

SMC SPRING NEWSLETTER 2017

“WHAT’S HAPPENING” FROM SAM



I am often asked about business philosophy and when going through files found a memo that my friend Stephen Roulac prepared as a result of a breakfast we had in March of 2006 a copy of which is enclosed.

Much has happened in 2016 at Standard including a move to 9841 Airport Blvd., Suite 1010, Los Angeles, CA 90045 as a result of our previous location being converted to a hotel. We are now settled in and I hope that all of you will be able to visit us soon. Please call Margaret Swift at extension 5306. There seems to be a large need on the part of our clients to receive a reasonable rate of return on new investments and we are doing our best to keep up. I apologize that we have not been able to always fill all requests. Staffing in acquisition, underwriting, and short term bridge and gap loan departments has been increased to serve the demand.

I want to express our appreciation to my long time employees and associates. They are Craig Walsh 28 years, Bob Fleischer 32 years, Sonia Carrillo 23 years, Margaret Swift 20 years, Michelle Sabido 26 years, Felicia Dawkins 9 years, and our most recent employees for their help, support and understanding during the recent move which was stressful for all considering Standard had been in its former location for over 25 years. Also thank you to those of you who attended our recent conferences at the San Gabriel Country Club, The Bel-Air Country Club, and the webinars. We are settled in now. Let’s make a deal. Best Regards, Samuel K. Freshman, Chairman

RENO PORTFOLIO PERFORMANCE

As of December 31, 2016, the Reno Multifamily portfolio has performed tremendously. Below are the highlights from the three properties. **Boulders**- The total return since acquisition is 187% in these 47 months the preferred return of 6% was paid current and together with value appreciation the total annual average return is 47.75%. **Eastland Hills**- The total return since acquisition is 112% in these 30 months the preferred return of 5.5% was paid current and together with value appreciation the total annual average return is 44.8%. **Spring Villas**- The total investor returns since acquisition is 39.4%. In these 22 months the preferred return of 5.0% was paid current and together with value appreciation the total annual average return is 19.7%. **Verona**-Closed 3/31/2017. *See New Acquisition*

NEW OPPORTUNITIES

Acquisition Opportunities: **1)** A 65% occupied, 200,000 sq. ft. retail center adjacent to a highly successful, national grocery store. The center has a mix of retail shops, restaurants and entertainment venues. The entertainment venues, which account for 38% of the center, are performing very well. However, current ownership has not been aggressive at leasing the remaining shop space. By leveraging off of the entertainment venue draw, a new retail leasing plan which caters to the immediate trade area, along with common area upgrades, is expected to add significant value to the property. Investor returns over a 10-year hold are estimated to be 18% with a current preferred return of 6%. **2)** A 135,000 sq. ft. retail center which is only 36% occupied. The majority of the vacancy is due to a large, big-box retailer that is vacating the property. There is significant upside potential to reposition and lease-up the asset to full occupancy. Standard Management is already in discussions with several potential tenants for the “big box” space. Investor returns over a 10-year hold are estimated to be 18% with a current preferred return of 6%.

Loan Opportunities: **1)** A first trust deed of \$10,000,000 on Phase II of a 185-acre master planned community known as Vista Canyon, located in Santa Clarita, CA. Vista Canyon is a master planned community which will include retail, office, a hotel, apartments and single-family homes. In addition, the community will include a new Metrolink Station. The subject loan will fund land improvement and infrastructure costs on 54 acres fully entitled for 123 multifamily units, 202 townhomes and 120 detached single-family homes. Total return to investors is expected to be 11.75% per year. Loan-to-Cost is 32%. Lot sales are projected to commence by the 8th month of the loan, with loan repayment expected within 12 to 24 months. **2)** A \$2,500,000 construction line of credit which will fund the development of up to three 6,700 square feet, luxury single-family homes in the Palm Springs area. Each home will have a guest house, pool, putting green, ½ basketball court, BBQ and gazebo area. Total return to investors estimated at 8.25% per year. Loan-to-Cost is estimated to be 64%. Projected Loan-to-Value upon completion of construction is estimated to be 51%.

