Established 1961

Standard Management Company

Property Management, Asset Management, Acquisitions, Sales, and Financing

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Dear Friends,

I'm frequently asked these days, "Have we reached bottom yet, and is it time to start buying?" I came back from the International Council of Shopping Centers May Convention with the following observations.

1. The economy is in a recession and is getting worse, despite the May stock rise.
2. 2008 ICSC attendance was 63,000. This year, 20,000 attended.
3. There was a lot of activity in the section where value-oriented tenants were, such as 99 Cent Stores, Dollar Tree, Wal-Mart, etc. A number of former major players did not have a booth.
4. Consensus among the economists and mall operators was we have not touched bottom.
5. It is possible to buy grocery-anchored shopping centers that were selling at 6-1/2% cap rates last year, at then premium rents, at rates now between 9 and 10 on actuals, with vacancies and lowered rents. You can buy retail property today, in many markets, including some California markets, at a 40% or greater discount over last year. There is little senior debt, and debt would be 60 to 65% of value, if available at all.
6. Apartments held up somewhat better because Fannie Mae and Freddy Mac are providing financing and leverage is available. Rents are down in most markets, and new cap rates for class B properties range around 8%. Interest rates are in the low 6% range, providing good cash-on-cash return with upside potential. The biggest problem is there is not a lot of property for sale, and sellers still have recent high prices and low cap rates in mind and are not willing to sell at market prices.
7. Having seen four similar cycles over 50 years, I am not smart enough to buy at the bottom. While prices may decline, if you find property you like in this market, go forward.

Current Leases Made by Standard in a Tough Market

CVS has signed a ground lease for 13,000 square feet of space in McHenry Village Shopping Center in Modesto, California. McHenry Village is a specialty shopping center of 350,000 square feet, making it the largest open-air retail center in Modesto. The pharmacy will be located on the site of a former restaurant. The building will feature a dual-lane drive through window for picking-up prescriptions and 24 hour service. Briggsmore and McHenry is the second busiest intersections in the City of Modesto with 70,000 cars per day. Construction started in the first week of July and will last approximately 5 months.

Metro PCS — SMC has signed a five year lease with Metro PCS at Rosedale Village in Bakersfield, California. The cellular phone retailer occupies 1,400 square feet and opened for business in mid-June.

Rosedale Donuts — SMC has signed a five year lease with a donut shop at Rosedale Village in Bakersfield, California. Tenant improvements on the 1,000 square foot space are set to be completed in the next 30 days and the store is set to open shortly thereafter.

Loan Opportunities at their Highest

Banks, insurance companies, thrifts, and pension funds have shut down or seriously curtailed their lending on commercial properties. Standard has been arranging loans secured by real estate for over 45 years. The tightening of credit has made this the best climate for lenders we have ever seen. Owners of commercial properties, such as shopping centers, warehouses, industrial buildings, office buildings and apartments need financing to:

a. Replace loans that are coming due
b. Take advantage of discounts being offered by their existing lenders for early payoffs
c. Make improvements and renovations to their property
d. Acquire property from motivated and distressed sellers.

In normal times, to receive yields in excess of 6 – 7 %, it is necessary to provide "mezzanine" or "secondary lending". That is making a loan behind a senior loan. The risk on these junior loans is higher than making first mortgages. Today, it is possible to make first mortgage loans and receive rates in the range of nine to ten percent at 50 to 60% of market value. A loan today of 60% of a property currently worth $600,000, which was worth $1,000,000 last year, translates today into a loan of only $360,000. While we may not be at the bottom of the market, we are certainly a lot closer than any time in the recent past.

Opportunities to purchase whole loans or participate in loans are available. If you are interested, email mswift@standardmanagement.com, providing your name, email address, mailing address and telephone number. Indicate the amount that you would like to advance. Participations are available from $100,000 to several million dollars per loan.

Following are some examples of loans currently being considered:

Conventional Loans

SMC recently issued a term sheet for a $7.5 million loan to be secured by a 180,000 square foot warehouse in a prime infill area of Southern California. The borrower was willing to fund 50% of the purchase price of $15 million, making Standard's LTV 50%. The borrower approached Standard after being turned down for a loan due to a recent bankruptcy; however, Standard was comfortable issuing a term sheet given the low cost basis and the quality of the real estate.

Opportunities to buy loans at a discount

Borrower had an opportunity to buy back $32 million worth of loans on various properties he owned in Southern California for $18 million – a 44% discount. Standard issued a term sheet contingent upon the sponsor contributing $4 million of fresh equity to the transaction. Standard also issued a term sheet on a similar opportunity from a different sponsor to buy back loans on two shopping centers located in the Western United States, again at close to a 50% discount.

