US Real Estate Investment

Charlotte, North Carolina

Outline

US Real Estate Investment Overview

Typical Categories of US Real Estate

Single Family/Condo

Apartments/Multi-Family

Office

Industrial

Hotel/Other

Retail

REMCO Investment Targets

Single Family/Condo

Apartments/Multi-Family

Office

Industrial

Hotel/Other

Retail

Types of US Real Estate Investors

- **Insurance companies** invest some of their assets in real estate, and are the second-largest holders of commercial real estate after banks. They are institutional investors and look for stable properties or value-added opportunities.

  Insurance companies were damaged heavily in the market downturn due to their exposure to mortgage-backed securities, but are still large players in the real estate market.

- **REITs**, Real Estate Investment Trusts, are corporate entities that invest assets in real estate to reduce investor taxes and pool properties. Their popularity has been growing over the last decade, and though their often riskier investment strategies fueled overly high rates of return leading up to 2008, they have rebounded and are growing profitably once again. Investments can be risky or safe depending on the REIT.

Types of US Real Estate Investors

- **Hedge funds** are low-regulation investment funds financed by restricted types of investors. They seek high risk and high profit, driving rates of return upward, and have been growing quickly in the past few years.

  While some hedge funds were critically damaged by the economic downturn in 2008, others profited from it, and they are still major investors in the real estate market. They often buy risky portfolios and portfolio-derived securities.

- **Retail Investors** are individuals investing personal assets. They buy all types of properties, and sometimes personally interact with their properties. However, they lack corporate financial buffers.

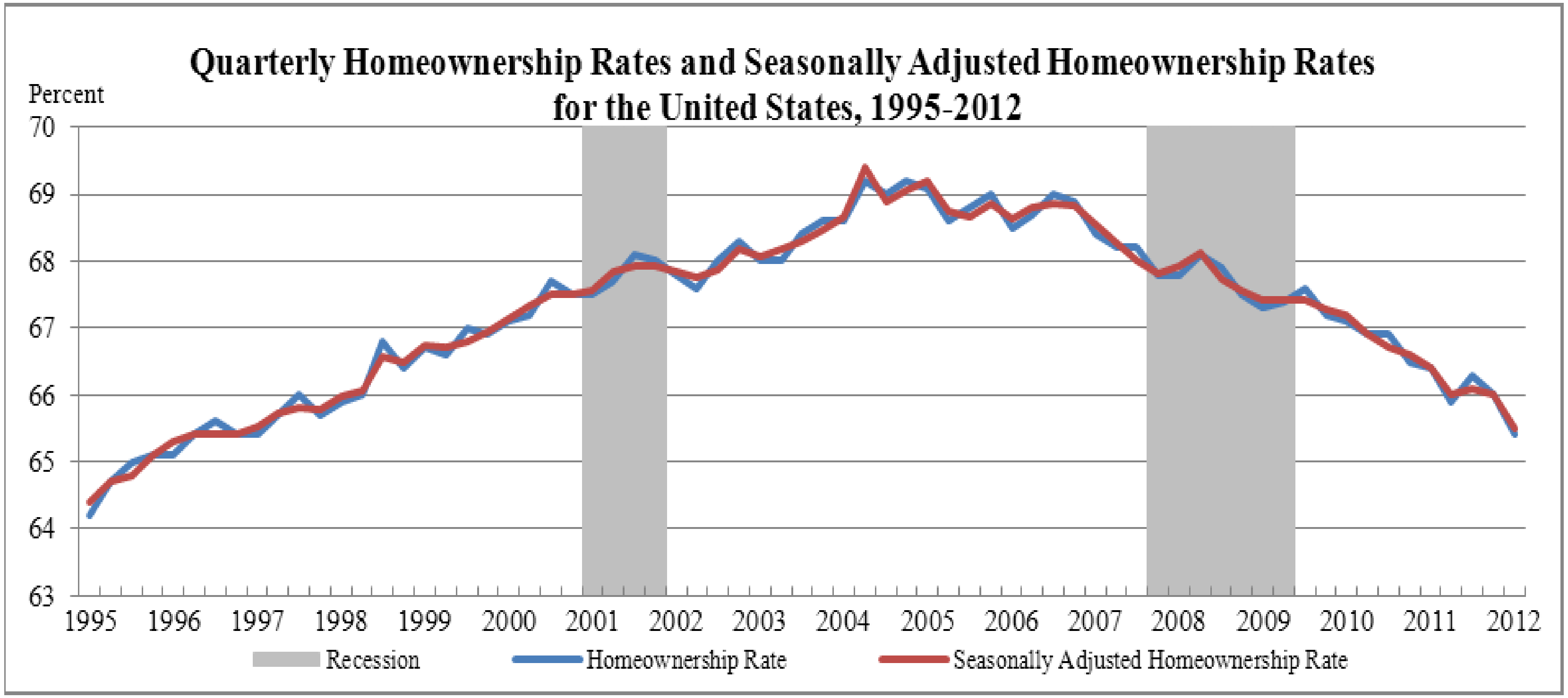
  As a result, damage done to retail investors in the economic downturn of 2008 diminished their participation in the real estate market as demand shifted to safer assets.

Homeownership and the Mortgage Market

United States Homeownership

- The US currently has an approximately 65% homeownership rate.

- Typically, homeowners will attempt to finance around 80% of a property or more. Almost all buyers will finance at least some part of their purchase. The US has a total mortgage debt of around $13.5 trillion, equivalent to over 90% of GDP.



US Census Bureau, http://www.census.gov/hhes/www/housing/hvs/qtr112/files/q112press.pdf

Mortgage Interest Deduction

- The Mortgage Interest Deduction is a tax benefit designed to incentivize property ownership.

- Mortgage interest expenses can be subtracted from net income to create a reduced taxable income.

- Private homeowners can reduce their income tax burden in this manner, which promotes US homeownership by reducing the effective cost of lending.

