How We Do What We Do

Part 1: The Basics and Our Process

HighMark Equity Partners, LLC.

Commercial Real Estate Investments

HIGH-RETURN, SAFETY-FIRST, PASSIVE-INCOME
REAL ESTATE INVESTMENTS

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“Why” must always be answered *before* “How.”

HighMark Equity Partners' **mission** is to create and carefully oversee high-return, safe, passive-income streams for its investors, to free them to spend more time on their most meaningful life activities and goals.

Basic Concepts (1 of 3)

Seasoned investors and brokers may skip to: "Part 2: Investor Pmt and LLC Ownership"

- Net Operating Income (NOI)
- Capitalization Rate (CAP rate)
- NOI and CAP as they relate to Purchase Price

Net Operating Income (NOI) is calculated as:

All Income
– Expenses (not including mortgage payment, capital expenses, depreciation, amortization)
= NOI

Example:
$100,000 income
-$30,000 expenses
$70,000 NOI

Basic Concepts (2 of 3)

- Net Operating Income (NOI) ✔
- Capitalization Rate (CAP rate)
- NOI and CAP as they relate to Purchase Price

The CAP rate shows the relationship of a property's ***income*** to its ***purchase price***.
CAP is calculated by dividing NOI by Purchase Price.

Example 1:
$70,000 NOI / $1,000,000 Price = 0.07 CAP, "a 7 CAP."

Example 2:
$70,000 NOI / $700,000 Price = 0.10 CAP, "a 10 CAP."

Basic Concepts (3 of 3)

- Net Operating Income (NOI) ✔
- Capitalization Rates (CAP rate) ✔
- NOI and CAP as they relate to Purchase Price

The CAP rate shows the relationship of a property's ***income*** to its ***purchase price***.
CAP = NOI divided by Purchase Price.
Therefore a Purchase Price can be derived from NOI and CAP.

Example 1:
\$70,000 NOI / \$1,000,000 Price = 0.07 CAP, and therefore \$70,000 / 0.07 = \$1,000,000

Example 2:
\$70,000 NOI / \$700,000 Price = 0.10 CAP, and therefore \$70,000 / 0.10 = \$700,000

How We Find Deals (1 of 4)

- We look for properties that meet our strict, unvarying list of requirements; this lets us identify good deals very quickly.
- We look at every national CRE website every day: Loopnet, CoStar, Crexi, CPIX.
- We look at every property that comes on the market in the last 24 hours, every day.

What's our list of requirements for a property?   A property must:

- be offered at an 8 1/4 CAP or above
- contain 30% "credit tenants" (an S&P rating of BBB- or better ("investment grade")) and
- these credit tenants must have 5+ years (retail) or 3+ years (office) left on their leases and
- earn investors at least a 10% ROI at a *proposed* 10 CAP price. (See "How Investors Get Paid" slides)

How We Find Deals (2 of 4)

- A seller would normally list a property that meets our requirements (30% credit tenants, 5+ years left on lease)… at a 7 to 7 $^{3/4}$ CAP.
- When we see a property priced at an 8 $^{1/4}$ CAP or above, we know the Seller is motivated!

Q: Why would a Seller list their property below market price?

A: They <u>must</u> have *a need*, because if they were patient, they'd be able to sell in a 7- 7 $^{3/4}$ CAP range.

- Going back to the NOI section, I explained:

$$\frac{\text{NOI}}{\text{Purchase Price}} \quad \text{so} \quad \frac{\$70{,}000}{\$1{,}000{,}000} = 0.07 \text{ CAP}$$

We don't want that. But when we find:

$$\frac{\text{NOI}}{\text{Purchase Price}} \quad \text{so} \quad \frac{\$70{,}000}{\$850{,}000} = .0825 \text{ CAP}$$

When a property that meets all our requirements at an 8 $^{1/4}$ CAP, we'll *immediately* make an offer.

How We Find Deals (3 of 4)

Q: *How much* will we offer?

