



Wert-Berater, Inc.

---

## Case Study One

---

Due Diligence – Risk Management

---

Distressed Multi-family development

---

## Case Study One

### *Background*

Wert-Berater, Inc. is a Delaware Corporation formed in 2009 as an extension of VTN Consulting in a joint venture program to provide services to developers, municipalities, commercial and investment banks, hedge, pension and mutual funds specializing in distressed, to-be-completed, renovation and operating real estate assets. The mission of Wert-Berater, Inc. is to provide purer analytical vision, optimal capital allocation decision making and enhanced multi-faceted financial and risk modeling to our clients. Our vision is of One Team, one which is totally committed to establishing a legacy of focused analytical insight and improved risk and asset management.

The principals of Wert-Berater, Inc. include professionals who possess significant experience in all asset classes on a global basis. Our staff combined with VTN Consulting is about 166 professionals located in various offices. VTN Consulting has been in business since 1960. Thus, we provide the experience and diversification of know how to serve all sizes of investment firms.

Our staff includes over 100 professional engineers (P.E.), MAI appraisers, Masters in Economics, Masters in Business, LEED Certified, and a support staff of highly skilled professionals who possess at least five years experience in commercial, multi-family, industrial, marina, office, hospitality, resort, congregate care, senior living, land development, energy, and municipal development.

### *The Deal*

Our client is a distressed asset real estate opportunity fund located on the west coast of the United States. Their specialty is multi-family acquisitions on distressed complexes in various domestic locations. This acquisition was for a complex as described in the following sections. The turn time required for funding was 30 days.

Wert-Berater, Inc. was engaged to provide expedient services for appraisal, feasibility and engineering services. A complete detail is as follows:

## Case Study One

### Services

Our services are custom tailored to meet the needs of our clients. The scope of our abilities and experience is as follows:

- Feasibility Studies
  - To be developed properties
  - Repositioning properties
  - Studies include complete site engineering studies for wet/dry utilities, entitlements, and other site factors.
- Asset Management
  - Special fund on going
  - Primary fund on going
  - Reporting to fund investors via Wert-Berater Portal, on-line secured program
- Portfolio Risk Management & Valuation
  - Asset by asset risk assessment and valuation on going
- MAI Certified Appraisals
- Highest and Best Use Studies
  - Land and repositioning projects
- Public Works
- Land Planning
- Traffic Engineering
- Construction Administration
- Land Development
- Surveying and GPS
- GIS – Geographical Information System
- Entitlement Tracking
- LEED Consultant
- Construction Consulting Services
  - Project disbursement review
  - Progress assessment reporting
  - Mechanics lien and lien release review
  - Estimate cost to complete
  - Construction documents review
  - Completion bid package
  - Oversee repositioning and to-be-completed project management

## Case Study One

### **Case Study One**

#### Multi-family project acquisition

Project Summary	398 units garden style two story complex comprised of 50 four-plex buildings and 33 six-plex buildings, common areas, 3,800 square foot clubhouse and three pool areas and 4.1 acres of entitled expansion land. Density approved is for 12.7 dwelling units per gross acre. The subject is comprised of 240 2 bed/2 bath 1,100 SF and 158 3 bed/2 bath 1,210 SF units. The completed units are 334 count, whereas 71 are privately owned as condominiums, thus leaving 263 units for rent/sale and 64 units to be completed.
Project Status	Project is in default with lender. Seller is owner seeking short sale. Short sale is for \$33,456 per door, or about \$10,940,112 including the 4.1 acres of expansion land.
Project factors	<p>Project is 61 percent leased.</p> <p>Of the 398 units, 71 we sold off by prior owner as privately owned condominiums.</p> <p>Thus, acquisition is for remaining 327 apartment units that have been mapped for condominiums and homeowner's association.</p> <p>Expansion land – 4.1 gross acres</p> <p>Of the remaining 327 units, 64 are partially completed in various stages of construction. 199 units are leased and 64 are unoccupied.</p>
Opportunity	Our client seeks to acquire the subject property in a quick purchase of about 30 days.
Constraints of Acquisition	30 day close, all cash. Capital investor requires MAI appraisal and complete due diligence package 15 days prior to funding.
Market Conditions	Limited financing for take out loans for condominium units to be sold off. Rental market is depressed in that rental rates in the market area are about \$0.64 per square foot per month average, declined from \$1.07 years earlier. Leasing requires credit flexibility resulting in increases in lost rents. Concessions have increased up to 2 months free rent for highly qualified occupants and 1 month free for lesser qualified occupants.
Market	The complex is located within the suburbs of mostly single-family residential developments. Employment nodes are within reasonable proximity. However, an increasing office, retail and industrial vacancy has lead to a locally depressed economy making leasing and sale efforts difficult. Shopping and ancillary commercial services are located in close proximity of the subject project.
Competitive Analysis	Within a 3 mile radius of the subject project, about 690 units are being completed. One other project is in default and has reduced rental rates in an effort to cover debt service. Overall market vacancy is about 9.6 percent.
Project Analysis	Economic vacancy about 29.4 percent below market for the subject's rentable 325 units (2 units for models). Project upon inspection appears to have about \$325,000 in deferred maintenance, or about \$1,000 per unit. Homeowner's association is underfunded due to the 16 foreclosures on the 71 units. Of the 71 condominium units about 45 percent are owner occupied, the remaining units are investor held properties rented at about 87.6 percent of market rents on average without centralized management. Tax assessments are 12 months delinquent for about \$182,284.