"Special Situations" Loans with Allied USA Corporation

- Standard issued a term sheet to the Board of Directors of a cooperative apartment building in Southern California for a $2.5 Million loan for the purpose of improvements to the public areas of the property. Due to tightening of lending standards and the current market situation, the Board was unable to draw funds from its existing lines of credit. Standard worked with the Board of Directors to meet their request for a tailored financing plan enabling the Board of Directors to go forward with their program for property improvements.

- Standard recently issued a term sheet to the developers of a 267 unit condominium project in Southern California. The project is complete and 75% sold. Due to a downturn in the condominium "for sale" market, the developer decided to convert the unsold units to rentals until the condominium market recovers. The developer is seeking to finance the converted rental units based on the rental cash flow until the units can be sold. Conventional institutional financing is not available on the unsold units.

Bakersfield Projected for Early Recovery

The Massachusetts economic forecasting firm HIS Global Insights recently published a "Recession Rebound Report" which indicates that Bakersfield will be the first city in California to recover from the recession and that Los Angeles County and Redding will be last. Bakersfield is projected to recover by the end of 2011.

Standard has four real estate projects in the Bakersfield area: (1) Rosedale Village, a 220,000 s.f. retail shopping center (2) Norris Road, a 220,000 s.f. public warehouse; (3) an almond orchard in Shafter; and (4) a parcel zoned for a mobile home park in Lamont. In addition, Occidential Petroleum Corporation has said it discovered a major new oil field in the Bakersfield area, calling it the largest new oil and gas discovery made in California in more than 35 years. We continue to search for opportunities in the greater Bakersfield area.

Receivership Services

Few companies can match Standard's in-house team of experts when it comes to arranging receiverships and to protecting and increasing the value of your assets.

What is a receiver? A receiver is an individual appointed by the court to act as a neutral third party to administer property, money, or a business while parties resolve their dispute. Whether it's a foreclosure action, a partition action, a dispute between property co-owners, or the completion of a rehabilitation project, a receiver might be necessary to protect the value of your assets and reach the parties' objectives. Once appointed, a receiver takes control of the property, receives the rent, pays the operating and other expenses, completes rehabilitation projects and performs such other functions as the Court instructs.

Standard's personnel can provide receivership services for retail, office, multi-family residential and industrial properties. Members of Standard's legal and operations departments are well acquainted with both the legal and procedural aspects of the appointment of a receiver, foreclosure proceedings and partition actions. With access to experts in management, marketing, leasing, finance and construction, Standard's receivership experts will develop and implement a strategic plan for the property, stabilize the operations of the property, analyze the financial condition of the property, oversee and direct the on-site property managers, implement a marketing, advertising and leasing strategy to maximize occupancy, and determine the best exist strategy to reach the parties' objectives. For more information, contact Jason Wallace at ext 313 or Craig Walsh at ext 326.

The Smartest Way™ to Save

Sam and Heidi Clingen have finished "The Smartest Way™ to Save" – Why You Can't Save and What to Do About It", the first of "The Smartest Way Series"™ of books on how to succeed. Order through Amazon.com or theSmartestway.com. For volume prices contact Heidi Clingen at sales@thesmartestway.com.

The 25 "Principles of Financial Independence" are the basis of the first book and appeared in the June 2007 issue of our newsletter. "More Principles of Financial Independence" were included in the June 2008 newsletter.

Principles of Real Estate Syndication
By: Samuel K. Freshman, A.B., J.D. — A "how to do it" book with current thinking on syndication theory and practice. The ideas and illustrations can be applied to any type of business enterprise. Copies may be ordered through Amazon.com.

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Investor Strategies to Survive & Thrive:

1. Shift your expectations. Market conditions are substantially changing rental rates.
2. Be prepared to adjust rent to maintain a tenant through the 2009 holidays.
3. Consider short-term opportunities. Renegotiate or replace the tenant in a strong market.
4. Reevaluate operations. Is it possible to shave dollars off the common area charges?
5. Partner on tenant improvements. Many tenants are struggling to secure loans for TIs.
6. Don't compromise. Unsavory tenants could pollute your existing mix.
7. Hoard cash. Your lender may require a cash infusion to rebalance the equity equation.
8. Find new revenue including advertising, kiosks, carts, special events, and parking.
9. Focus on your centers' psychographics and demographic, and pursue merchants who fit best.
10. Get help. Your tax, legal and real estate advisors can suggest the best path to repositioning or restructuring your property, debt, and tenant mix.
11. Consider loan modications and restructuring. Standard can help work out loans on existing assets.

Samuel K. Freshman will be speaking at the Real Estate Syndication Summit on September 22, 2009 at the Luxe Hotel in Brentwood, Los Angeles. If you are interested in attending, please contact Dynamics Capital Group at (310) 471-0650 and ask for the Standard Management discount. If you are interested in being notified of other speaking arrangements, please contact Cindy Anderson at (310) 410-2300 extension 306 and ask to be added to our mailing list.