Using the NOI and the CAP to get a price) like this:

$$\frac{\text{NOI}}{\text{CAP}} = \text{Purchase Price} \qquad \frac{\$70{,}000}{0.0825} = \$850{,}000 \text{ (the price it's listed for)}$$

A: We'll make an offer in the 10¼ - 11 CAP range like this:

$$\frac{\$70{,}000}{0.11} = \$636{,}363 \qquad \frac{\$70{,}000}{0.1025} = \$682{,}926$$

But we'll *settle* for a CAP in the high 9's to low 10's. Here's a 10 CAP:

$$\frac{\$70{,}000}{0.10} = \$700{,}000$$

If the seller accepts, we've got a deal.

How We Find Deals (4 of 4)

Q: How do we convince an already motivated seller, to accept a 10 CAP for their property?

A: We don't… most of the time. We expect only 10% of our offers to be accepted.

But we make our offer more attractive this way:

1. We submit it very quickly, within days of a property hitting the market.
2. We submit a signed PSA (an offer "Purchase and Sale Agreement") along with:
   - a list of CRE brokers as references,
   - a proof of funds and / or a "soft" approval from a lender,
   - a bio on the general partner and one on the loan guarantor
3. We ask broker to contact at least two of our references. And we give him an idea of where we need to end up pricewise, so he can win and we can get a deal done.

5. He'll make that presentation to his client, and if everything goes well… we finalize the contract.

Our Due Diligence Process (1 of 4)

Next we'll pause… why would a Seller be motivated to sell so low?

There can be many *good* reasons… but is something *wrong* with this property? We'll find out!

We'll *carefully* scrutinize the property and uncover all its problems in the next 60 days.

During that time, if we find a reason to cancel our PSA, we'll receive our deposit back. If we don't cancel, our deposit goes non-refundable and we'll need to close in 10-30 more days.

So here's what we do, (to look for reasons to cancel):

Within 3 business days

1. Study all the leases - bring out all the details: remaining months, lease escalations, renewals, etc.
2. Financials – we have an accountant carefully review the financials.

Our Due Diligence Process (2 of 4)

Within 1 week: (Remember we're looking hard for a reason to bail out of the deal).

We'll make a site visit:

1. Quickly develop relationships with each tenant, and ask if sales are meeting projections.
2. Do research on tenants, are there financial news, and outlook, online negative articles or reviews?
3. Look for Deferred Maintenance issues, (if we go forward we'll order a detailed inspection, a "PCA")

We'll make a county – city visit:

1. Talk to the Planning Commission, examine the Master Plan asking "Is anything new coming nearby?"
2. Verify the zoning is correct.
3. Ask if there are building code or other violations?

Our Due Diligence Process (3 of 4)

Within 1 week:

1. We'll contact area lenders – they know what's happening locally.

2. We'll order inspections:

   a. A PCA (Property Condition Assessment), a 100+ page inspection of the structure, HVAC, parking lot, roof. It shows everything that needs to be done over the next 12 years. For anything that needs to be done within 3 years, we go back to the Seller and ask them to do it, after all we're buying a CAP rate and ROI, not someone else's problems.

   b. A Phase I ESA – a report showing the environmental history and any problems- so the responsibility to clean up will never be ours.

   c. A Survey – it can unearth things like ingress / egress rights

   d. Title work – Is it *fully* Seller's property to sell?

These 3rd party reports cost $7,000 to $15,000, so we delay them until our other analyses are done.

Our Due Diligence Process (4 of 4)

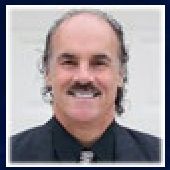
Timeline

- 3 days: *thoroughly* examine all leases and all financials.
- 1 week: conduct a site visit, order inspections, and send RFQs out to lenders.
- Getting offers from lenders can take 3 weeks. Then we'll choose one and they'll hire an appraiser. It can take 6 to 8 weeks to get a commercial appraisal back.
- 60 days: we'll cancel the contract or go forward, and close after another 10-30 days.

Conclusion

We hope this presentation helped you understand our business model.
Please contact us with questions.   Thanks for your time.

Please review a property's Opportunity Profile and the associated legal documents before investing. No matter how we work to reduce the risks inherent in investing, there's always risk or there wouldn't be a return. Ask questions to become educated and comfortable with any investment you make.



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