## Case Study One

**Expansion Land Area** The 4.1 acres is entitled for an additional 52 units and is contiguous to the mostly completed subject project. Some engineering work has been completed. City requires construction to commence within 9 months to retain entitlements.

**Condominium Analysis** Recent sales in the area indicate that condominium sales are stagnant, but moving slowly. Of the 86 units on the market within a 3 mile radius, the price range is from \$65.43 to \$71.50 per square foot. Mostly depressed market selling below replacement cost. Thus 2 bedroom 2 bath units has a sale price range of about \$71,970 to \$78,650 and 3 bedroom 3 bath units range in price at about \$79,170 and \$86,500 per unit. End units tend to sell for about 3 to 5 percent premium. Poolside units sell at a premium adding on average about 5 percent over non-pool units. Sale pace in the area has been about 2 to 4 units per month, FHA financing dependant on seasonal trends. The subject is constrained due to high number of investors owning units. No foreclosures in the subject property have been transacted as of the estimated date of closing by our client, leaving an opportunity for our client to acquire distressed units. Homeowners association has about \$17,424 in past due collections, thus is underfunded. Foreclosures are expected to pay about 41% of past due amount, leaving about \$10,280 remaining underfunded.

Wert-Berater, Inc.

Scope of Work  
Due Diligence

### PRE CLOSING – 15 DAY TURN TIME

Wert-Berater worked on behalf of our client and provided the following:

- MAI Appraisal was within 12 days of our engagement
- Development of business plan was completed in 13 days from engagement and included the following:
  - Financial analysis
    - Existing cash flows and operating expense report
    - Pro Forma of future potential cash flows
    - Sell/Hold analysis for unoccupied and uncompleted units
    - Analysis and appraisals of condominiums in foreclosure for potential acquisition
    - Project budget and Use of Funds development
  - Cost of completion for remaining units
    - Structural inspection and review
    - Obtain bids for completion
      - Review bids for completion
    - Construction document review
    - Review title reports and liens
    - Review requirements for Certification of Occupancy per unit to be completed
    - Develop budget
  - Determine hold/sell for 4.1 acres
    - Evaluation of entitlements
    - Evaluation of engineering
    - Off site conditions review
    - Utilities wet/dry review
    - Market analysis for to rent/sell opportunities
    - Land Valuation separate of project valuation
    - Preliminary Feasibility Study for construction of planned units
  - Market Analysis for both rentals and for-sale competition
  - Exit strategy determination
    - Sell/Hold/ Lease

POST CLOSING

- Provide on-going asset and market analysis on-line via Wert-Berater Portal
  - On -going project monitoring
    - Rental, Sell out, Construction Completion Progress Reports Weekly - Monthly
      - Budget Variance Reports
      - Market rental studies
      - Project valuation
      - Unit valuations
      - Construction budget variance reports
      - Partner IRR Analysis including Monte Carlo Simulations
      - Report changes in business plans
      - Risk Rating Reports weekly
      - Project Status Reports monthly
      - Report all changes in market or project which affect project and partner IRR at once
      - On-going feasibility study for sell-out-rental-construction
      - Asset manager assigned in-house from Wert-Berater to visit project weekly
      - Wert-Berater engineering provide entitlement tracking
      - Equity/Loan disbursement review
      - Draw request preparation and tracking
      - Maintain partnership distribution models and report appropriate distributions through treasury
      - Oversee completion of unfinished units by Wert-Berater unlimited contractor licensed staff on a consulting basis over General Contractor
      - Maintenance of lien waivers

All of the items were made available on-line via the Wert-Berater Portal program 24/7. All reports including:

- 1) Risk Rating
  - a. Monte Carlo Simulations of Project IRR, Partner IRR, Project Cash Flow, Project Value
- 2) Project Status Reports
  - a. Deal Added Value Strategy Updates
  - b. Capitalization Data Updates
  - c. Property Identification Updates
  - d. Project Status Updates
  - e. Asset Performance Updates
    - i. Asset Valuation
  - f. Tenancy Updates
  - g. Market Watch Updates
  - h. Issues and Follow Up Items Updates
- 3) Appraisals
- 4) Financial Analysis
- 5) IRR Analysis
- 6) Competitive Property Analysis
- 7) Market Rent Studies
- 8) Project Photographs

All reports were made available for current and past status. Participants in the project were provided with historical and current reports. Participants included the investor group, its capital partners and lender

## Case Study One

### *Competitive Advantage*

#### Reporting:

Our client in their equity were seeking to present transparency of their projects to the their investors via the Wert-Berater Portal whereas all project details are monitored and reported at once 24/7 via the secured on-line service. Moreover, real time market and project data is available for new deals that our client is seeking funding or refinancing. Interested investors may be granted a log-in key specific to a particular deal. The interested investor may also receive customized risk rating and IRR analysis for their planned investment. Moreover, VTN/ Wert-Berater have a history that dates back to 1960, thus being a well established reputable firm providing unbiased third party reporting on-going.

### *Advantages of Wert-Berater, Inc.*

Combined with VTN we have a large skilled staff located in Atlanta, Las Vegas, Newport Beach, Sarasota, Phoenix, Central America, and London.

- Fast turn times and responsiveness.
- Custom tailored reporting.
- Ad hoc reporting based on client's needs.
- No waiting for market reports, status reports, risk rating or valuations.
- All data per portfolio and each asset within your portfolio is available on-line 24/7.
- Ongoing consulting and tracking services.
- Well priced.