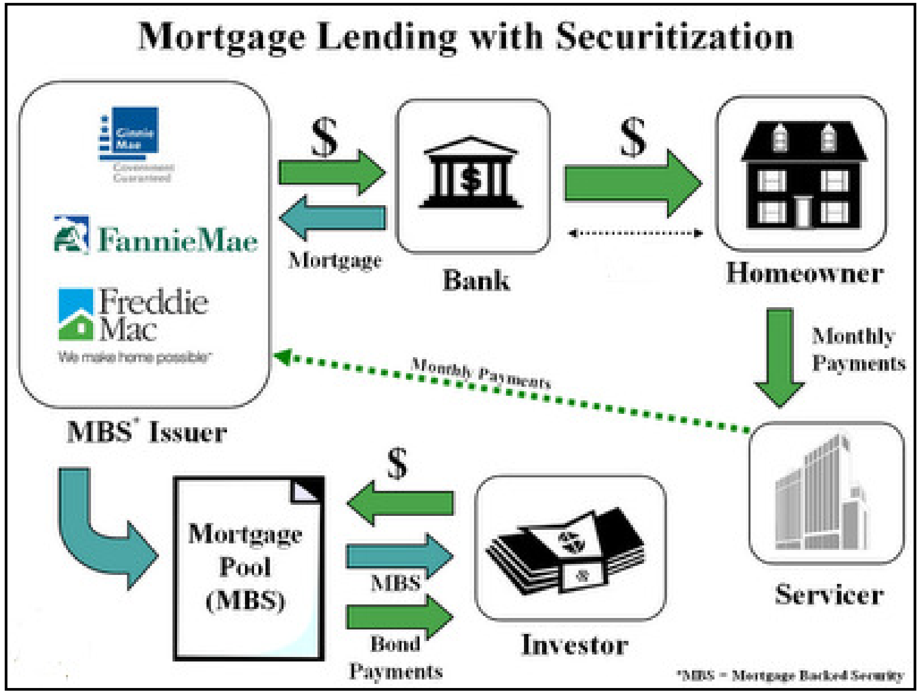
Freddie Mac and Fannie Mae

- Freddie Mac and Fannie Mae are government-supported entities (GSEs) created to provide liquidity to the secondary mortgage market.

- They purchase and securitize mortgages from mortgage originators.

- GSEs indirectly subsidize lower mortgage interest rates.

- These GSEs were major elements in the housing bubble.



Elizabeth Rose, http://www.elizabethroseblogs.com/2011/06/08/the-mortgage-lending-cycle/

Lending Requirements

- Mortgage customers are usually held to the 28/36 rule of thumb:
  - Mortgage expenses should not exceed **28**% of the customer’s gross income.
  - Mortgage expenses and other consumer debt should not exceed **36**% of the customer’s gross income.

- Banks usually conform to this rule because it is derived from GSE rules for purchasing mortgages created after the bubble.

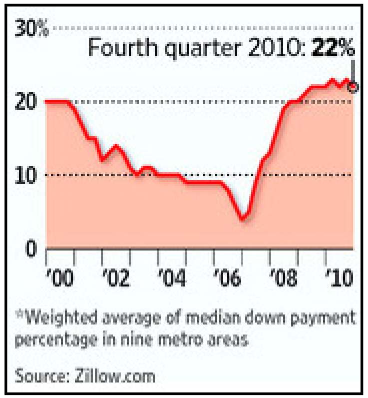
- Customers that do not meet the 28/36 test will have to make higher down payments.

Down Payments

- GSE guidelines created after the bubble say that mortgages with a down payment of 20% or less should not exceed a 28/36 ratio to be purchased by a GSE or receive various benefits.

As a result, the 20% down payment has become a standardized type of mortgage.

Mortgages that do not meet these lending requirements are more expensive.



Median Down Payments 2000-2011

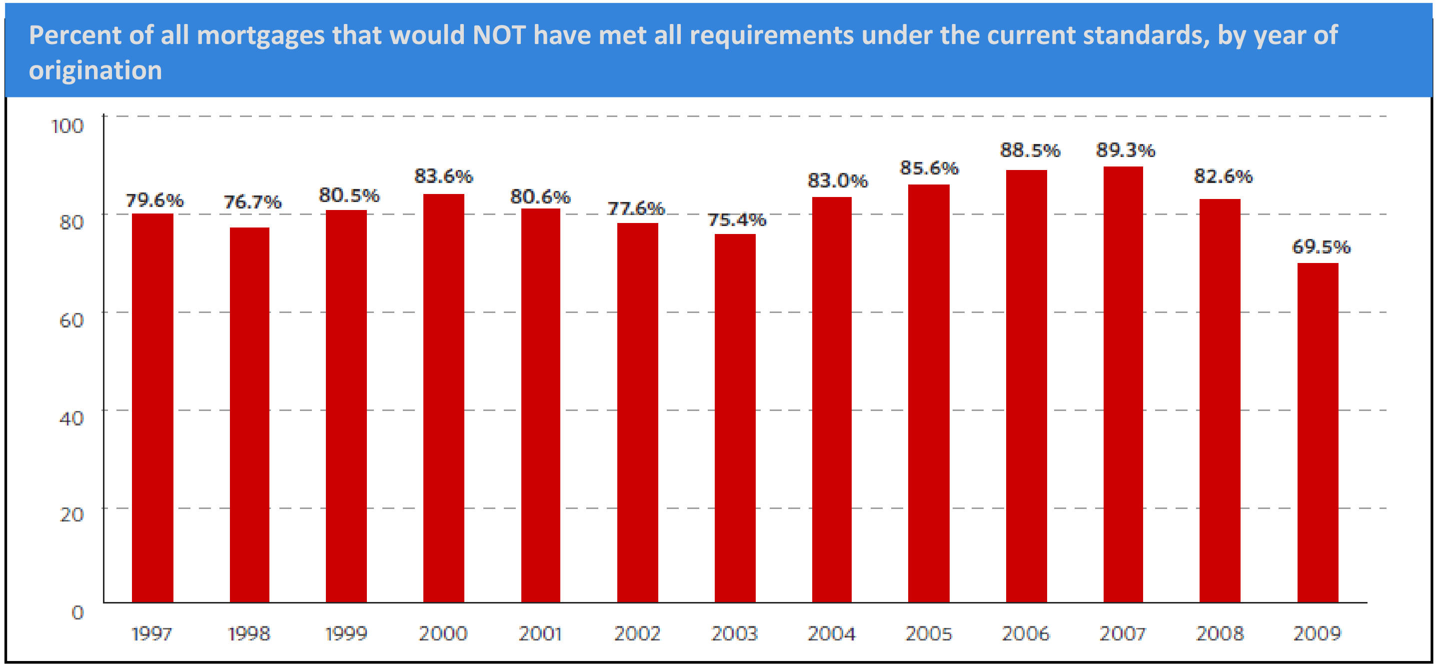
- Higher lending requirements raise prices and shift demand from the homeownership market into the rental market.
- Because these lending requirements have only been developed in the past year, their effect may not yet be fully felt.