SMC NEW ACQUISITION – SPARKS, NV

Verona Apartment Homes, is a two story, garden style complex, and consists of 152 units. The property is located in a great district and a strong median household income. Verona was built in 1999/2000 as a Low Income Housing Tax Credit property, however, this covenant and restriction was removed. About 51% of the units have been converted to market rate units, and Verona still has notable upside in revenue as rents are brought to market. The project offers a current cash flow and appreciation potential. Returns to Class A investors over 10 years are estimated to be \$2.09 (pre-tax) for every \$1.00 invested, which includes distributions, appreciation and return of capital assuming sale at year 10. This equates to an internal rate of return (IRR) of 9.10%. Quarterly distributions are expected to Commence 10 months after the acquisition with an investor’s preferred return of 6%. This has been fully subscribed and is closed, no longer available for investment.



ECONOMIC DEVELOPMENT FUELS NORTHERN NEVADA GROWTH



Google, Inc. purchases 1,200 acres of land at the Tahoe Reno Industrial Center (TRIC) for nearly \$29.1 MM. The parcel of land is located near the Tesla Gigafactory which is located 15 miles east of Sparks. While there are no immediate plans for development on the site there is a lot of speculation. Northern Nevada, has seen an influx of technology companies entering the area after the state placed increased focus on economic development after the recession. "Nevada is rapidly becoming a technology and innovation hub by attracting exciting new startups and some of the world's best names," Gov. Brian Sandoval said. "I am excited by the prospects that come with this size of purchase from this type of company." At the same time, the increased economic activity is also raising concerns about growth and housing affordability. Home prices have already hit post-recession highs and could reach an all-time record this summer at the current pace of appreciation. The Reno area also posted the sixth highest annual increase in rent nationwide in 2017 at 9.5 percent, according to RentCafe. This follows the third-highest rent increase early last year.

APARTMENT RETURNS SHIFTING TO SECONDARY MARKETS

Secondary Markets have shifted to become outperformers. While having had less construction than their counterparts in the Primary Markets they remain more affordable and account for the largest current YOY growth; forecasting to outperform the primary market through 2020. Over the next several years Southwest and B-Class California will outperform in the markets. The Southwest continues to experience job growth in Las Vegas and Phoenix thus leaving the fourth quarter rent growth topping at 5% and expect rents to rise just under 4% annually through 2020. While in the B-Class California Markets, Riverside/SB fourth quarter rents rose 7% year over year. Benefiting apartment demand is the fact that housing unaffordability is showing up more inland. Class A Markets are double digit permit increases, which will take time to absorb. Target investment capital concentration will be on secondary markets going forward, which generally have fewer new buildings pressuring rent growth. -John Burns Real Estate Consulting, LLC.

A CHANGING REAL ESTATE LANDSCAPE

With cap rates at an all-time low, return on newly purchased value add opportunities has reduced substantially. This situation is exacerbated by foreign capital—foreign investors are concerned about preserving principal rather than return on investment. Others investors may have a lot of uncertainty and are proceeding with caution. Al Brooks, Head of Commercial Real Estate at JP Morgan Chase noted:

We've never seen before that everybody has tremendous equity in front of our loans. In the past, we would see loan to values of 75 to 80 percent. I don't think we've made a loan of 75 to 80 percent during the uptick in the market. Everything is 65 percent or below and on average it's below 60 percent. What they're doing, is they're giving up some of the upside, it creates safety in the transaction. So, when the inevitable downturn hits, they're not going to have to hand the property back.

Standard typically levers no more than 65% of purchase price in order to ride out the real estate cycles and strike a balance between risk and return to our investors.

CASE STUDY: K MART CENTER, BAKERSFIELD, CA (19.1% Annual Internal Rate of Return over 10 years)

In July 2005, Standard Management Company (SMC) acquired a 90,867 square foot, vacant retail property in Bakersfield, California for \$4.5 million and repositioned the property and achieved full occupancy within 19 months of acquisition with several new tenants including Smart & Final, Tractor Supply Company and Body X Change health club. Leasing and improvement costs totaled \$2.0 million. With an acquisition cost of \$4.5 million, total investment was \$6.5 million. Upon stabilization, debt financing was secured for \$6.5 million, essentially returning all investor capital within the first 24 months. SMC sold the property for \$11.5 million in February 2014, realizing an IRR return to investors of 19.1% over a 10-year hold period.

