

# Once Again, Generational Real Estate Opportunities Are Back

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**Once Again, Generational Real Estate Opportunities are quickly moving into some of the major population centers of the United States.** These opportunities are appearing because of major real estate financial trends, which are quickly becoming the reality in a very large and increasing number of rental to condominium conversion properties and ground up condominium developments, throughout the U.S.

The inability to lower prices for condominium sales on a unit by unit basis or the forced sales of unsold bulk inventory, is once again occurring across the sector. The main reasons for these occurrences fall into several categories.

The first is lender restrictions on lowering prices because collateral value of those units will be lowered and may present ratio (loan to value) problems for the lender. Second, cash flow problems are occurring because of the slowdown in sales while at the same time operating expenses (including interest, taxes, insurance, payroll, and advertising, etc.) continue to accrue. Third, the inability to refinance. Because of the rise in current interest rates, combined with a lower loan amount due to slowdown in sales, values decrease while existing loans to value ratios therefore increase. Fourth and very common, the sales product itself is not suited to the financial and other lifestyle demands of the specific demographic area.

Even the much-touted Israeli real estate bond market, which is in reality an unsecured loan program in which U.S. developers and converters borrow through bond offerings originated by placement agents in Israel, is showing clear signs of weakening. The market developed for these loans because of U.S. rental and condominium developers' insatiable appetites for cash. A serious number of Israeli bond issues have arisen and they are continuing to lose significant value, without any clear signs of relief.

The weakening in luxury condominium sales and difficulty in refinancing existing loans that have come or are coming due in the first half of 2019, is being exacerbated by the over-whelming lack of adequate financial and lifestyle demographics which, when lacking, cause a glaring weakness in condominium projects.

The common and unspoken refusal by developers, converters and speculators to do the required "homework" concerning adequate demographic matching, means that the developers, converters and speculators never took the time or had the interest, to find out how the actual depth of demand for the product, matched the supply of product and whether there was sufficient disposable income within the buyer demographic, to meet the unusually large supply of high middle income and luxury condominiums brought into the market in the last few years.

This significant condominium over-development together with over-ambitious condominium conversions, have caused a large "overlay" of unsold inventory. These two factors when taken together, are now actively causing record-setting over-supplies of certain levels of condominium inventory and which are now, depending on location, currently in the range of ten months to about four years for absorption, without any additional inventory coming on line.





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However, we already know based upon our prior experience (because so many developers have already borrowed their first draw and construction loans generally have a personal or bond liability attached to completion) that extensive additional inventory is under construction or in late planning stages and will all be built as quickly as possible, regardless of the then over supply and weakening demand.

Adding to the over supply problems in certain areas of the country, is the current strength of the U.S. Dollar, which as foreign currencies continue to weaken, slows down sales to foreign buyers and loans from foreign lenders.

This slowdown in sales is already causing domestic institutional investors, and lenders to those investors, to adopt a "wait and see" posture, which thereafter causes serious concern among active investors in conversion and development properties.

Additionally, we are already seeing some havoc among condominium convertors, developers, and speculators as well as in-place direct lenders to condominium development and conversion borrowers.

Purchase deposits for new Construction Condominiums have decreased from fifty (50%) percent down to thirty-five (35%) percent, to twenty-five (25%) percent and currently ten to fifteen (10% - 15%) percent of the purchase price of the Condominium. In some cases, occupancy is offered for a year with no further deposit and no formal decision required until the year is up.

Those who recall the financial problems of condominium developers, convertors and speculators in 2008, will also recall that many of the circumstances, especially the extensive over-building and almost total failure to address the financial supply to demand demographics, are similar to the very significant problems facing the industry today.

The environment and the opportunities that are presenting themselves, require an acquisition and follow-through (development or conversion) Strategy that is based on and revolves around two specific criteria, that when properly satisfied will achieve the desired once-in-a-generation result.

Historically, successful Condominium and in some areas Cooperative development and conversion, have produced yields significantly higher than any other sector of real estate investment. If planned and carried out in accordance with the "written in Stone" rules that have been developed from years of experience and gathering of expertise, the condominium conversion projects themselves should be successfully completed within approximately twenty-four months after a filing with the appropriate state agency. We believe condominium development projects should not exceed eighteen to twenty-four months from issuance of the Certificate of Occupancy. We also believe that if more time than the twenty-four months is expended, the ongoing expense of the project will cut sharply into the profit or may, if too much additional time passes like with any other time-limited financial investment, render the project an economic failure.





## OUR OWN STRATEGY

**Property Type:** Condominium-Convertible; Multi-Family Residential, Medical Office and Retail Centers as well as Bulk Purchases of Developer, Converter and Speculator Owned Condominiums

**Actions:** Purchase high quality, investment grade, multi-family rental properties as well as office and neighborhood retail properties and Bulk Purchases of Developer and Speculator Owned Condominiums, currently experiencing management, financing, legal and/or cash flow problems.

To convert the rental properties to condominium ownership and resell each "separate part" (individual apartments, bulk purchase properties, offices, retail stores, roof antennas, vending machine areas, laundry rooms and parking garages or individual parking spaces if within a high rise building) by the square foot, for retail prices not constrained by the usual investor limitations.

For example, the managers of Guterman partners have divided our acquisition targets into:

- A. Multi-family rental properties in middle and upper middle class areas with known matching demographics such as apartment size and layout to family size demand; B+ and A rated public schools with grades and distance matching demographic demand; disposable income demand to supply of adequately priced rentals; single family housing cost exceeding local area disposable income; adequate public transportation and services, as well as defined distance limitations to demographics.
- B. Bulk purchases of developer and speculator owned unsold condominium apartments, in upper middle class and semi-luxury "B+ to A" rated properties in "B+ to A" rated areas.
- C. Multi-tenant medical office rental buildings in areas associated with local and regional hospitals and medical centers.
- D. Multi-tenant local and regional retail centers with at least two credit anchor tenants and at least one banking tenant in demographically appropriate areas.

If you are going to take full advantage of these Recurring, Generational Real Estate Opportunities, either find your own strategy for this time in the cycle –or better yet, partner with professionals who have lots of expertise and successful experience.

**If you have questions, please go to the Contact page on the Guterman Partners' internet site and click on Ask Gerry a Question.**

**Ask Gerry! There's no charge to you and no expectations from you, period!**

**A few minutes answering your questions, won't hurt anyone and may be very helpful for you.**

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