

SPRING 2013 NEWSLETTER

LETTER FROM SAM



Dear Friends,

The last two months were the busiest in a long time. (Equity purchases of property are showing 5-6% tax sheltered cash flow returns with inflation protection and equity growth.) The last newsletter described the acquisition of The Boulders, a 276 unit apartment project in Reno, Nevada. Inquiries have already been made above the acquisition price though the property was acquired for long-term investment. We used a line of credit to purchase, intending to retain at least 25% of the \$7,548,000 equity. An investment group has committed to take 24% and a limited number of Class A membership interests are available. If you are

interested, give us a call. More about this investment appears on page 3.

Loans secured by first trust deeds continue to produce investor cash distributions of 8% or more and we have several loans over \$1,000,000 in progress. More information is on page 3.

Andrew Van Tuyle has joined as Chief Operating Officer and Itamar Gelbman has become part of the Standard Management Team as Vice President of Residential Asset Management (see article on page 2). We are upgrading our operational systems, adding the ability for residents to pay rent and for tenants to apply for apartments online.

The Smartest Way to Save that came out last year is now followed by a second book, *The Smartest Way to Save More* (see page 4). The last in the series, *The Smartest Way to Save Big* is being put together and should be available in six months.

Why do things not turn out as expected? Our best investments are often entered into with trepidation and others thought to be big winners turn out just to be average (which is still very satisfactory). You will find suggestions on page 2 of several books that help to understand this phenomenon.

Best Regards, Samuel K. Freshman

OBSERVATIONS FROM THE 2013 ICSC CONFERENCE

1. The consensus among attendees and various panels was that interest rates will remain at their current levels for 12-24 months with possible slight increases up to 20-25 basis points. However, many conferees are concerned with "black swan" events and cautioned that items such as crisis on the international or the local scene were not considered.
2. Expectations are that interest rates will be substantially higher in the future. Exit strategies based on lowering exit cap rates at 50 basis points as many are doing is inadequate. Interest rates may be as high as 6% on exit in 10 years, up from around 4% now. On the other hand, there is some feeling that if progress is not made to reduce sovereign debt substantially, governments will keep rates low beyond the immediate term.
3. Cap rates may continue to decline as the spread between cap rates and t-bills are at a historical high.
4. With increasing rents and occupancies there is expectation of appreciation in well-located properties in major MSAs. There is also a movement among institutional investors towards prime locations in secondary and tertiary cities.
5. Investors complained of shortage of product and there were a number of major projects being started. National credit tenants were looking to expand in core markets. There were also many new concepts.
6. The convention was definitely optimistic about prospects for retail despite the inroads of internet retail.
7. There seemed to be movement from blue states with budgetary problems to the red states that have control over their finances and lower unemployment.
8. Note: These are my observations and others may have differing opinions. Not as many goodies were given away as in the past, but the conference was well attended and one of the top conventions I have attended over the last 30 years.

WHY THINGS TURN OUT DIFFERENTLY THAN EXPECTED

Things do not always go as planned. Here are some books to help get results you want.

1. *Freakonomics: A Rogue Economist Explores the Hidden Side of Everything* by Steven D. Levitt & Stephen J. Dubner
2. *The Half-life of Facts: Why Everything We Know Has an Expiration Date* by Samuel Arbesman
3. *The Black Swan: The Impact of the Highly Improbable* by Nassim Nicholas Taleb
4. *Contagious: Why Things Catch On* by Jonah Berger
5. *Decisive: How to Make Better Choices in Life and Work* by Chip Heath & Dan Heath
6. *Antifragile: Things That Gain from Disorder* by Nassim Nicholas Taleb

A PROPERTY WE ONCE OWNED

The Clock Tower, completed in 1929, is an office building in Santa Monica on the Third Street Promenade. Rents are as high as \$6 per square foot – double that of skyscrapers in Los Angeles. In 1968, Standard purchased it for \$1,403,000 and sold it in 1974 for a return on equity (IRR) of 20.1% (11.8% unlevered). The Tower was recently purchased for \$34.4 million from the current owner. Buying is not the problem. It is more difficult to know when to sell. Often never!



HIGH PERFORMANCE PROPERTIES

The Timbers Apartments in Lawton, OK, the Lakeside Shopping Center in Burbank, CA, and the Lancaster Mobile Home Park are generating high monthly returns, and two are now owned free-and-clear, adding to their impressive performance. Current cash flows are higher than the equity required at acquisition.