Market Turmoil Since 2007

Origin of the Bubble

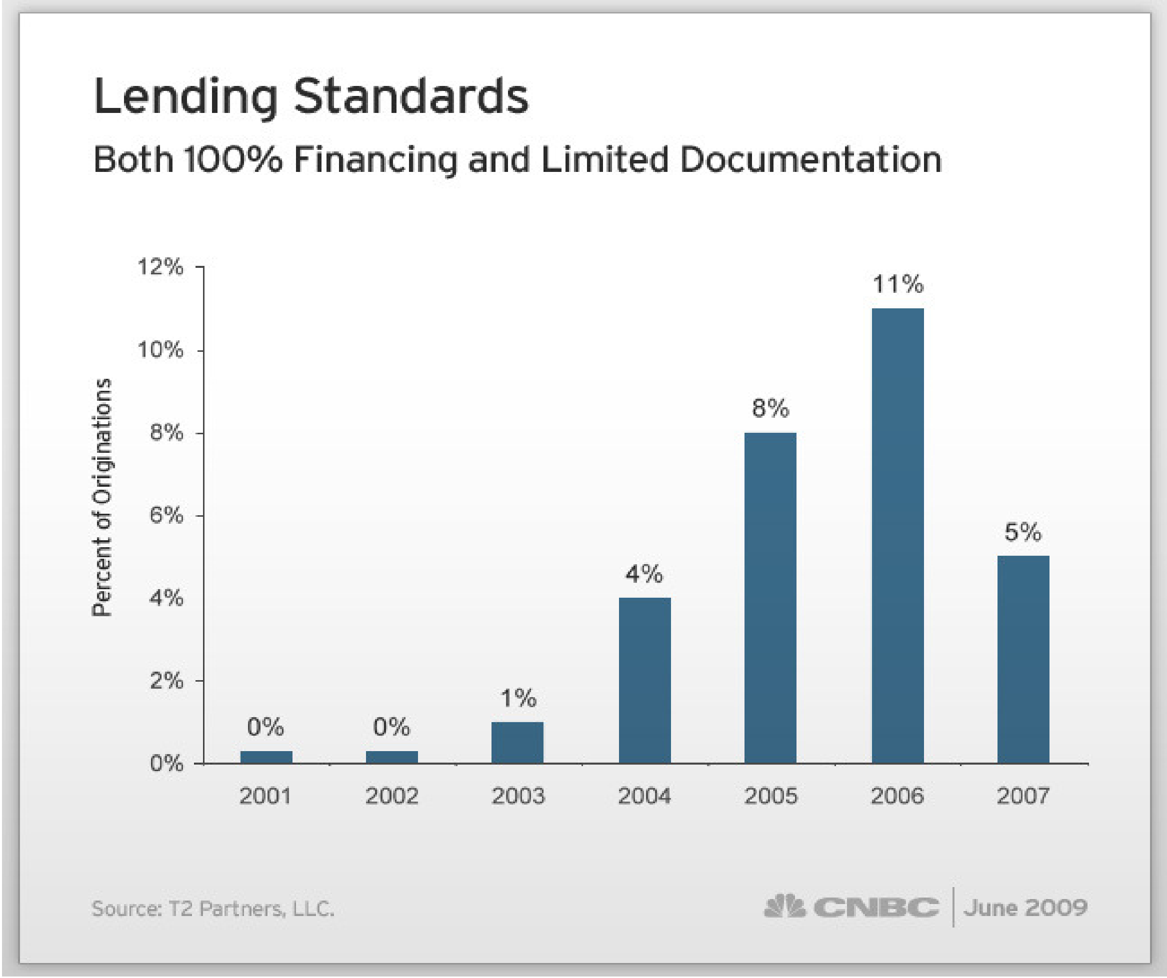
- Before the bubble, the government tried to increase homeownership through easier lending requirements for the housing market.

- After the bubble, stricter lending requirements were put into place or proposed. Around 80% of pre-bubble mortgages would not meet these requirements.



Mortgage Bankers Association of America, http://www.mbaa.org/files/Advocacy/2012/RiskRetentionPresentation.pdf

