opportunity to succeed.

# Acquisitions:
# How Money Can Be Made in Real Estate

Don Henry, CFA - Rosemont Realty - Chief Investment Officer

2014 EVERY BUILDING CONFERENCE & EXPO
Presented by BOMA International and *BUILDINGS*

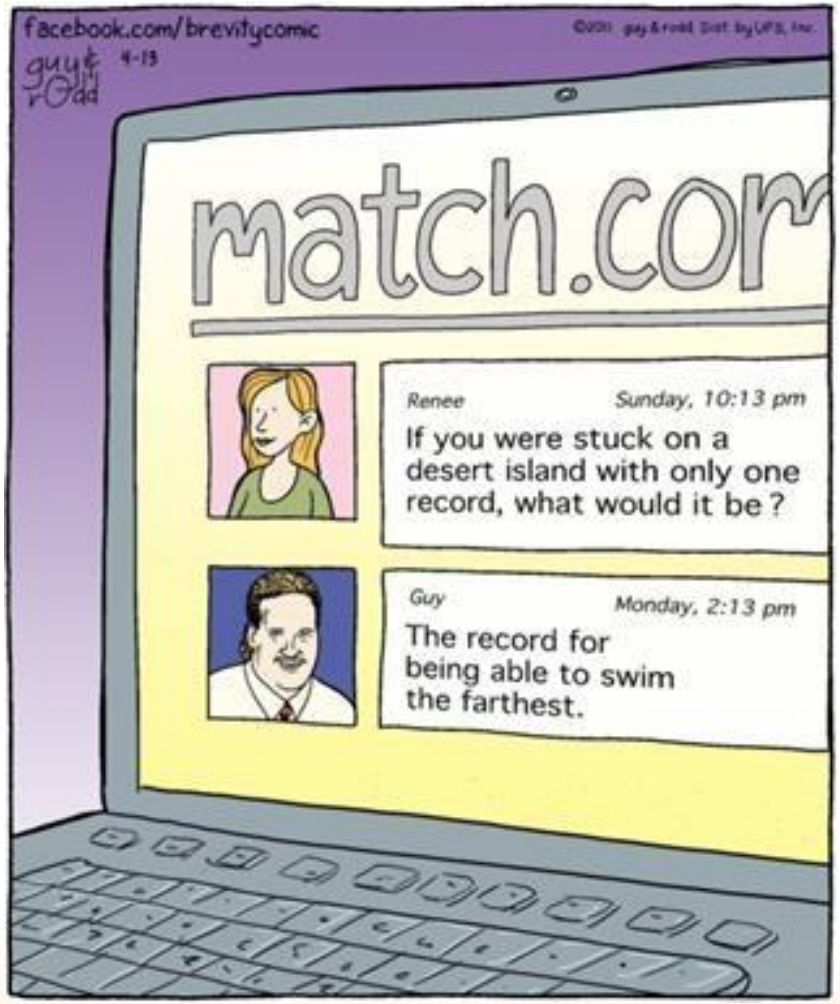
GAYLORD PALMS CONVENTION CENTER
June 22-24, 2014 • Orlando, Florida

# Investment Strategy

- Property type
- Risk Tolerance/Return Expectations
- Markets
- Specialty – Green Strategy

# Relationships

- "You can never have too many friends"
- Access to Deal Flow
- Market Intel
- Underwriting Assistance



# Team Members

- Transaction Team
- Investment Committee
- Third Party Professionals

# Acquisition Pipeline

- Cast a wide net
- Suitability
- Probability of Success

# Review of Offering Memorandum

- Market, Building, Tenant and Financial Information
- Factual/Seller's Spin & Assumptions

