Standard Management Company

Acquisitions and Sales
Property Management
Asset Management
Financing

6151 W. Century Blvd., Suite 300
Los Angeles, CA 90045
Phone: (310) 410-2300
Fax: (310) 410-2919
www.standardmanagement.com

Established 1961

FALL 2013 NEWSLETTER

Letter from Sam

Dear Friends,

Real estate investment is back and prices in some categories are already higher than they were in 2007 prior to the recession. There is a little leveling off currently in the residential market and we are no longer seeing the rapid rise of prices in the single family market. There is strong interest in the investment market and we are seeing continuing cap rate (capitalization rate) compression in our favorite asset classes, multifamily and retail.

We are stepping up our offers but having little success and we are outbid at "best and final" on almost everything we want to buy. The Boulders is continuing to outperform projections. Las Vegas occupancy has come back strong and we are reducing delinquency ratios and improving rental rates. Below you will find some of my thoughts from the 2013 SPIRE (Stanford Professionals in Real Estate) SREC (Stanford Real Estate Council) Conference. This invitation only event was well attended. SPIRE's annual banquets in Los Angeles and at the Stanford campus had much stronger attendance this year with over 200 at each event. Real estate is definitely back in style with strong investor interest.

Best Regards, Samuel K. Freshman

Stanford Real Estate Council Conference Notes

1. As was the case with the 2013 ICSC conference that I wrote about in the last newsletter, consensus continues to be that interest rates will remain low with possible slight increases in 2014.
2. As for the long term, the forecast was for substantially higher rates. Many of the speakers indicated that those using variable rates could be caught short and the consistent recommendation was to lock in for the long term. There continues to be a general agreement that interest rates on the 10-year will be substantially higher than they are now.
3. There was not as much agreement however on cap rates as they continue to decline. There was a general expectation that when supplies are no longer constrained (two to three years) cap rates will rise.
4. Not as much expectation of appreciation in major MSAs at SREC as there was at ICSC. There was an agreement on investor movement towards secondary markets. There is much more sensitivity to foreign investors and their influence was acknowledged, particularly that of Chinese and Middle Eastern investors. EB-5 was frequently mentioned as a source of capital where appropriate for qualifying projects.
5. Multifamily continues to be the most popular investment type.
6. Capital continues to chase product. Some feel we are in a "bubble" and are becoming net sellers. Concern that properties are selling above replacement cost even in secondary markets and feeling that core product is overpriced was present.
7. International investors see opportunity in Southern Europe (Spain, Portugal, and Italy) as well as emerging markets.
8. Real estate continues to be interest rate sensitive and many are keeping a leery eye out for unexpected rate changes.
9. Major banks were together on their outlook for the future.
10. Current hot markets include student housing and hospitality.
11. Less retail rent relief and some small rent increases.
12. Several funds see opportunity in development and rehabilitation, looking for 150 basis point spreads over in-place cap rates in exchange for development risk.
13. Construction costs moving up in most markets. Condominium development in the major highly constrained core markets is coming back.

As usual these are my own observations, others may have differing opinions.

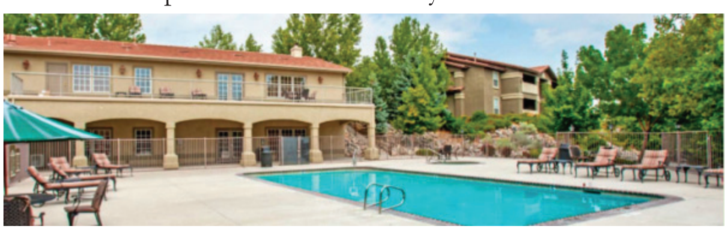
Why Things Turn Out Differently Than Expected

In the spring newsletter we noted that things do not always go as planned and included a list of books to help you get the results you want. Here is part two.

1. *Spousonomics: Using Economics to Master Love, Marriage, and Dirty Dishes* by Paula Szuchman & Jenny Anderson
2. *What You Can Change . . . and What You Can't*: The Complete Guide to Successful Self-Improvement* by Martin E. Seligman
3. *The Signal and the Noise: Why So Many Predictions Fail - but Some Don't* by Nate Silver
4. *The Next Decade: Where We've Been . . . and Where We're Going* by George Friedman
5. *The (Honest) Truth about Dishonesty: How We Lie to Everyone - Especially Ourselves* by Dan Ariely

Top and Bottom September Rent Growth Markets

Occupancy has improved and rents have trended up in many rental markets. Dallas-based Axiometrics released a report in September detailing year over year increases in the top and bottom 10 markets for rent growth. We were pleased that the location of The Boulders, Reno, Nevada made the list of top 10 rent growth markets, coming in at the 10 spot with year over year growth of 6.49% in September. Standard has implemented upgrades at The Boulders since its January acquisition including brushed nickel hardware for doors and interior fixtures, wood laminate flooring, upgrading cabinets and countertops, exterior paint, and garage door replacement with other improvements on the way.