Growth of the Bubble

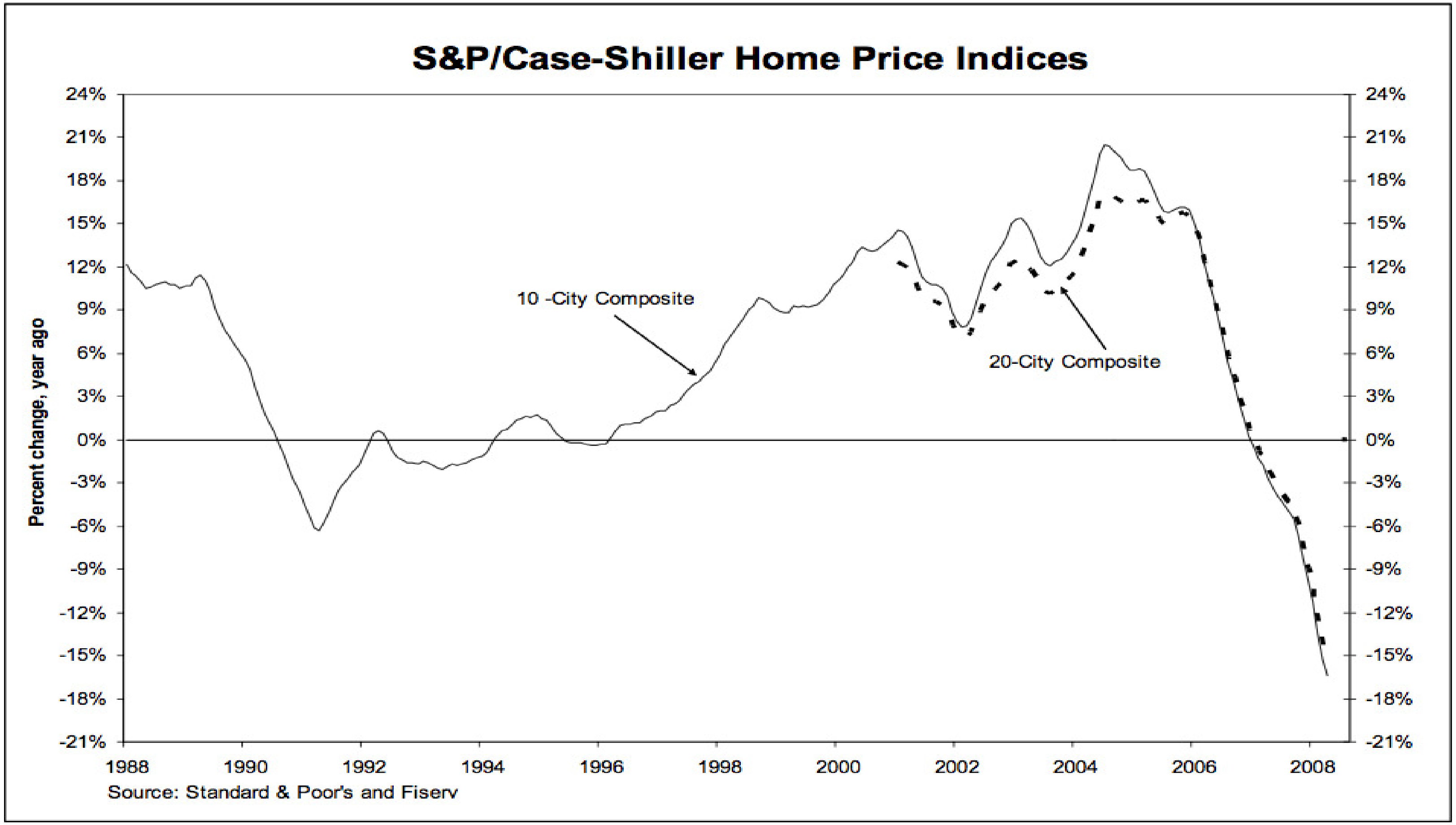


CNBC, http://www.cnbc.com/id/31524954/

- The resulting easier lending requirements stimulated supply of financing for future homebuyers. As seen above, an increasing number of mortgages were made with no down payment at all.

Growth of the Bubble

- Home prices increased heavily in response to the demand created by cheap financing from the easier lending requirements.

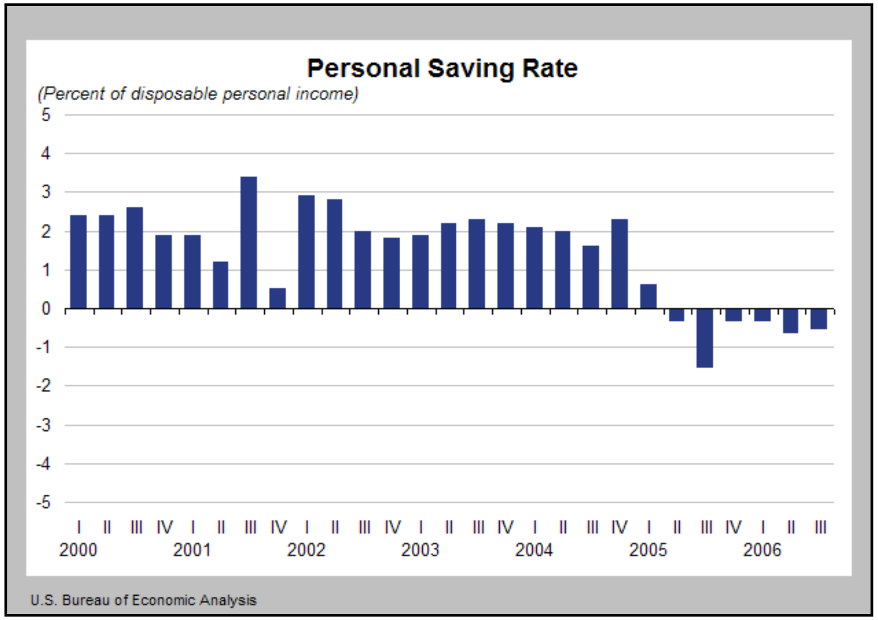


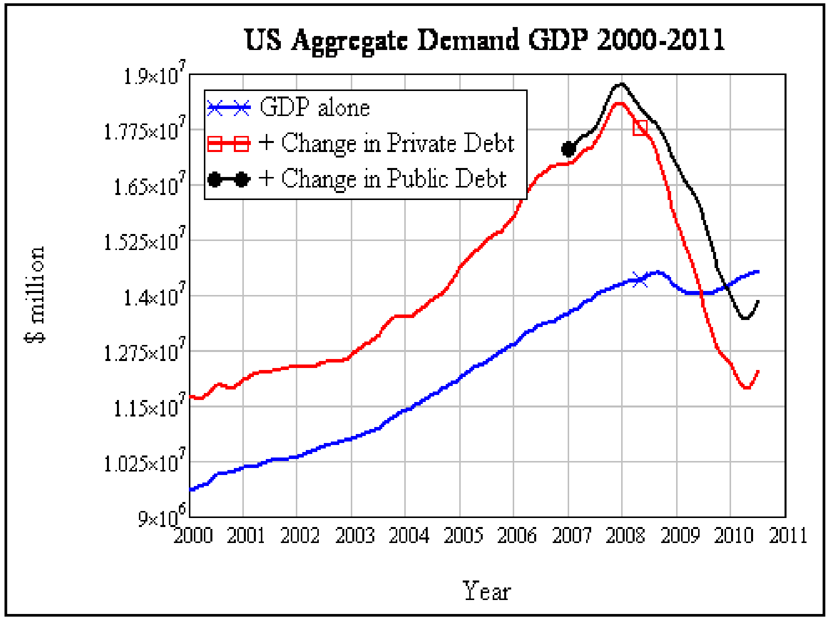
Seeking Alpha, http://seekingalpha.com/article/69909-sun-belt-continues-to-lead-u-s-housing-slide

- The annual percentage change in home prices had grown very high by 2005 and 2006, and was unsustainable.