SMC HIRES NEW COO & VP OF RESIDENTIAL ASSET MANAGEMENT

Andrew Van Tuyle has joined Standard Management as its new Chief Operating Officer. Mr. Van Tuyle has been active in the acquisition, finance, brokerage, operations and management of commercial real estate for over 15 years. Andrew's purview is legal, property and asset management, HR and accounting. He has handled the closing of over \$2 billion in transactions in over 20 states, and is experienced in all major real estate asset classes. Andrew was named one of the Real Estate Southern California's "Top 40 under 40" real estate professionals and was chosen by Commercial Property News as a "Star to Watch." He has a bachelor's degree in Accountancy from the University of San Diego, and is involved with various local charities and business associations.

SPEAKING ENGAGEMENTS

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

January 29, 2013	Beverly Hills Bar Association
February 8, 2013	Secrets of Successful Syndication - Sheraton Gateway Los Angeles Hotel
March 6, 2013	UCLA Real Estate Investment Round Table Guest Speaker
October 4, 2013	SPIRE Stanford Real Estate Honors Banquet
November 14, 2013	SPIRE Hall of Fame Induction Banquet

McHENRY VILLAGE CASH FLOW IMPROVEMENT

New tenants at McHenry include Furniture & More, Envy Fine Clothing, Christina's Fine Clothing & Shoes and David & David (Home Furnishings), Kobe Sushi Buffet, and La Parilla Mexican restaurant. Cash flow has improved due to a combination of rents moving up and refinancing the loan on the property. In March this year, a new loan resulted in dramatically lower debt service.

Property	Interest Rate Before Refi	Annual Payment Before Refi	Interest Rate After Refi	Annual Payment After Refi
McHenry Village, Modesto, CA	5.980%	\$1,364,040	4.515%	\$1,157,280

Total Annual Cash Flow Increase: ~\$206,760



McHenry Village, Modesto, CA

INSURANCE SAVINGS

Standard Management Company has renewed its blanket insurance policy program for the June 2013-14 calendar year for all of its properties. The new policy has increased coverage while simultaneously saving SMC ~\$60,000 per year versus the prior policy, a savings of about 10%.

Itamar Gelbman is a seasoned real estate asset manager with nearly a decade of experience in managing retail and multi-family properties nationwide. As Vice President of Residential Asset Management, Itamar oversees the day to day operations of SMC's apartments.

Itamar holds a California Broker license and is currently a CCIM and CPM candidate. He has a bachelor's degree in Computer Science and Business Management from the Tel Aviv University, is a former Israeli Defense Force Lieutenant, former reserve Tel Aviv Police Officer, and volunteers as a Search and Rescue Operator for the U.S. Air Force, Civil Air Patrol.

THE BOULDERS APARTMENTS ACQUISITION - UPDATE



Standard Management Company purchased The Boulders Apartments, a 276 unit garden style apartment project in Reno, Nevada and one of the leading apartment communities in its market. When purchased, The Boulders was stabilized (occupancy at ~94%), but leasing and retention efforts have increased occupancy to ~99% by implementing selected interior upgrades including brushed nickel hardware for doors and other interior fixtures, replacing carpet with wood laminate, and upgrading cabinets and countertops. Exterior improvements have focused on paint and replacing garage doors with other improvements on the way. Rental rates in turn have increased. Attention to detail and the community feel of The Boulders make it a great place to live, and the Reno News & Review's annual "Best of Reno," named The Boulders the best Reno apartment four years running.

The property is in a master-planned area with excellent freeway access, close to a variety of shopping centers and public walking and biking paths and nature areas. Local Roy Gomm Elementary is among the few public schools in Nevada to receive a rating of 10 out of 10 from GreatSchools.org. Nearby colleges are the University of Nevada, Reno, and Truckee Meadows Community College. Apartments have 9-foot ceilings on the first floor, walk-in closets, and full-sized washers and dryers. Amenities include a clubhouse with a fireside lounge, business center, a pool and spa, a kids' play area, and a fitness center. All units have private balconies or patios with storage areas, fireplaces and roman tubs. Reno is business-friendly and Nevada benefits from its low-tax status compared to California and has no tax on business or personal income, estates / inheritance, gifts or inventory.

The Boulders investment is available to accredited investors with returns to Class A investors over 10 years estimated to be \$2.02 (pre-tax) for every \$1.00 invested, including quarterly distributions and appreciation on a sale after 10 years. This is an annual average non-compounded return of approximately 10.2%, and an internal rate of return (IRR) of 8.6%. Subscriptions are available to accredited investors.

