

Identifying medium to long-term speculative holding property investments

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Definition of a speculative holding property:

- Time frames-Short (0 to 3 years), Medium (3 to 10 years), Long (10 to 25 years).
- The time frame for development is the key factor that distinguishes holding properties and also sets values.
- It is frequently assumed that the concept of "highest and best use" must be associated with some form of immediately productive use.
- However, owners awaiting certain **events in the marketplace**, which may, at some point in time, command a specific use or development, frequently hold sites in a vacant state. (Medium to Long Term H.P.'s)
- In other words, "holding use" is a legitimate highest and best use in its own right (speculative holding property).
- Holding properties with uncertain use potential and long holding horizons are often bought and sold simply as a commodity.
- These types of properties seem to move up and down with the general real estate cycle. (Medium to Long Term H.P.'s)
- Holding properties generally appeal to investors that have a long range view.
- More importantly, they can be acquired by parties who need to control certain lands due to their ownership interests in adjacent lands, and they are not as time sensitive as other types of investors.

Content of Presentation:

- A practical overview of real estate investment strategies, with a focus on finding unique opportunities in the market that may generate large returns.
- We will start with a quick examination of the six basic real estate acquisition options and rate them accordingly:
 - #1-Primary Residence,
 - #2-Developing new,
 - #3-Renovation,
 - #4-Existing investment property,
 - #5-Short, Medium and long-term holding properties, and
 - #6-Recreational Property.
- Then the focus will be on #5; the short to long-term speculative holding properties.
- They have special appeal due to their ability to generate significant capital appreciation.
- To provide tips on investment strategies for speculative holding properties that can generate significant capital appreciation, even in a down market.
- Designed for those with a long term investment approach, who do not have to rely on an immediate income from their real estate.
- Explain the impact that time (the projected development horizon) can have on values, risk and returns. Shorter horizon, higher initial purchase price.
- Does the longer the hold, necessarily mean the higher the risk?
- Assumption is that my audience derives income from other sources.
- With the potential comes added risk, so mitigating this risk is important.
- Local examples will be sourced and quoted.
- Designed for those starting, expanding, or diversifying a real estate portfolio.
- How to raise equity, financing options, partnerships are also covered.

Not an Expropriation topic, we are here to discuss how to participate and how to find unique speculative holding properties

Six basic real estate acquisition options as of October, 2007:
The More Points, the Better Option

	Project Type	Risk of 10	Profit of 10	Create a Job-10	Total Out of 30
1.	Primary Residence	10	9	4	23
2.	Development – Immediate	4	6	8	18
3.	Renovate to hold or sell: Residential	5	7	7	19
	Renovate to hold or sell: Commercial	4	7	7	18
4.	Income producing to hold	8	4	5	17
5.	Holding Properties: - Short	7	7	5	19
	- Mid to Long	8	8	4	20
	- Land	7	6	4	17
6.	Recreational Property	7	5	3	15

OVERVIEW: SPECULATIVE HOLDING PROPERTIES

- What are we trying to accomplish - Investment
- No manual for what we are doing
- Research/one in 50 deals are a go
- Think out of the box for opportunities
- Focus on:
 - Timing/Development horizon
 - What's doable \$ wise
 - Your market area/expertise
 - Identify project type early
 - Be able to move quickly
 - Balance of risk and return.
- Triggers for the big lifts

No Control	Can Control
- Market/Timing	- Good site selection
- Luck	- within means/budget
- Lack of money/finance	- lots of value upside
- timing/development horizon	- what are the potential big hits
-	- ability to move quickly
-	- have good partners/team
-	-
-	-
-	-
-	-

- Raising equity/financing/partnerships
- Long term approach
- Mitigating risk: Holding Income (Micro & Macro) properties that will perform well in a down market

Check list for Project & Site Selection: 3 STEPS

STEP 1: Starting

1. Identify 1 of 6 six projects

2. Identify Project size (\$) & location

3. Site search process

4. Initial feasibility- 1st preliminary cut-values, Comparables

5. Negotiation

STEP 2: Property tied up (due diligence period):

6. KNOW YOUR FACTS

(a) Market analysis:

- 1. Know the values: Sales and Listings
- 2. Demographics and trends
- 3. Absorption rates: Supply and Demand

(b) Projected sales prices or revenues:

- 1. Unit mix to meet market/sensitivity analysis
- 2. Prices
- 3. Marketing costs

(c) Development Costs:

- 1. Hard Costs
- 2. Soft Costs
- 3. Finance Costs
- 4. Project Management
- 5. Miscellaneous / unknown / contingency

(d) Final Project Evaluation and Profit:

