

Beat Condo Market Slump with a Plan B Investment Strategy

Although the national condo market is definitely in a slump, the apartment-rental market is booming. What's behind the upsurge in apartment rentals? It's simple: as single-family homes and condo prices skyrocket, the rent-vs.-own equation shifts, and rentals become more attractive. As market demand increases, rents increase.

Many building owners profit from the action by delaying condo conversion plans and leasing their properties as apartment units until the condo markets recovers. They enjoy good cash flow and appreciation, and are essentially being paid to hold their asset while they await recovery. If they later decide to sell rather than convert, they can take a good gain.

Renting is the Plan B that converters, as opposed to bare-ground builders, can implement to protect their investment regardless of market changes. All income property being purchased for conversion should be evaluated to determine if it offers this protection:

5 Key Questions for the conversion property investor:

- 1) Even if you intend to convert your building to condos, could you make a profit from it now as an apartment building?
- 2) If you couldn't profit by operating your building as apartments in the current market, how much higher would rents need to rise in order for you to profit through rentals? In a rising rental market like the current one, rents can rise significantly in a short amount of time. According to a July 2006 RealFacts report, apartment rents in San Jose had an annual rent increase of 9.1%.
- 3) Even if you intend to operate your property as an apartment building, would it ever be profitable to convert your apartments to condominiums?
- 4) If you're thinking of converting your apartment building to condominiums as your Plan B, do you have the right kind of building for this type of conversion? Do you have enough parking and the right kind of floor-plans? Is your building located in an area where condo conversions are permitted by the city?
- 5) Do you have the right type of management to implement a twin track strategy? If you're managing your own properties as rentals, how much time do you have to devote to repositioning your building as condos in the future? If you've hired a property management company, what are your needs in implementing a conversion as your Plan B?

About Drake Property Group

Drake is a privately held real estate investment firm, offering TIC participations for exchanging owners, as well as other private investments. It is composed of several companies that specialize in the acquisition, development, repositioning, and management of California real property investments. The Drake/Aegis family of companies has completed over 50 development

projects. Since the founding of Aegis Financial Group in 1974 by Peter F. Supino, Principal, the Drake/Aegis companies have distinguished themselves as developers and investment advisors of both historic and contemporary properties.

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