THIS OFFERING IS ONLY BEING MADE TO ACCREDITED INVESTORS (AS DEFINED BY THE SEC).

For more information contact: Samuel K. Freshman - (310) 410-2300
sfreshman@standardmanagement.com

SHAFTER ALMOND ORCHARD

Standard Management Company acquired an almond orchard in 2005, located in Kern County - the county with the highest almond production in the country - initially a shopping development site. With the rise in almond prices, annual net income has averaged approximately 12% of the cost basis, an example of reality not following expectations.

SMC ACHIEVES PROPERTY TAX SAVINGS

Standard Management has successfully re-assessed property values for two properties in the Las Vegas area, Cabana Club and Bay Breeze. By reducing the assessed values by over \$600,000 and \$2,000,000 respectively, the combined tax burden was reduced by nearly \$28,000 per year. Additional re-assessment efforts are ongoing.

STANDARD MANAGEMENT COMPANY LOAN PROGRAM

Standard Management Company provides loans on commercial properties secured by first trust deeds. These loans have been producing approximately 8% returns for investors, and several additional loan requests are being processed, including an office building in Arizona, shopping centers in California and Ohio, an automotive repair center in California, and an industrial complex in California.

Our associate broker has also arranged financing for two hotels at Sacramento International Airport and an additional hotel near University of Southern California's Medical Center, as well as being involved in site selection and other key development decisions.



Standard Management Company
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HOW TO SYNDICATE SUCCESSFULLY



1. Master due diligence and get adequate time.
2. Have skin in the game.
3. Do not overload front end costs.
4. Subordinate sponsor's

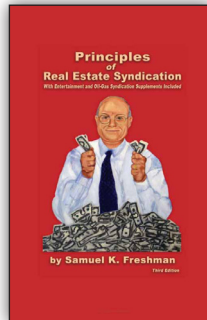
compensation to investor's pref.

5. Be conservative with projections.
6. Control project before presenting to investors.
7. Have qualified, experienced professionals preparing the offering materials.
8. Do not overleverage.
9. Use fixed rate financing, do not speculate on rate stability.
10. Educate groups but present projects to individuals.
11. Use a broad network and contact everyone to present.
12. Match investor goals to product.

PUBLICATIONS AVAILABLE ON AMAZON.COM

"PRINCIPLES OF REAL ESTATE SYNDICATION"

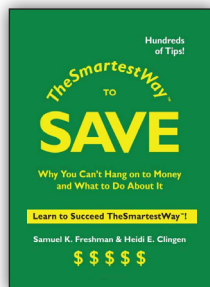
"Principles of Real Estate Syndication" continues to be the leading book on group investing in Real Estate and has been revised to include information on tenants-in-common (TICs) as well as recent developments in taxation and securities law affecting real estate syndicates. Purchase on Amazon.com.



"THE SMARTEST WAY TO SAVE:

WHY YOU CAN'T HANG ON TO MONEY & WHAT TO DO ABOUT IT"

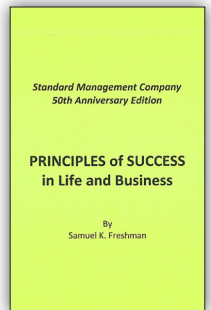
"The Smartest Way to Save: Why You Can't Hang on to Money and What to Do About It" is a must-read for those wanting to improve their lives through easy-to-follow money management principles. Purchase on Amazon.com.



SAM'S NEWEST PUBLICATIONS

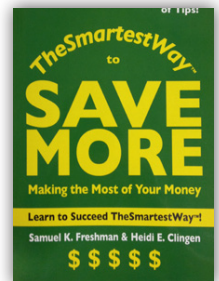
"PRINCIPLES OF SUCCESS IN LIFE AND BUSINESS"

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 will be available on Amazon.com soon. Watch for it!



SAVE THE DATE!

SPIRE (Stanford Real Estate Alumni Association) will hold its Hall of Fame banquets on October 4, 2013 6:00pm -9:00pm at the Arrillaga Alumni Center at Stanford and November 14, 2013 at the California Club in Los Angeles. Honorees are Bowen "Buzz" McCoy '58 Former General Partner of Morgan Stanley Real Estate and Bill Tooley '56 of Tooley and Company. For sponsorship and ticket information call Cindy Anderson at (310) 410-2300 Ext. 306 or canderson@standardmanagement.com. Over 300 Real Estate industry leaders will attend and it is a great networking opportunity. Details on enclosed flyer.