

The Methodical Approach to Pursuing Acquisitions

Tips on how to determine whether you are ready to jump into a real estate investment. By Terry B. Schwartz

Some key indicators necessary for analyzing the odds of success of your investment are: household incomes; the projected growth in the target market; the unemployment rate; the forecast for job growth, including the types of jobs likely to be added; and the number of major and secondary employers in the county.

There is plenty of homework that needs to be done prior to pursuing a real estate investment. Just because you can purchase an asset for 60 percent of replacement cost does not necessarily mean it is a sound investment.

Before even looking at a particular asset or portfolio, you need to ask yourself the following questions:

- What will be the scope and size of the acquisition?
- Will the acquisition be part of a "co-investment" strategy or "go it alone" approach?
- Is equity readily available?
- How much leverage is anticipated?
- Does a strong balance sheet exist to obtain attractive and creative financing?
- What is your investment strategy? (Are you pursuing a value-added approach or looking to do a short-term flip? Do you want to buy and hold for intermediate or long-term appreciation? Are you looking for a percentage of yield on equity requirements or an IRR



T. Schwartz

floor?)

Next, identify the markets that provide the best opportunity to achieve your investment strategy. Begin with a particular geographic region in mind; then narrow your search down from the state to the county level, and all the way to a very specific location.

Then look at demographics, including household incomes and composition, overall population growth, and projected growth in the target market. Some additional key indicators necessary for analyzing the odds of success of your investment are: the unemployment rate; the forecast for job growth, including the types of jobs likely to be added; and the number of major and secondary employers in the county.

It's all in the details

Other things that are important to review:

- The market area (20-, 30-, 40-minute drive times?)
- Population of the county or city
- Diversity of the economic base
- Competing product in marketplace
- New product planned or currently under construction
- Rents in the market area (trended)
- Physical and economic vacancy in the market area
- Barriers to entry
- Dynamics of the retail and resi-

dential mix

- Number of "big box" (Home Depot, Wal-Mart, etc.) retailers
- Regional malls and their distance from the potential acquisition

Once the necessary market and demographic data has been collected, create a weighted scoring matrix in an effort to remove as much subjectivity as possible from the decision-making process.

For example, if a potential acquisition is an infill location with little or no zoned land for your intended use, or the entitlement process is so exorbitantly long and expensive, scoring in the high seven- to 10-point range on a scale of one to 10 would be appropriate. On the flip side, if a potential acquisition is located in an area where new product can be easily developed, then a low score in the range of one to three points would apply.

Key market and demographic data such as household income and job growth forecasts, rent trends, competitive supply, and barriers to entry should be weighted more heavily. Using a disciplined scoring approach, adding up all the scores to reach a given number where it would provide a "go" or "no go" on the deal would be beneficial.

Site characteristics

However, prior to specific physical and financial due diligence on the asset, the following site characteristics also need to be scored:

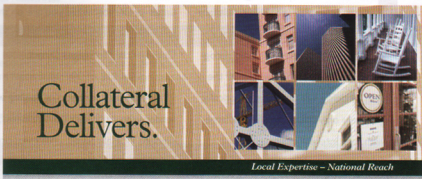
- Ease of access
- Signage visibility
- Site visibility
- Neighborhood dynamics—residential, retail, office mix
- Status of neighborhood—stable, declining, or improving
- Estimated traffic count (drive-by traffic)
- Public transportation

In conclusion, if the sum of market, demographic, and site characteristics produce average scores in the high range, the decision to proceed should be easy, given that price is not an obstacle. However, when the average numbers are in the moderate to low range, the decision to proceed

becomes much more challenging. The more subjectivity is removed from the acquisition process, the more the potential increases for achieving your economic goals. ■

Terry Schwartz, principal of Dover Realty Advisors, specializes in asset management, acquisitions/dispositions, strategic planning, turnaround restructuring, and repositioning of multifamily properties. His extensive

background includes more than \$1 billion of acquisitions, development, construction, and management experience. Schwartz spent 19 years as president/chief operating officer of two leading developers, builders, and operators of market-rate and affordable multifamily properties. He received a bachelor's degree in business from the University of New Haven and a master's degree in city planning from Rutgers University.



Relationships with our capital sources and our clients are behind every transaction. We appreciate the confidence placed in us, which results in successful closings like these —

Recent Closings

Pembroke Pines, FL

\$45,000,000

Multifamily
Refinance
Insurance Company

Fayetteville, GA

\$21,600,000

Multifamily
Acquisition
Credit Company

Various Cities, CA

\$108,137,000

Seniors Housing
Credit Facility
Agency

Port Huron, MI

\$3,000,000

Affordable Housing
Refinance
Agency

Topeka, KS

\$8,300,000

Multifamily
Bridge
Bank

Minneapolis, MN

\$15,375,000

Student Housing
Refinance
CMB's Lender

Call Collateral for financing that fits — 800.366.1840.

COLLATERAL

Collateral Real Estate Capital, LLC
www.collateral.com

©2007 CREC