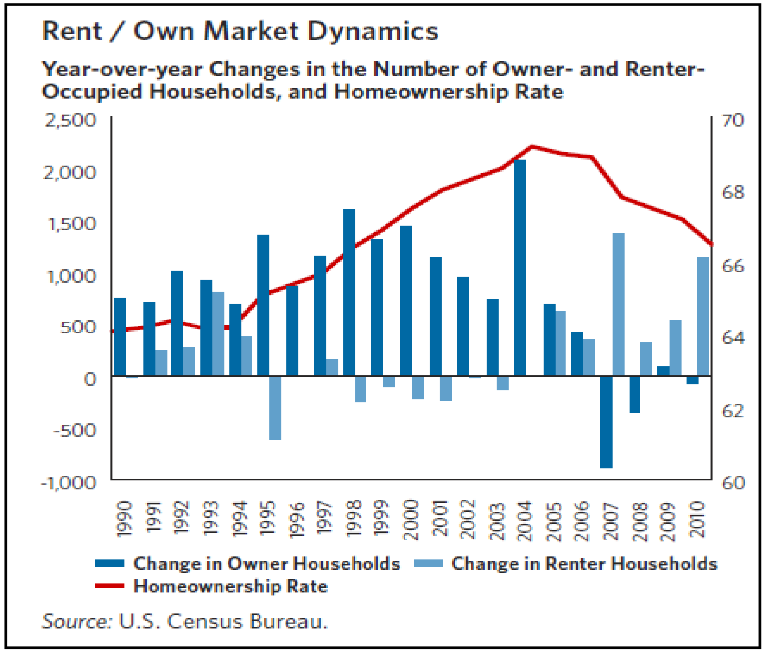
Consumer Effects

- This caused expansionary phenomena throughout the rest of the market as well. At the consumer level, savings decreased and demand increased.





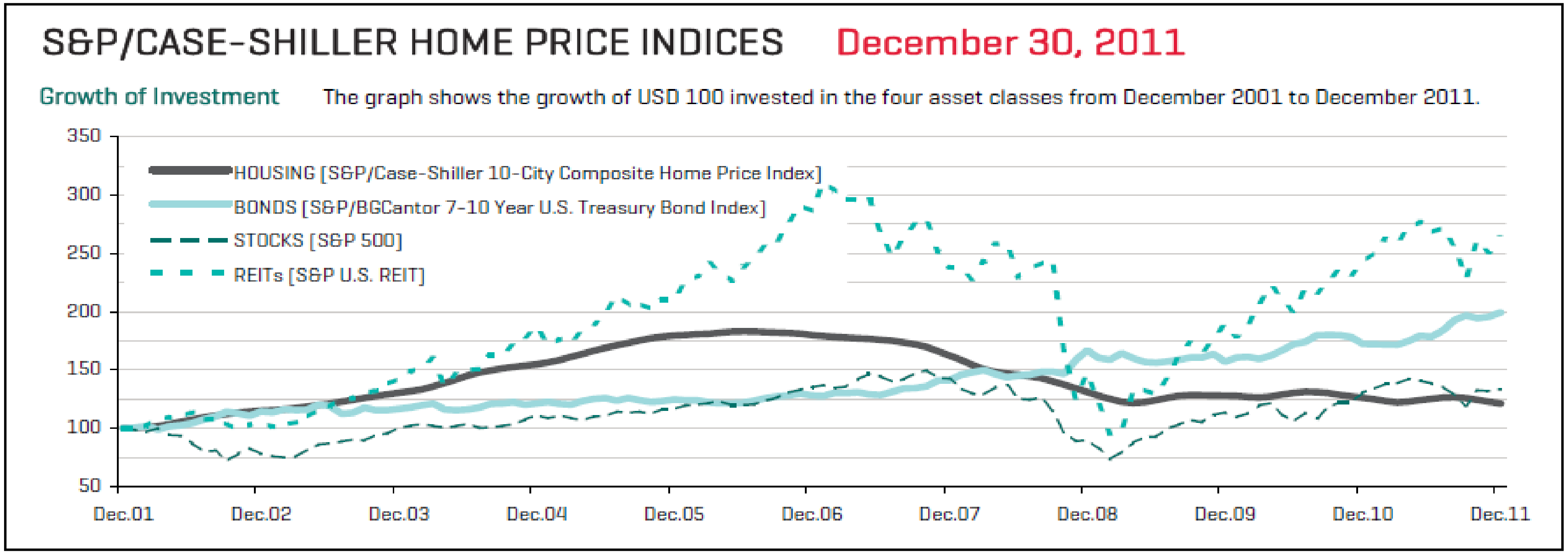
Left: US Bureau of Economic Analysis, http://www.wisebread.com/files/fruganomics/wisebread_imce/saving.gif
Right: Steve Keen, http://www.debtdeflation.com/blogs/2010/09/20/deleveraging-with-a-twist/