The Boulders, Reno, Nevada

Why You Should Read Business Books

Here is an incredible fact. People who read business books tend to make more money than those who do not, with people who read at least seven business books per year earning over 2.3 times more than those that read just one. One possible explanation is that people who read business books are exposed to a constant flow of new information, ideas, and strategies they can use to help their careers, their teams, and their companies. Helping your business to grow is a great way to be successful and to safeguard your career at the same time.

Speaking Engagements

If your organization is interested in having a speaker on any aspect of real estate please contact Cindy Anderson at (310) 410-2300 ext. 306.

November 14, 2013	SPIRE Hall of Fame Induction Banquet
January 21, 2014	The Art of Negotiating - Luxe Hotel, Brentwood

Summer is Over but SMC is Still HOT!

Standard Management Company's national residential portfolio consists of 1,620 apartments and 374 mobile home sites with assets ranging from Beverly Hills, California to Lancaster, Ohio. Currently our portfolio is 94.9% occupied and 96.9% leased. So how did we do it?

Tenants, tenants, tenants. The locations of our assets are important and we only buy in good neighborhoods. With well-situated assets Standard Management Company then focuses on resident retention. Retention has increased by training our staff to provide top-notch service to our tenants. For instance, work orders are now being completed within a few hours if possible and tenant issues are being addressed the same day with a same-day solution where we can provide one. A follow-up call is made within five to seven business days to ensure service met the tenant's needs and resolved the issue in a satisfactory manner. Every tenant receives a phone call from staff two to three months prior to their lease expiration inviting them to discuss their tenancy, allowing our staff to hone in on the important issues to that tenant and address them before lease expiration.

This has increased tenant retention dramatically, saving money on turnovers, unit downtime, and leasing commissions, and it has also led to increased collections. In October at Bay Breeze, 224 units in Henderson, Nevada, rent collection was 100% with no move-outs, no evictions, no skips, and zero notices to vacate.

Standard Management Company Loan Program

Standard Management Company provides loans on properties secured by first trust deeds. These loans have been producing approximately 7% to 9% returns for investors. Several loan requests are currently being processed:

1. Quick close on single family home lots and commercial land in the California central valley. The purchase price is $6.6 million and Standard's loan is $4.29 million.

2. $6 million loan for a southern California hotel repositioning to a seasoned hotel operator. The loan is ~60% LTV.

3. $10 million loan to close a large shopping center in the Midwest on short notice. Borrower is purchasing the property for $14 million, an extreme discount to replacement cost and has a proven leasing track record. Total project cost is $18 million.

4. $6.2 million acquisiton loan on a California Bay Area parking structure with a $9.7 million purchase price.

5. $5 million loan on an $11 million home purchase in Beverly Hills, California.

Standard offers loans from $1 million to $50 million; up to 65% LTC; 7.5% to 9.75%; 1 to 5 year term; recourse.

If you need a loan give us a call! (310) 410-2300 xt 322

How to Raise the Equity Capital Required for Real Estate Investment

1. How much equity is required? Some projects are initially funded entirely with equity.
2. How much equity can you provide? Investors ask, "How much skin are you going to have in the game?"
3. If your resources are insufficient to provide between 5% and 20% of the equity, partner with someone who can so you can say the sponsor has skin in the game. In large projects the sponsor bringing 5% of the total equity may be sufficient. In small projects (under $1,000,000 of equity), as much as 20% may be required.
4. Prepare an extensive list of your contacts whether you feel they may be an investor. Those you expect to invest often will decline for personal reasons such as divorce, moving out of town, business reversals, etc. Those you think would not be interested often end up being your best investors. One of my largest investors is someone I hesitated to approach for five years feeling they would not be interested. His personal accountant asked why I had never come to him before, so I approached him. Because he held me in high regard he made a $1,000,000 equity investment.
5. Meet potential investors one on one rather than in groups. In a group meeting of investors, when one person has a concern about a particular item other investors may pick up the same concern when they did not have that concern before. Determine what each investor's objectives and motivations are and direct each presentation to satify that investor.
6. Have available a list of references and an appropriate track record. Your offering circular should talk about specifics in terms of the current going in financial results and projections for a minimum of 10 years.
7. Have control over the project before soliciting funds. A general inquiry may be made to potentially interested parties, but do not to cry wolf. Only present transactions you have a high degree of closing and preferably have under contract.
8. Influencers are good investor prospects themselves and also because of their ability to convince clients and friends.
9. Sources of investors include accountants, insurance brokers, business managers, financial advisors, your list of contacts, personal friends, and organizations which you belong to such as your church, club, professional group, etc.
10. The best geographic locations for investors are where you are located or where the property is located.
11. Always be prepared. Have a supply of offering circulars or a short summary in your car. Many do not read extensive offering circulars so your executive summary should be no more than five pages including one page of photographs.
12. Bring up the subject (whereeever you are) in social settings that you are a real estate developer and that you are working on such and such projects. In meeting people ask them their profession and they will respond by asking you as well.
13. Keep in contact with your existing investors with frequent reports.
14. No one likes to be the first investor, therefore you should indicate you have a limited number of interests available.
15. Do not be afraid of meeting your prospective investors' financial advisors. Some of my investors have been advisors.
16. There are a number of chapters in "Principles of Real Estate Syndication" with further suggestions on how and where to find investors as well as how to structure the preference to the investors and the promote for the syndicator. The book is available from Amazon.com, book sellers, and eBook distributors.

