

Bernard/Allison Realty Group

SUMMARY

Acquisition Services/Fees Bernard/Allison Realty Group

Bernard/Allison Realty Group (BARG) was formed to provide assistance to clients wanting to buy apartments. It had become clear that broker “for sale packages” had grossly inflated revenues and forecasted unrealistic operating expenses. Several of our existing clients had purchased buildings, without BARG’s assistance, and found their investments could not perform as originally expected. Jason Lliteras is the Director of Client Acquisitions for BARG and works exclusively with BARG to find and analyze potential apartment investments for our clients. We analyze underperforming properties we find throughout our Phoenix, Tucson, Texas, Tennessee, and Albuquerque databases. We prepare our analysis by comparing the income and expenses against the “factor book” compiled by Bernard/Allison Management Services, Inc. When we find a property that meets the acquisition criteria for one of our clients, we then prepare a feasibility analysis which includes all the information needed to determine if an offer should be made to purchase the site.

We review, refine, and revise our feasibility assumptions, and after receiving our client’s input we prepare a letter of intent to be sent to the seller. We suggest the offer consist of a quick due diligence period (typically 30 days), quick close thereafter (5-30 days), and state that a substantial amount of refundable earnest money will be put up at the opening of the escrow. All of these items, along with our reputation in the Arizona marketplace, have been designed to help a seller choose us over other possible offers. This strategy has proven to give us a competitive edge over the competition.

Once the Letter of Intent is signed, we then request documents needed for our due diligence and we work with the buyer’s attorney in completing the purchase contract. During the due diligence period, BARG inspects and analyzes areas of interest to the buyer. A final property analysis is prepared once the due diligence has been completed and then reviewed with the buyer prior to the expiration of our “free look” period. Adjustments are made to the original offer if needed, and the purchase is then completed. By purchasing a property in this way, we feel the buyer has a very high probability of having his investment perform according to his expectations. Since Bernard/Allison Management will manage the property, we have a real motivation to make sure the numbers used in the purchase analysis are as accurate as possible.

We, however, do not list properties for sale. If you are a client of ours, we can assist you in finding a selling broker for your asset. We have long standing relationships with every selling broker in the Metro Phoenix and Albuquerque area. We do not participate in any fee that they receive. We can easily set up a meeting or give you contact information so you can interview and receive sale proposals for your apartment site.

Since we look at multiple deals each week that will not measure up to our acquisition criteria, when we find one that does, we need to proceed quickly before competitive

offers surface. Due to our ability to find these types of opportunities for our clients and our 10-year track record of success, we have developed the following fee structure:

1. We receive no compensation for looking at or investigating acquisition possibilities until a purchase actually closes. We absorb all investigative costs, other than third-party costs, if a deal does not close.
2. If a brokerage fee from the seller is available, we will subtract what is received from our fee structure. However, if a higher fee is available from the seller, then the buyer will no longer be obligated to pay a fee other than to pay for all third-party and direct acquisition costs.
3. Fee structure per site purchased:

<u>Sales Price</u>	<u>Fee</u>
First \$10,000,000	1.5% of purchase price Minimum fee \$50,000.00 Maximum fee on first \$10,000,000 of purchase price is \$150,000
Up to next \$10,000,000	0.75% of purchase price Maximum fee on next \$10,000,000 of purchase price is \$75,000
Over \$20,000,000	.25% of purchase price above \$20,000,000 Maximum total fee \$300,000 for purchase of a single apartment site

For multiple sites negotiated and purchased at essentially the same time from the same seller, the fees will be based on the above table for the highest priced site and all other sites will be charged a fee of 0.5%.

The fee is the consideration for evaluating opportunities and bringing forward only those opportunities that are superior in return and meet or exceeds the purchaser's acquisition criteria and for completing a thorough due diligence report.

The following services are included in the fee structure:

Investigative responsibilities

1. Investigation of the Arizona market to find underperforming properties which includes listed and unlisted apartment sites.
2. Feasibility analysis including:
 - a. First year operating budget

- b. 5-year cash flow forecast
 - c. Acquisition cost summary
 - d. Investment and return summary
 - e. Sale projection assumptions
 - f. Replacement cost estimate
3. Assistance in preparing:
 - a. Initial letter of intent
 - b. Purchase contract
 4. Negotiations with seller

Due Diligence responsibilities

1. Prepare Pricing Summary and amenity adjustment sheets for competition – review of existing rent rates and possible future rent rates.
2. Lease audit and confirmation of current Rent Roll*, concessions, and deposits.
3. Apartment unit premium review.
4. Interior unit inspections* and determination of costs to upgrade or repair.
5. Exterior site and amenity review and determination of costs to upgrade or repair.
6. Site work order review.
7. Prepare first year operating budget and confirm five-year operating plan.
8. Management of third-party consultation evaluations:*
 - a. Roof
 - b. Sprinkler/landscape
 - c. Natural gas
 - d. Pool
 - e. Pest control
 - f. Fire sprinkler
 - g. Paving
 - h. Drywells
 - i. HVAC
 - j. Electrical
 - k. Plumbing

*If a sale closes or does not close, BARG will be reimbursed expenses paid by BARG in these three areas only.