Mortgage Bankers Association of America, http://www.mbaa.org/

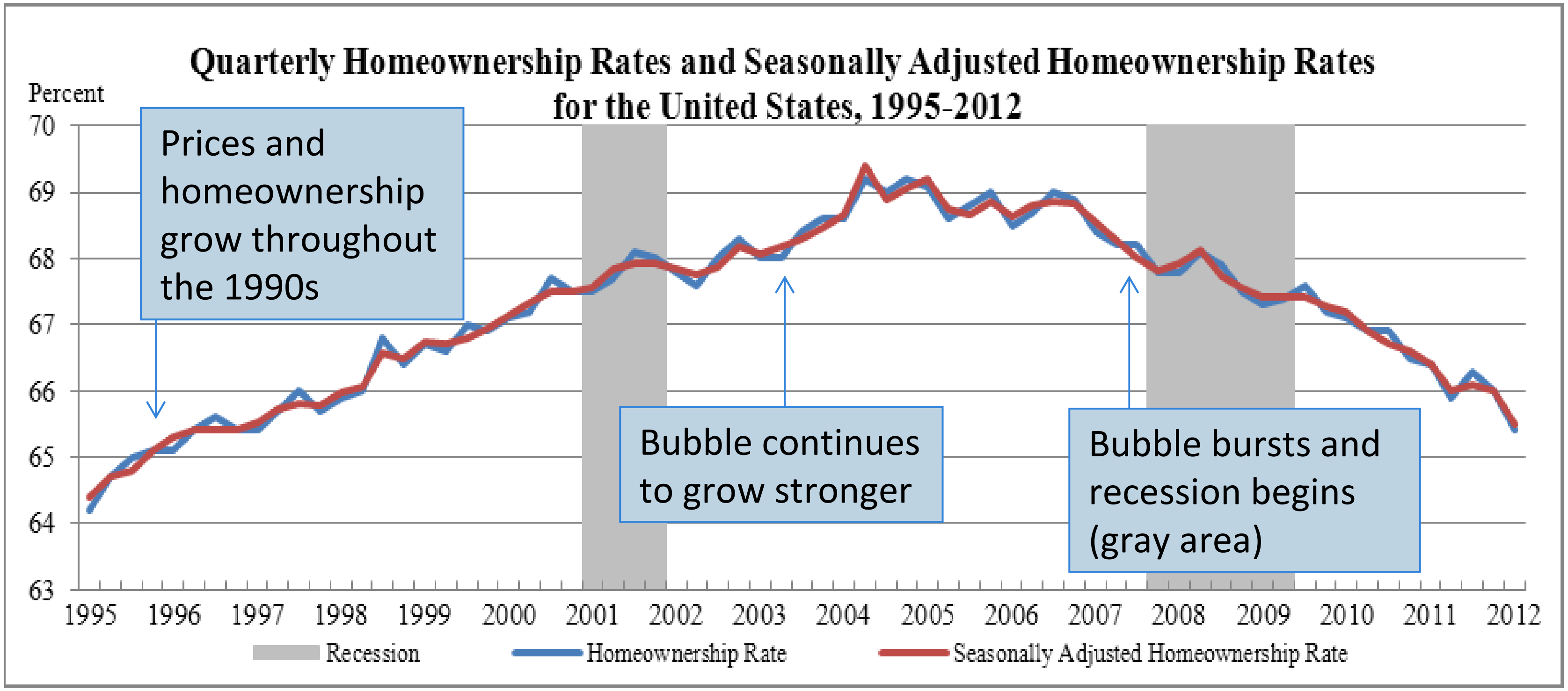
Collapse

- Inevitably, the bubble burst, damaging both credit markets and housing prices. Consumers were driven away from mortgages and into the rental market.



Standard and Poor's, http://www.standardandpoors.com/indices/sp-case-shiller-home-price-indices/en/us/?indexId=spusa-cashpidff--p-us----

Homeownership Rates Decline



US Census Bureau, http://www.census.gov/hhes/www/housing/hvs/qtr112/files/q112press.pdf

- Homeownership rates declined strongly following the bubble bursting, shifting demand into the rental market.

The REMCO Investment Strategy

Property Acquisition in the US

- Property purchasing in the US includes a comprehensive process of due-diligence that gives great protection to buyers and is legally efficient. Deals are made safer and investment value is more predictable.

Stage in Acquisition	Property Selection	Bid & Due Diligence	Closing	Property Management
People Involved	• Brokers • Banks	• Attorneys • Inspectors	• Attorneys • Banks	• Property managers
Processes to Perform	1. Brokers search for best deals 2. Deals are analyzed financially 3. Financing acquired 4. Purchase offer made via broker	5. Offer is accepted 6. Structure of property completely inspected 7.Taxes, financial info (rents, fees, dues, etc.) inspected	8. Housing insurance assembled 9. Title insurance assembled 10. Purchase finalized 10. Title is transferred to buyer	11. Management company manages new properties 12. Cash flows generated
Timeframe	Months	Weeks	Weeks/Days	Years

Details of Due-Diligence

- The due-diligence period is a length of time during which the buyer may freely investigate and inspect every aspect of the physical property and its information. If the buyer is unsatisfied with the state of the property, the purchase agreement can be revoked at no cost, or the buyer may renegotiate the deal with the seller.

- Due-diligence periods typically last several weeks, and their exact period is defined in the purchase agreement. During that time, the buyer, the buyer's inspectors and the buyer's attorneys may investigate all facts related to the deal, including:
  - The structure, safety and mechanics of the property
  - The tax history of the property
  - Home Owner's Association fees and other fees the property is required to pay
  - Historical financial information such as rents paid by tenants

- The due-diligence period may also include time for securing financing needed to pay the offer, including an appraisal by a bank of the property.

The REMCO Property Acquisition Process

Property Selection	REMCO: US Associate

- A network of local brokers is assembled by the US Associate.
- Valuable investments are identified and brokered by these brokers.
- Portfolios of good deals are presented to REMCO by the brokers.
- Acquisitions committee selects and initiates offers on the best deals.

Bid & Due-diligence	REMCO: Project Manager

- Financing is secured from banks if needed. An offer is made to the seller.
- If seller accepts, property quality is verified in the due-diligence period.

Closing	REMCO: Project Manager

- Deal is renegotiated or finalized per due-diligence, and insurance is assembled.
- Title is transferred to an Investment LLC.

Property Management	REMCO: US Associate

- Property management companies are assembled by REMCO US Associate to administrate individual properties and tenants.

Cash Flow

- Properties are ultimately either kept for continual cash flow or sold as portfolios to other investors.

Management Profile

GAP Consultores, Real Estate Investment Project Leader

GAP Consultores is a financial services boutique specialized in the areas of Investment Banking , Brokerage-Trading, Trust Advisory, Foreign Trade Advisory, and Private Banking. GAP's Management team has formerly held senior officer positions at well known international financial institutions (mostly Citigroup), and has extensive experience and deep knowledge of the Southern Cone financial market.

Target Markets and Properties

Summary of Market Timing and Value

- Demand continues to move from homeownership to renting property.

- Housing prices are at very low levels. Cost of investment is lower than ever, and if the market changes, property values will appreciate to offset lower rental demand.

- Potential future recovery in the US makes all investments appreciate in one form or another. However, if the market does not recover, rental demand can be anticipated to stay high and rental investment businesses will remain strong.

Specific Investment Targets

- To capitalize on the post-bubble devaluations, investment will be especially powerful in homes or apartments that have been foreclosed upon or whose owners are struggling financially. These potentially include:
  - Properties built on speculation before the bubble and never purchased due to buyer inability to obtain a mortgage
  - Homes and apartments that have been foreclosed upon by banks
  - Properties that are in good condition but have high vacancy rates that could be raised in the future
- REMCO seeks investments in areas that have many such properties, but are also high growth and economically healthy.

Geographical Differences

- The availability, quality, and price of housing quality varies greatly across different parts of the United States.