BRIDGE LOAN PIPELINE

\$18,400,000, Los Angeles, CA

Acquisition and Renovation Loan-50,000 sq. ft. office building

\$7,000,000, Portland, OR

Refinance and Tenant Improvement Loan-35,000 sq. ft. office building

\$9,000,000, Beverly Hills, CA

Acquisition Bridge to Condo Redevelopment-20 unit apt. building

\$7,000,000, Wichita, KS

Acquisition, Renovation & Tenant Improvement Loan-223,000 sq. ft. shopping center

\$7,000,000, Escondido, CA

Acquisition and Lease-Up Loan-41,000 sq. ft. office building

\$15,000,000, Williamsburg, VA

Acquisition Loan-2,900 acre golf resort with 168 rental condos

\$6,000,000, Portland, OR

Acquisition and Renovation Loan-110 unit apartment complex

\$6,000,000, Bel Aire, CA

Acquisition and Renovation Loan-10,000 sq. ft. rental home

\$5,000,000, Indianapolis, IN

Acquisition and Renovation Loan-258 unit, vacant apartment complex

\$4,000,000, Beverly Hills, CA

Refinance Loan-Business Loan Secured by 15,000 sq. ft. home

\$3,600,000, Oakland, CA

Refinance Loan-20,000 sq. ft. office/flex building

\$2,000,000, Reno, Nevada

Refinance and Tenant Improvement Loan--15,000 sq. ft. shopping center

COMMERCIAL LEASING UPDATES

McHenry Village

New Lease:

Bali Learning Center has signed a four (4) year lease. Bali Learning provides affordable top quality education providing an environment where customers have a highly satisfying and empowering experience to achieve personal goals.

Lease Renewals:

Hickman Charter Schools has extended through August 2018. They are a "university model" which blends the best of study at home with on-site classes and online programs. It has high-quality individualized options for children and teachers who recognize that the traditional system does not meet the needs of all children.

The Chicken Barn has renewed for an additional five (5) years through February 2022. The Chicken Barn was established in 1979 and has been at McHenry Village since 2007. The Chicken Barn offers fabulous food, refreshing beverages, and a welcoming atmosphere located in Modesto.

Lakeside Center

New Lease:

Management has completed final lease discussions with a **full service day spa** for the former Pet Mania Space (2,485 sf).

Lease Renewals:

Jenny Craig has renewed for an additional five (5) years through February 2022. A tenant at Lakeside Center since 2009, Jenny Craig, makes personal support the cornerstone of what they do.

A tenant at Lakeside Center since 1982, **Sardo's Grill & Lounge** is the premier Karaoke bar to be at and a fun place to be! They have renewed for five (5) years through November 2021.

Northgate Plaza

Lease Renewals:

State of Nevada, Division of Health and Human Services, has renewed their lease for 15,598 square feet, extending their term through 2027.

2016-2017 SPEAKING ENGAGEMENTS

Sam K. Freshman, Chairman

Speaking Engagements

December 15, 2016 - UCLA Extension

January 09, 2017 - Pepperdine Lecture

February 11, 2017 – UCLA - *Advanced Legal Aspects of RE*

March 16, 2017 -Mansfield Equities Update Panel

April 13, 2017- USC Hillel RE Career Panel

October 12, 2017 - Swiss Chamber - *Everything you want to know about Real Estate in 15 Minutes*

Telephone- Series Principles of RE Syndication

April 4th | 9:30-10:30am (PST) How to Find a Good Investment Property

April 20th | 9:30-10:30am (PST) How Sponsors Screen Prospective Project Acquisitions

April 25th | 9:30-10:30am (PST) How to Raise Equity Capital Required for Real Estate Investments