Not included in the fee structure are:

- Survey or survey update
- Environmental report
- Radon gas report
- ADA compliance
- Fair Housing compliance
- Lead-based paint testing

- Moisture/mold management plan
- Asbestos management plan

We will, however, assist a buyer in obtaining reports in these areas if specifically requested to do so by the buyer.

Since 1992, we have successfully completed the acquisitions for clients under this service and fee arrangement as discussed above.

To establish a relationship, we interview a potential client by discussing the questions contained on our Acquisition Criteria Checklist to ensure we are bringing opportunities to our clients that meet their needs so time is not wasted looking at inappropriate deals.

ACQUISITION HISTORY FOR BARG

<i>Property</i>	<i># Units</i>	<i>Acquisition Price Per Unit</i>
<i>(History since 1990)</i>		
1. Bank of New England Portfolio (4 sites)	1,094	\$21,700,000 \$19,835
2. Autumn Creek Apartments	360	\$7,900,000 \$21,944
3. Cascades Apartments	292	\$28,250,000 \$96,747
4. North Mountain Village Apartments	568	\$12,393,000 \$21,819
5. Park Tower Apartments	180	\$4,645,000 \$25,806
6. Rio Cancion Apartments	380	\$13,700,000 \$36,053
7. Crown Court Apartments	416	\$27,256,000 \$65,519
8. The Court Apartments	276	\$11,450,000 \$41,486
9. Paradise Springs Apartments	200	\$8,900,000 \$44,500
10. Sunrise Village Apartments	196	\$6,800,710 \$34,698
11. Dobson Bay Club Apartments	167	\$8,985,000 \$53,802
12. Spring Meadow Apartments	271	\$8,390,000 \$30,959
13. Foxwood Apartments	260	\$6,294,170 \$24,208
14. Quadrangles Village Apartments	510	\$26,554,800 \$52,068

<i>Property</i>	<i># Units</i>	<i>Acquisition Price Per Unit</i>
15. Cordillera Apartments	272	\$17,880,000 \$65,735
16. Thunderbird Paseo Apartments	252	\$12,225,000 \$48,512
17. University Green Apartments	388	\$16,875,000 \$43,492
18. Thunderbird Ranch	672	\$24,500,000 \$36,458
19. Signature Place	440	\$32,780,000 \$74,500
20. Rancho Ladera	220	\$12,800,000 \$58,182
21. Tierra del Sol	276	\$16,700,000 \$60,507
22. Thunderbird Ranch	672	\$29,000,000 \$43,155
<i>(Recent deals since 2006, 7 sites totaling 2,764 units)</i>		
23. Four Peaks Vista	212	\$23,500,000 \$110,850
24. Quadrangles Village Apartments	510	\$43,750,000 \$85,784
25. Olive Tree	762	\$37,725,000 \$49,506
26. Saddleback Apartments	582	\$43,225,000 \$74,270
27. Arbors & Courtyards (2 sites)	529	\$18,685,000 \$35,321
28. Colony Grove	169	\$13,757,000 \$81,402
Totals	11,126	\$ 536,620,680 \$48,231

ACQUISITION CRITERIA

Checklist

1. Number of units?
2. Location? Preferred areas? Redlined areas?
3. Age?
4. Cash or Terms?
 - A. If cash, refinance during holding period?
 - B. If terms, describe. (Loan to Value Ratio?)
5. Maximum Deal Size (in dollars)?
6. Cash-on-cash returns through holding period?
7. Internal Rate of Return?
8. Rental escalation assumptions? Holding period? Disposition assumptions – cap rate, % of future replacement, etc.
9. Institutional grade or distressed/value added/rehab properties?
10. Is replacement cost a factor? What % of replacement?
11. Specific unit mix? % of studios, one bedrooms, two bedrooms, three bedrooms, etc.
12. Average unit size?
13. Furnished units, executive units?
14. Winter visitors?
15. Master-metered or individually metered?
16. Asbestos? Ceiling spray; floor tile; floor tile mastic?
17. Affordable housing/bond financed (low-moderate income)?
18. Flat or pitched roofs?
19. 2-3 story?
20. Amenities? (pool, tennis, racquetball, washer/dryer, garages, etc.)
21. Management services? (in-house or contract out)
22. Due diligence services? (in-house or contract out)
23. Performance incentive management arrangement?
24. Offer/acquisition procedures/reaction time?
 - A. To make offer?
 - B. Due diligence period?
 - C. Close?

- D. Verifiable funds?
 - E. Financial statements?
 - F. Does buyer have own source of funds to close transaction, or do they have to tie the deal up and find equity source?
 - G. Decision-making process – who makes ultimate decisions?
 - H. Are funds readily available or does it take time to fund?
25. Willing to buy properties out of bankruptcy?