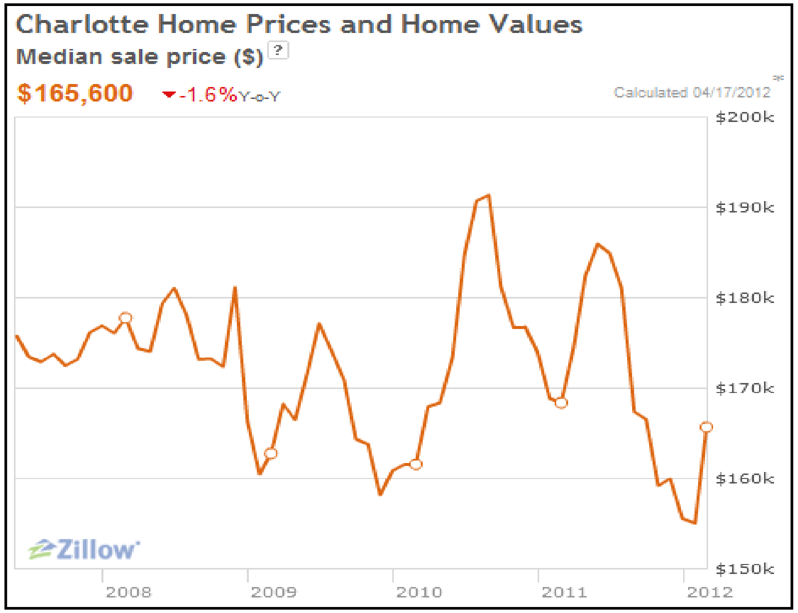
The Northeast
- Low Growth
- Older Property
- High Prices
- Fewer upscale apts.

The West Coast
- Medium Growth
- Newer Property
- High Prices

The South and Southeast
- High Growth
- Newer Property
- Low Prices

Charlotte, North Carolina

- Charlotte is the largest city in North Carolina.
    - Population: 750,124
    - Population growth: 2.56%
    - Median income: $52,446
    - Unemployment Rate: 8.5%
    - Median Age: 33.2 years



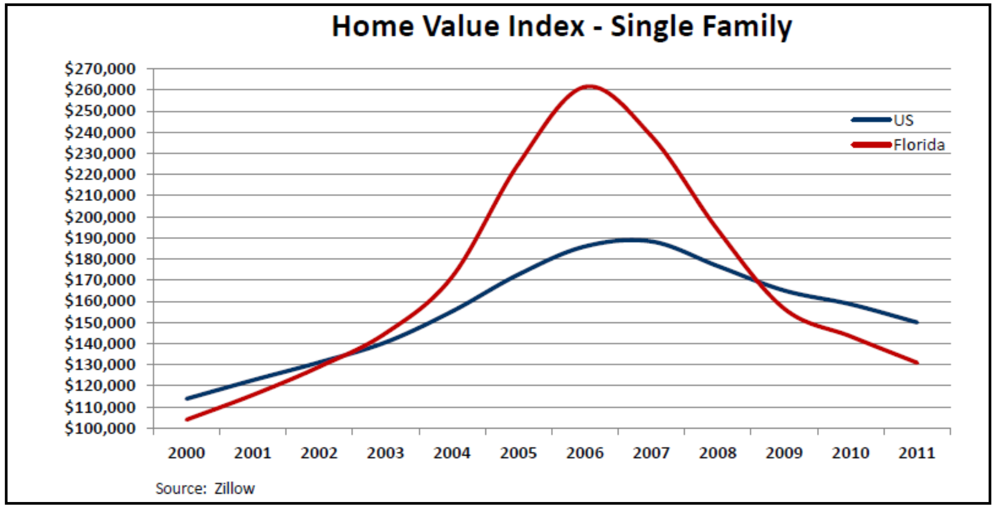
Zillow, http://www.zillow.com/local-info/NC-Charlotte-home-value/r_24043/

- Apartment demand is slowing, but remains strong.
    - Apartment Vacancy: 6.7%
    - Median Rent $/ft^2: $0.83
    - Average Cap Rate: 6.8%
- Home prices and property values have remained fairly stable post-bubble.

Tallahassee, Florida

- Tallahassee is Florida's state capital and 7^{th} most populous city.
  - Population: 181,376
  - Population growth: 5.10%
  - Median income: $37,451
  - Unemployment Rate: 6.8%
  - Median Age: 26.1 years

- Home sale prices have continued to decline steadily downward post-bubble. Apartment demand is beginning to grow after a drop 2008-2011.
  - Apartment Vacancy: 8.1%
  - Median Rent $/ft^2: $0.81
  - Average Cap Rate: Approximately 6.5%

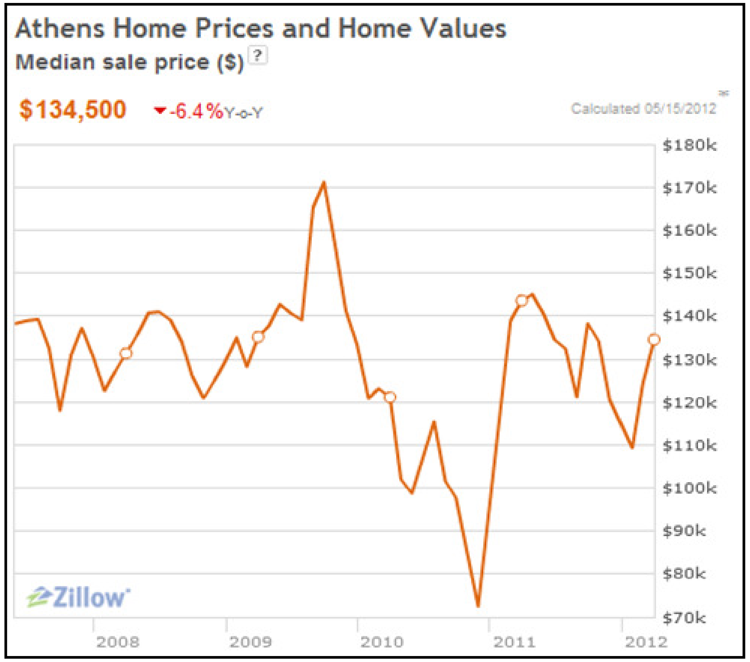


Zillow, http://www.zillow.com/local-info/FL-Tallahassee-home-value/r_47945/

Athens, Georgia

▶ Athens is Georgia's 5th largest city, and the home of the University of Georgia.

- Population: 115,542
- Population growth: 0.4%
- Median Income: $33,940
- Unemployment Rate: 7.0%
- Median Age: 33.4 years



Zillow, http://www.zillow.com/local-info/GA-Athens-home-value/r_23534/

▶ Home values have remained steady after a brief drop in 2011. The University stabilizes housing trends around it, leading to closer balance of rental supply and demand as well.