# Underwriting

- Price Deals
- 10 Year Cash Flows
- Based on Executed Leases & Assumptions

| Assumptions | |
|---|---|
| *Cap Rate* | *8.00%* |
| *Discount Rate* | *10.00%* |

| | *1* | *2* | *3* | *4* | *5* | *6* |
|---|---|---|---|---|---|---|
| | *Year 1* | *Year 2* | *Year 3* | *Year 4* | *Year 5* | *Year 6* |
| **Income** | | | | | | |
| Potential Rental Income | 11,880,338 | 12,430,106 | 13,452,359 | 14,230,530 | 14,747,337 | 15,774,366 |
| Reimbursement Income | 7,653,710 | 8,873,919 | 9,089,265 | 9,394,108 | 9,556,661 | 10,076,709 |
| Other Income | 845,690 | 852,793 | 870,025 | 892,556 | 915,683 | 941,541 |
| **Total Income** | **19,979,738** | **21,806,798** | **23,411,649** | **24,517,194** | **25,219,681** | **26,792,616** |
| **Expenses** | | | | | | |
| Utilities | 1,349,051 | 1,445,673 | 1,494,141 | 1,538,284 | 1,568,428 | 1,637,575 |
| Building Maintenance | 2,753,590 | 2,870,162 | 2,959,329 | 3,047,690 | 3,129,227 | 3,236,714 |
| Administrative Expenses | 633,738 | 652,754 | 672,332 | 692,499 | 713,278 | 734,677 |
| Management Fees (3.00%) | 599,393 | 654,204 | 702,349 | 735,516 | 756,591 | 803,778 |
| Insurance | 145,000 | 149,350 | 153,831 | 158,446 | 163,199 | 168,095 |
| Real Estate Taxes | 3,371,220 | 3,537,780 | 3,712,620 | 3,823,992 | 3,938,712 | 4,056,873 |
| Non-Recoverable | 315,010 | 324,461 | 334,194 | 344,220 | 354,547 | 365,183 |
| **Total Expenses** | **9,167,002** | **9,634,384** | **10,028,796** | **10,340,647** | **10,623,982** | **11,002,895** |
| **Net Operating Income (NOI)** | **10,812,736** | **12,172,414** | **13,382,853** | **14,176,547** | **14,595,699** | **15,789,721** |
| **Sale Value** | | | | | **197,371,513** | |
| **NPV of Cash Flows** | **9,829,760** | **10,059,846** | **10,054,736** | **9,682,772** | **131,614,961** | |

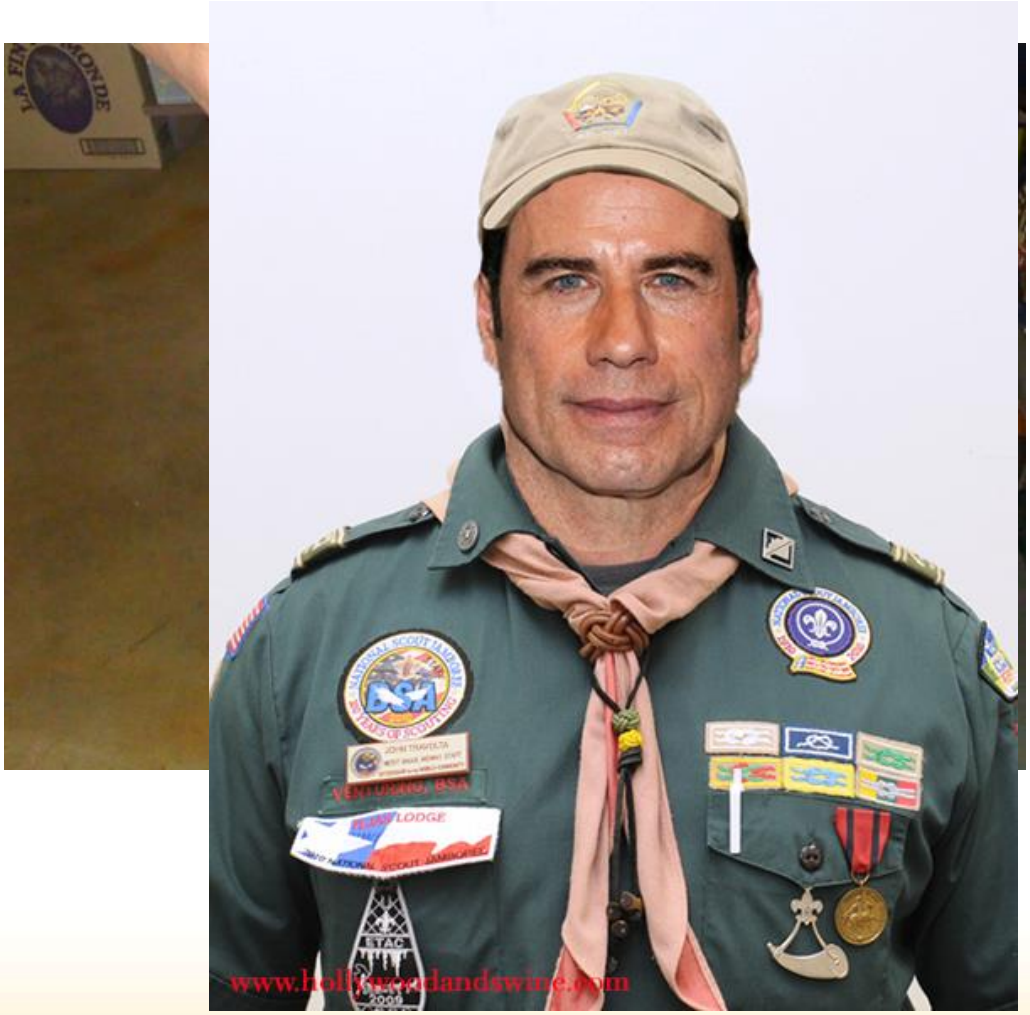
| | |
|---|---|
| **NPV of Future Cash Flows** | **171,242,076** |