May 2nd | 9:30-10:30am (PST) RE Investment Principles

Steven M. Cohen, President

April 10, 2017 - Single Family Office Summit; Miami, FL

April 27, 2017 - Community Bank - *All Hands Regional Market in Orange County*

May 18-19, 2017 - IMN Middle Market Multifamily West Forum; Huntington Beach, CA

WHAT I HAVE LEARNED FROM SOME OF MY BUSINESS AND PERSONAL EXPERIENCES

1. **As a Board Chairman, I learned:** Start board meetings on time and keep them focused. Prepare an agenda and stick to it. If the discussion strays, defer the issue to a committee.
2. **As a Borrower, I learned:** Shop for competitive bids for loans, just as you do for any other product. It's the banker – not the bank – that determines the outcome.
3. **As a Lender, I learned:** Be cautious about anyone who offers more than the current market rate.
4. **As a Business Partner, I learned:** You need to have strong compatibility with your business partner. You and your partner need to share in the decision making.
5. **As a Networker, I learned:** Always carry business cards.
6. **As a Public Speaker, I learned:** Give the audience what they came to hear, not what you came to sell.
7. **As a College Professor and Lecturer, I learned:** You learn more from the students than they learn from you.
8. **As a Competitive Horse Back Rider, I learned:** Sometimes the horse knows better than you.
9. **As a Husband, Father, Grandfather, I learned:** Always be available for your family, be sensitive to their needs, and look for opportunities for quality time together.
10. **As a young man, as an Overnight Camp Director, I learned:** Keep your campers busy learning, and most importantly have fun.
11. **As a Student, I learned:** Never stop learning.

SUGGESTED READING

1. **Guerrilla Marketing** – Secrets for Making Big Profits from Your Small Business by Jay Conrad Levinson
2. **Leaders** – The Strategies for Taking Charge by Warren Bennis & Burt Nanus
3. **Smart Questions to Ask your Lawyer** by Dorothy Leeds with Sue Belevich Schilling
4. **Using a Lawyer...** and What to Do If Things Go Wrong: A Step-By Step Guide by Kay Ostberg in Association with HALT





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SAM FRESHMAN'S PUBLICATIONS

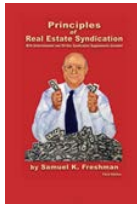
The Save Series: "The Smartest Way to Save Big"

"The Smartest Way to Save Big: The Large Things in Life for Less" is Sam Freshman's newest book. It is a follow-up to "The Smartest Way to Save More" with many additional ways to save.



"Principals of Real Estate Syndication"

"Principles of Real Estate Syndication" continues to be the leading book on group investing in Real Estate and has been revised to include information on tenants-in-common (TICs) as well as recent developments in taxation and securities law affecting real estate syndicates. Both available on Amazon.com.



Also available by request, us a pamphlet titled "Principles of Success in Life and Business". If you would like to receive your free copy please email: exasst@standardmanagement.com.

LETTER FROM THE PRESIDENT, STEVEN M. COHEN



Thank you to our continued loyal investors and our new ones alike. Standard Management's Investment strategies comprise a mix of **a) Multi Family** (both value add and stable/core) with a long term holding view and **b) Commercial Properties** including Bridge Loans across asset classes with a medium or short term hold duration. We currently allocate our focus and resources 70% towards to the former and 30% to the latter. The demand for rental apartments continues to be strong, while at the same time, pricing has reached new highs in many markets, keeping us cautious and conservative in our underwriting. We are notably disciplined in our use of leverage, typically topping at 65%, and in our selection of markets and neighborhoods. We are driven by cities experiencing positive economic activity, including job growth and consumer expansion and compelled by properties served by highly rated public schools.

On the commercial investment and Bridge Loan side, we find select opportunities with a tolerable risk return profile notably in remedies of deferred maintenance, new capital improvements and a significant leasing upside. Our 'steward of asset' philosophy continues to be a mainstay pillar of our overall approach and greatly valued by our individual, family office and institutional investors.

COMMUNITY OF THE YEAR the NVSAA 10th Annual Jewel Awards

This is the 2nd year that an SMC property has been nominated and won this type of an award. In 2015, Bay Breeze Apartments won "2015 Community of the Year" for 1-225 unit community category. Our properties that were nominated for consideration for the "2016 Community of the Year" award were Bay Breeze, Cabana Club, Galleria Palms and Sunset Pointe Apartments. The properties were judged on their Year over Year financials, operations and resident retention. At the event, Sunset Pointe Apartments was named "2016 Community of the Year" for 226+ unit community category. We appreciate the acknowledgment of achievement from our industry.



We would also like to recognize Alysha Fernandez (Bay Breeze) and Traci Raines (Cabana Club) who were nominated for the "2016 Assistant Manager of the Year". These individuals were judged on their supervisor's recommendations and month end delinquency and renewal %. In addition, SMC was nominated for the "2016 Property Management Company of the Year"

To be added to our digital distribution email: exasst@standardmanagement.com