- Apartment Vacancy: Around 7.5%
- Median Rent \$/ft^2: $0.62

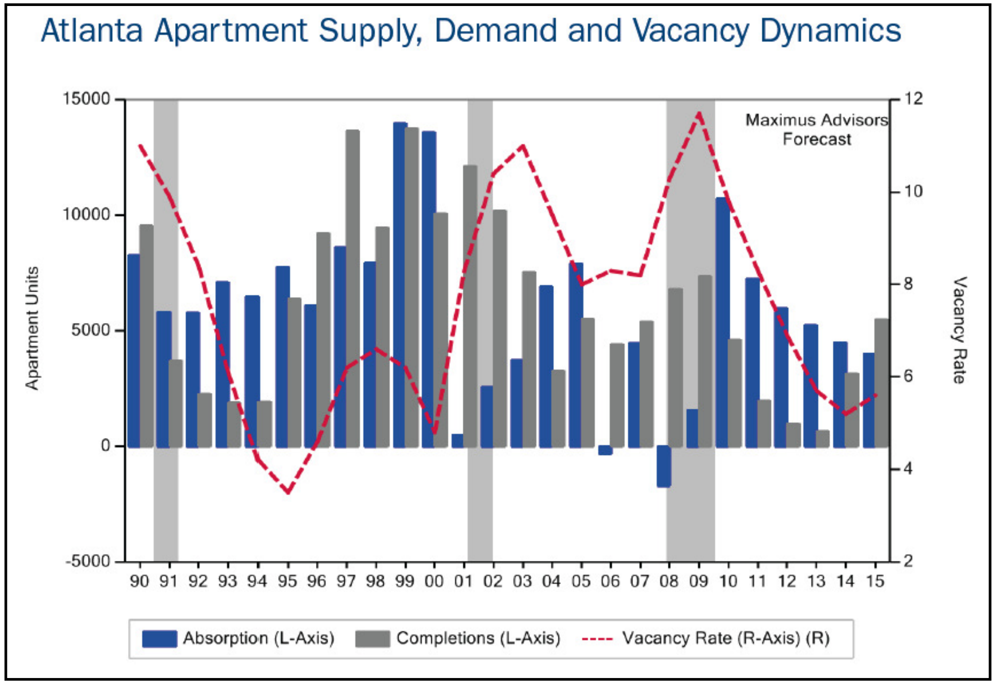
Atlanta, Georgia

► Atlanta is Georgia's largest city and its capital. It is the 9th largest city in the US.

- ○ Metro Population: 5,268,860
- ○ Population growth: 0.8%
- ○ Median Income: $45,171
- ○ Unemployment Rate: 10.8%
- ○ Median Age: 32.9 years

► Apartment has come back quickly and healthily from oversupply and the following recession during 2005-2009.

- ○ Apartment Vacancy: 7.4%
- ○ Median Rent $/ft^2: $1.08
- ○ 12-month Rolling Average Cap Rate: 8.3%



Apartment Reality Advisors, http://arausa.listinglab.com/ARAResearchAtlanta/

Appendix

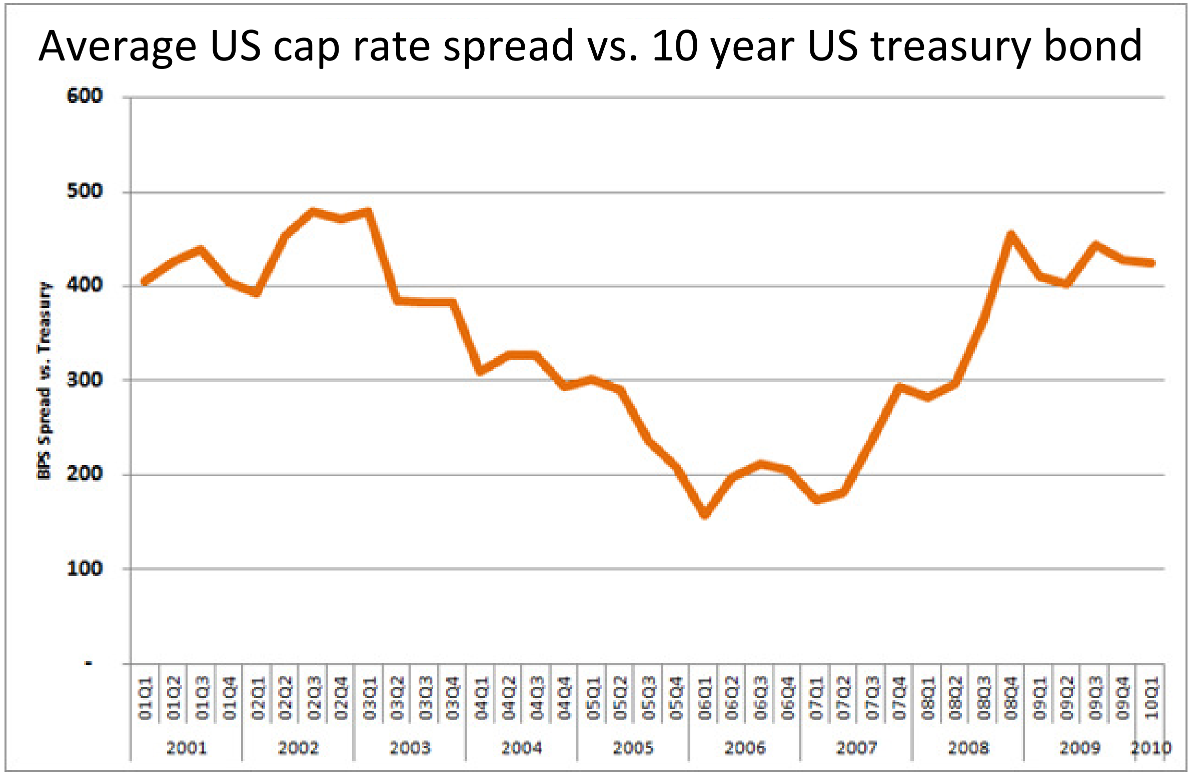
Cap Rates

- The Capitalization Rate, or cap rate, is the rate at which an asset earns income relative to its value.

$$\text{Cap Rate} = \frac{\text{Annual Income}}{\text{Total Value}}$$

- As the market deleverages, cap rates have been increasing following the bubble since their peak in 2007.

- The average cap rate is 5.97% as of first-quarter 2012. Careful selection of investment properties can potentially yield far greater returns.



John Reeder, http://marketwi.se/2010/07/cre-cap-rates-vs-10-year-treasury/

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