# Initial Bid

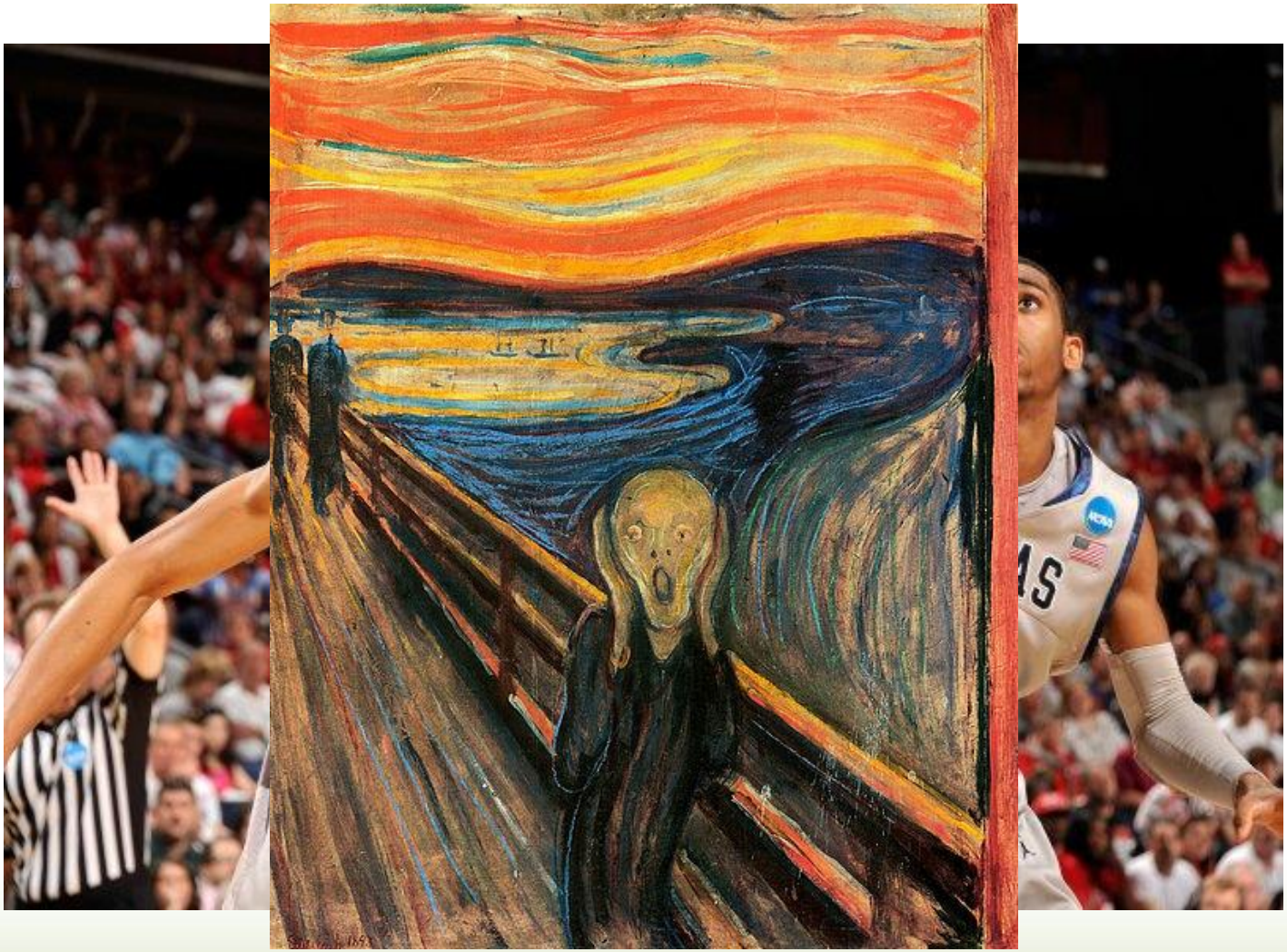
- Balance Being Competitive vs. Overpaying
- Consult with Market Experts
- Review of Past Transactions