- 1. Complete the pro-forma
- 2. Evaluate the risks-3 scenarios to identify the downside
- 3. Profit- % of Costs/Revenues/ ROE
- 4. NVP's and time value of money
- 5. Inflation factors

(e) Zoning and Planning:

1. Zoning Bylaw/ Discussions with Planners
2. Official Community Plan
3. Other Regulations
 - Heritage & Trees
 - Environment/fisheries
 - Fees, DCC's, Taxes, Engineering
 - Building permits etc
4. Legal Survey
5. Encroachments, Covenants and Easements
6. History and Other Applications
7. Future Infrastructure (Schools, Roads, Parks, Jobs, Growth)

(f) Site conditions:

1. Buildings and History
2. Talk to neighbours
3. Discussions with City staff
4. Access / Roads (easements etc.)
5. Topography
6. Services
 - Water (piped or wells)
 - Sewer (at site or where)
 - Drainage (surface / subsurface)
 - Gas, hydro, cable
 - Schools, shopping, hospitals
 - Fire, police
7. Hazards: environmental, services, soil etc.
8. Geology and Soils
9. Wildlife and Habitat (potential)
10. Land Features (rock outcrops, lakes etc)
11. Views: in and out of the site
12. Vegetation (type, condition and age)
- 13 Local climate (wind, sun, and rain)
14. Air (noise, visual and other pollution)

STEP 3: READY TO REMOVE SUBJECTS AND BUY A SITE
First, go through Steps 1 and 2 three more times.

RETURNS FROM SPENDING ON RENOVATIONS
http://www.aicanada.ca/renova/resourcecenter_renova.cfm

Renovation	Expected Costs	Expected Return
<u>Basement Renovation</u>	\$ <input type="text" value="50000"/>	\$25,000.00 - \$37,500.00 (50% - 75%)
<u>Bathroom Renovation</u>	\$ <input type="text" value="10000"/>	\$7,500.00 - \$10,000.00 (75% - 100%)
<u>Install Central Air Conditioning</u>	\$ <input type="text" value="10000"/>	\$2,500.00 - \$7,500.00 (25% - 75%)
<u>Recreation Room Project</u>	\$ <input type="text" value="5000"/>	\$2,500.00 - \$3,800.00 (50% - 75%)
<u>Install a Fireplace</u>	\$ <input type="text" value="5000"/>	\$2,500.00 - \$3,800.00 (50% - 75%)
<u>Flooring Upgrade</u>	\$ <input type="text" value="10000"/>	\$5,000.00 - \$7,500.00 (50% - 75%)
<u>Furnace/Heating System Upgrade</u>	\$ <input type="text" value="5000"/>	\$2,500.00 - \$4,000.00 (50% - 80%)
<u>Kitchen Renovation</u>	\$ <input type="text" value="50000"/>	\$37,500.00 - \$50,000.00 (75% - 100%)
<u>Landscaping</u>	\$ <input type="text" value="10000"/>	\$2,500.00 - \$5,000.00 (25% - 50%)
<u>Exterior Paint</u>	\$ <input type="text" value="10000"/>	\$5,000.00 - \$10,000.00 (50% - 100%)
<u>Interior Paint</u>	\$ <input type="text" value="8000"/>	\$4,000.00 - \$8,000.00 (50% - 100%)
<u>Add A Swimming Pool</u>	\$ <input type="text" value="30000"/>	\$3,000.00 - \$12,000.00 (10% - 40%)
Renovation	Expected Costs	Expected Return
<u>Window/Door Replacement</u>	\$ <input type="text" value="20000"/>	\$10,000.00 - \$15,000.00 (50% - 75%)
<u>Roof Shingle Replacement</u>	\$ <input type="text" value="10000"/>	\$5,000.00 - \$8,000.00 (50% - 80%)
<u>Build a Deck</u>	\$ <input type="text" value="10000"/>	\$5,000.00 - \$7,500.00 (50% - 75%)
<u>Construct A Garage</u>	\$ <input type="text" value="20000"/>	\$10,000.00 - \$15,000.00 (50% - 75%)
<u>Build a Fence</u>	\$ <input type="text" value="3000"/>	\$800.00 - \$1,500.00 (25% - 50%)
<u>Install a Skylight</u>	\$ <input type="text" value="2000"/>	\$0.00 - \$500.00 (0% - 25%)
<u>Interlocking Paving</u>	\$ <input type="text" value="2000"/>	\$500.00 - \$1,000.00 (25% - 50%)
<u>Asphalt Paving</u>	\$ <input type="text" value="2000"/>	\$400.00 - \$1,000.00 (20% - 50%)
Totals:	\$272,000.00	\$131,200.00 - \$208,600.00