Getting the Best Terms on a Commercial Loan

1. Are you in a borrower's or lender's market? In a borrower's market interest rates are low, high leverage is available, and debt is more attractive than equity. In a lender's market, the reverse is true and a higher proportion of equity is required.
2. An application is not a commitment.
3. Most committments are conditional. Get all of the conditions with the application in order to negotiate them. Negotiating after commitment is often not possible. When the lender wants the loan they often fight for the borrower before the loan committee. After the committment is issued it is more difficult.
4. All appraisals and reports should be supplied to the borrower. Lenders will agree to that in the application. If the loan closes without having this in writing, then it becomes more difficult to get the lender to provide them. You want to have these documents post-closing because they are helpful.
5. Get all your modifications up front before signing the commitment.
6. Make sure you have explored all the alternatives and have a thorough understanding of the marketplace.
7. Determine whether an institution or private lender will be best for your project.
8. Compare equity returns versus loan rates to determine what the capital stack should look like and structure the deal to be attractive in the loan market (see item 1).
9. Determine the marginal cost of leverage. The rate on a 75% loan versus a 65% loan can result in paying 20% interest for an extra 10% of loan proceeds.
10. Check for alternatives to loans such as subsidies for affordable housing, vendor financing from contractors and others, tenant financing, naming rights, local development corporations, etc.

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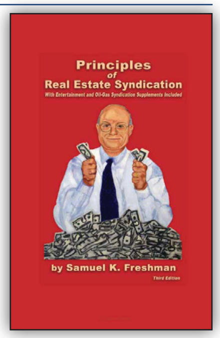
Yardi Voyager Upgrades

Standard has implemented new Yardi features to streamline operations and improve the tenant experience. **Rent Café** is an end-to-end marketing solution that integrates with Yardi Voyager offering tenant and prospect portals featuring full online leasing, online payments (one-time or recurring), service requests, lease renewals, social media, and attractive marketing sites. This allows us to attract prospects, retain residents, and assists staff in turning leads into leases. **Check Scanning** eliminates trips to the bank, lost checks, manual errors and reduces NSF risks. Scanned batches of checks are transferred electronically to our financial institution on the same day. Integrated online **Resident Screening** offers comprehensive reports from major bureaus, delivering a clear, consistent end-to-end screening process that supports our business rules. Workflow automation provides built-in control and cost savings with decision criteria tailored for each property. **Resident Shield** is a renter's insurance protection plan requiring tenants to have insurance. This reduces property risk from resident-caused loss and features reports to track success. The program includes easy enrollment and policy-holder assistance.

Publications Available on Amazon.com

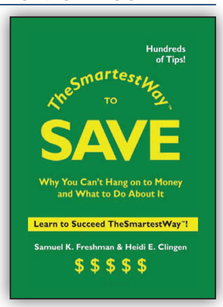
"Principles of Real Estate Syndication"

"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. Purchase on Amazon.com.



"The Smartest Way to Save: Why You Can't Hang on to Money & What to Do About It"

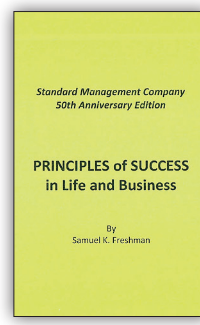
"The Smartest Way to Save: Why You Can't Hang on to Money and What to Do About It" is a must-read for those wanting to improve their lives through easy-to-follow money management principles. Purchase on Amazon.com.



Sam's Newest Publications

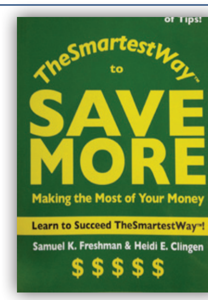
"Principles of Success in Life and Business"

The PRINCIPLES of SUCCESS in Life and Business summarizes Sam Freshman's knowledge for achieving success. For a complimentary copy, contact Cindy Anderson at Standard Management: Phone (310-410-2300, ext. 306) or email canderson@standardmanagement.com.



"The Smartest Way to Save More: Making the Most of Your Money"

"The Smartest Way to Save More: Making the Most of Your Money" is Sam Freshman's newest book. It is a follow-on to "The Smartest Way to Save: Why You Can't Hang on to Money and What to Do About It" with many additional ways to save. It is available for purchase on Amazon.com. Check it out!



Book Award for Co-Authors Sam Freshman & Heidi Clingen

Co-authors Sam Freshman and Heidi Clingen's book, "The Smartest Way to Save More: Making the Most of Your Money," has received the 2013 Book Publicists of Southern California "Best Self-Help Book" IRWIN Award. Readers of the book can spend less, save more, and enrich their lives with true value. "The Smartest Way to Save More" is the second book in the Smartest Way to Save series with a third book in the works, due to be out in 2014.