# Best and Final

- Tap Market Intel
- Play Relationship Card
- Revise (Raise) Bid
- Convey Dependability



# What If You Lose?



# Due Diligence

- Physical Due Diligence – Structural, Systems, Environmental, etc.
- Title and Survey
- Lease Review and Abstracts
- Review of Service Agreements, Contracts, etc.
- Tenant Interviews

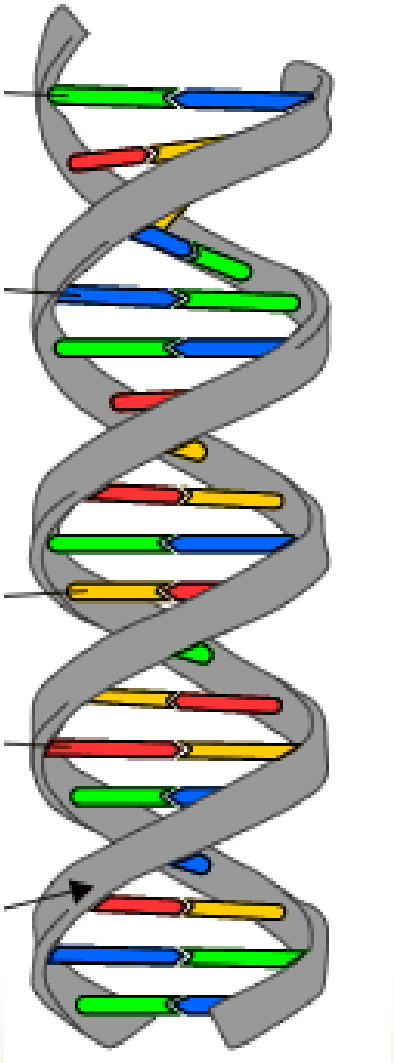
# Purchase and Sale Agreement

- Legal Focus
- Reflect Business Understanding
- PSAs Currently Reflect a Sellers Market

# Closing

- Legal Documentation Complete – contract assignments,  estoppels and SNDAs
- Accounting prorations
- Closing Dinner

# Successful Buyer Traits



# Indications of a Frothy Market

- PSA Comments During Best and Final
- Hard Money Up-Front
- Waive Due Diligence

# Role of Property Manager

- Opinion on Building's Positioning and Reputation
- Maintenance History/Deferred Maintenance
- Assist in Underwriting Expenses

# Questions and Answers

- Ball's in your court. Ask them… I'll answer them…