

We turn challenges
into success stories.





Multifamily Real Estate Investment: Growth and income in uncertain markets.

In the midst of one of the most pronounced economic slowdowns in decades, multifamily residential rentals have been among the best performing investment asset classes.

Apartments have a strong and growing place in today's economy. The supply of apartments has remained below demand over the long-term in many key markets. This is particularly true in the higher cost coastal markets where costs of land, difficulty in obtaining zoning approvals, and relatively low rents deter building of new product.

There has not been the overbuilding in multifamily rentals that there has been in the for-sale housing market. Investing in apartment properties typically requires substantial cash down payments, typically 30 to 40%. There has been no such thing as 100% financing and owners having no stake in their properties.

It will be increasingly difficult for people to qualify for home loans and it is a matter of national policy to remove the least qualified buyers from the purchased housing market entirely and move them into rental housing. Thus the percentage of the population who are renters will increase which, added to the natural growth of the rental population, will create still more demand for apartments.

Transient high levels of unemployment have caused a temporary slowdown in rental increases and even declines in some markets. However, the unemployment is not a structural problem and as soon as the current recession ends the pressure on rental markets will increase still further. Thus the long term outlook for rental housing in economically strong markets is very favorable indeed.

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Strategy: Cash and Refinancing

Deformed financial markets have created an unusual situation which offers tremendous potential for Drake, as the value-adding buyer, to use a form of financing arbitrage to great advantage. In essence the opportunity is this:

- ⇒ Today it is almost impossible to get the kind of apartment purchase lending that allows a buyer to purchase a neglected or under-managed building and turn it around using short term bank debt. That was the normal technique in the past, followed by refinancing the building with a 30 year mortgage to pay off the initial loans. The disappearance of this rehab lending has meant that under-managed buildings are not selling. They will not service a reasonable amount of debt so they are just not competitive on the market, and those that are on the market can be bought very cheaply.
- ⇒ However the long-term lending portion of that financing sequence is available at favorable rates despite the disruption in the markets because the government has stepped in to assure it.
- ⇒ **The opportunity lies in replacing the original rehab lending by purchasing all-cash and owning the building with no mortgage, but only during the brief rehabilitation. This saves considerable interest cost, and after the rehab period of 9 to 12 months the repositioned building with much higher net income is readily financed.** That refinancing allows Drake to recover about 70% of its investment in the project and then recycle the cash into the next project, or return it to investors.

This technique makes for a very favorable purchase price, a safe re-positioning process free of mortgage debt and interest, *and* confers the benefits of safe leverage after the property is fully leased and stable. **The resulting returns on investment can be very substantial, typically 17-20% per year IRR for the investor.**

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- ⇒ **Investing all cash (or high cash) lowers returns on equity, but is very safe**, allowing investors to buy very advantageously, rehab at zero interest cost and very low risk, then stabilize the property.
- ⇒ **Achieve high property returns and with good financing**, by repositioning, stabilizing, and then re-financing the properties on completion with moderate levels of very reasonably priced debt. Result: IRRS of 16% - 20%.

Strategy: Partner with Institutional Endowments

Drake will partner with institutional endowments and pension funds for the bulk of the equity.

- ⇒ Institutions like the safety of high cash.
- ⇒ Drake investors participate in the equity investment with the institution.
- ⇒ Drake also earns high developer-level returns in the form of cash flow and gain sharing.
Drake investors can now share in those returns.

Your Opportunity

- ⇒ Drake's direct investors partner with Drake, earning those high returns in a cash-rich, safe repositioning process.
- ⇒ Drake and our partners recycle our cash from deal to deal as the re-financings occur.
- ⇒ **Target rate of return: 25% to 30% per year.**

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Company Overview

Since its founding in 1974 by Peter F. Supino, Principal, the Drake/Aegis family of companies has distinguished itself as developers and investment advisors of both historic and contemporary properties. We have completed more than 50 development projects for our own account and have acted as Advisor or Broker to numerous private clients.

We received national recognition for the redevelopment of the Hercules (California) Historic District, in which the entire residential community built by the Hercules Powder Company in the late 19th century was completely restored, placed on the U.S. National Register of Historic Places, and sold to individual homeowners. The Hercules Village was given citations of excellence by both the city and the Contra Costa Board of Supervisors. It received the National Association of Homebuilders award for Best Restoration Project, Western United States. Architectural Resources Group of San Francisco shared in the award.

While best known for restorations, our group has built commercial and residential developments from concept through completion. New retail projects include the 110,000 s.f. Prunedale Shopping Center in Salinas, California and the Davies Centers at Benicia, California. Our team took these from raw ground through design, construction, and lease-out. In Denver, Colorado we purchased and rehabilitated the 60,000 s.f. Wadsworth professional offices building and over two hundred housing units in three other properties.

Our clients tell us they like working with a local company that they know and trust—a family-owned company that has invested in the California real estate market for over 30 years.

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Why Invest with us?

- ⇒ We provide small investors with the ability to pool resources and acquire ownership interests in higher-quality institutional-grade properties. Limited Partner investment units are available in \$100,000 increments.
- ⇒ We offer fully managed TIC investments for individuals selling their own property: prime apartment investments which offer a stable yield, lower downside risk and a solid 1031 Exchange solution. Minimum TIC investment is typically \$400K.
- ⇒ We identify and secure the best available properties for our investors through constant monitoring of market conditions and extensive deal analysis. Drake draws on a network of relationships with local and national investment bankers, title companies, lawyers, and banks, who bring us investment opportunities and joint venture possibilities.
- ⇒ We manage the entire real estate process of identification, acquisition, financing, closing and operating processes. No management headache for you.
- ⇒ Investors have the assurance of knowing that their apartment investment is being properly managed by a veteran staff with advanced industry resources and technology.
- ⇒ Our outside accountants create individual investor K-1 statements for simplified year-end tax procedures. Investors receive significant tax advantages from both property depreciation, write-offs, and exchange benefits.
- ⇒ Investors are provided with quarterly reporting and scheduled cash distributions based on the fund's overall operating results.
- ⇒ Drake has 30 years worth of experience and credibility. All of our apartment investments have been over-subscribed. References gladly provided upon request.

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Call for more information

Drake Property Group

475 Gate 5 Road, Suite 212

Sausalito, CA 94965

415-332-2950

Fax: 415-332-2960

Website: www.drakepropertygroup.com

Peter Supino, Principal

415-233-2125

Mary Burnett, Principal

415-497-3258