uptown Properties, besides the acquisition fee took normal property management fees, a subordinated profits interest of 20% and the right to re-sell the property with a corresponding commission of 6%- reduced by any selling brokers' commissions.

Uptown Properties successfully syndicated 14 apartment projects between 1988-1992. Shortly thereafter Mark decided his first love was lawyering, researching, and writing. Today Mark manages SLG and serves as CEO of PredictionWorks (www.predictionworksinc.com)

Exhibit A
Before and After
Investor Fact Sheet

"From A"

UPTOWN PROPERTIES OF SAN DIEGO

3060 Suncrest Drive Project

OFFERING

\$430,000 Private Placement

MINIMUM INVESTMENT

\$7,000

SUITABILITY STANDARDS

Annual income of \$50,000 and net worth of \$75,000 or
a net worth of \$200,000

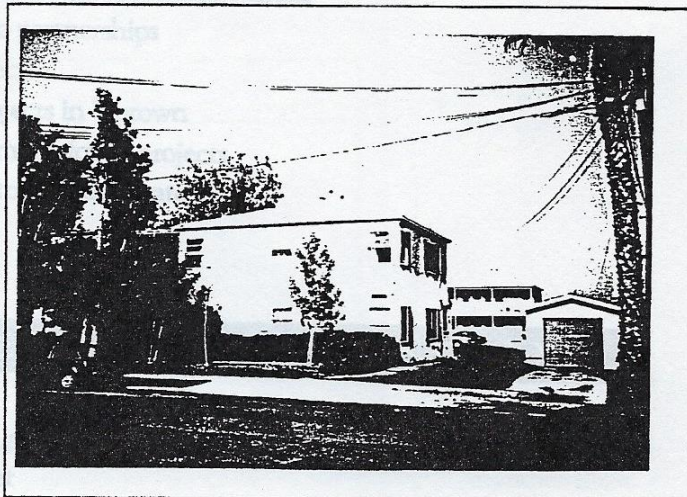
OFFERING PERIOD

November 15, 1991 through February 28, 1992

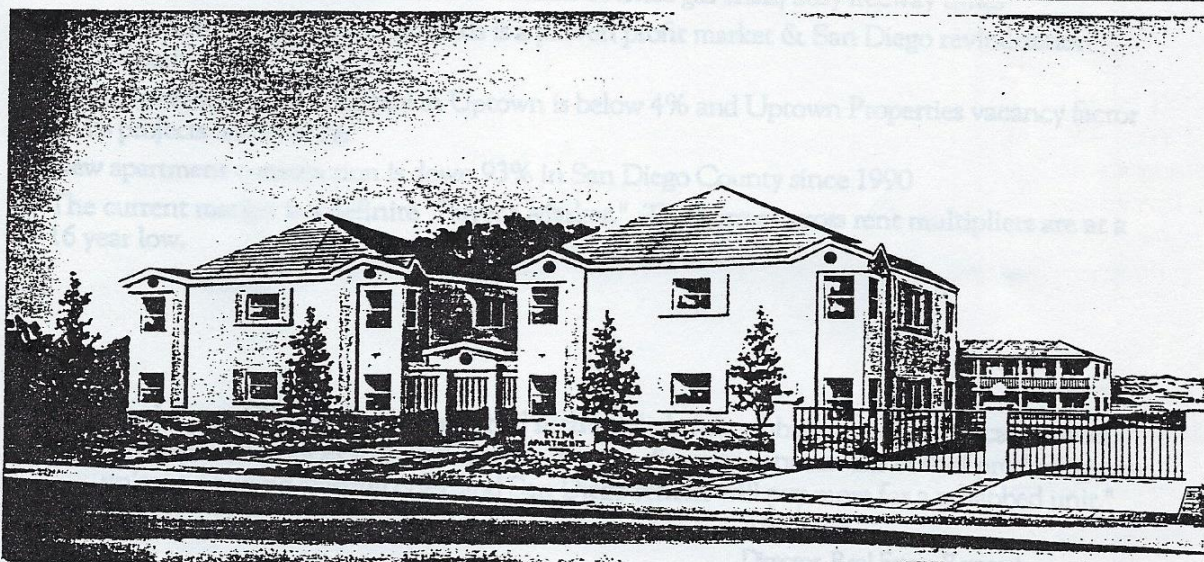
NON-ASSESSABLE

PROJECT PROFILE

Quick & high value enhancement through low price,
property rehab, superb financing & local management



As It Looks Now



As It Will Become

PROJECT BENEFITS

- Holding Period—3 years
- Low property price (8.5 x existing low rents, \$47,727/Unit; \$72 per square foot)
Current market prices—9.7 x gross, \$62,800/Unit; \$89.93 per square foot
- Good leverage & produces strong projected yield
- Cash flow—\$20,113 average per year (4.6% on investment)
- Projected 24% + annual return (total return - 72% +)
- Low Partnership Load (7.9%)

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BACK

WHY INVESTORS DO BUSINESS WITH UPTOWN PROPERTIES

- Principals have 20 years of experience in the San Diego apartment market
- Principals have sponsored 42 private and public partnerships
- 83% ARR track record with its San Diego Projects
- Corporate office is within blocks of ALL its projects in Uptown
- Proven hands on, local, value enhancement formula for its projects
- .93¢ of every investor \$1 is invested directly into the real estate

WHY DO INVESTORS LIKE THE UPTOWN AREA OF SAN DIEGO

- For 21 straight years Uptown apartments have gone up in value
- Uptown is San Diego's most stable rental market
- No more land to build apartments in Uptown
- Central, close in location attractive to tenants in these gas crisis, busy freeway times
- Revitalization of older neighborhoods is a proven profit market & San Diego revitalization is at its early stages
- As of November 1991, vacancy in Uptown is below 4% and Uptown Properties vacancy factor on its projects is below 2%
- New apartment construction is down 93% in San Diego County since 1990
- The current market is a definite "Buyer's Market." The current gross rent multipliers are at a 16 year low.

"In the past 15 years we have not had such a delightful combination of low vacancy rates, low interest rates, prices staying flat and a massive disparity between the cost of producing new units and buying existing ones, and San Diego renters will pay more for a rehabbed unit."

Alan Nevin
Director, Real Estate Research
Home Federal Savings & Loan
1991

For additional information, please contact::