

EQUITY

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Let's Make a Deal

Cultivating strong relationships and looking at properties with an investor's critical eye are key to attracting equity.

It's always difficult getting that first equity deal closed with a new investor. The process takes relationship building and a tremendous amount of trust. And your task only becomes more difficult if your deal is located off the beaten path.



Credit: Courtesy Eastham Capital

Although located in a tertiary market, the 384-unit Knobs Pointe, in New Albany, Ind., proved to be a hidden gem for Eastham Capital.

Yet, the relationships you've already cultivated at the local level can serve as one of a project's best selling points—even if other aspects of the asset, such as its location, are less than stellar.

Having a tight connection with local financiers is a big plus. And having a successful history with that market's leading brokers reflects very well on a sponsor's ability to close a deal.

"I love the fact that there's a relationship with the broker," said David Valger, founder of New York-based DVO Real Estate, at the AFT Live

conference April 9 in Las Vegas. "I can probably get past [a] suburban location."

Valger voiced his opinions at a panel session on which several mock transactions were acted out between fictional sponsors and investors. Despite the fact that the Class B, suburban property in question was in a secondary market, the strong relationship between the sponsor and the broker earned a hypothetical thumbs-up.

“Having certainty of close for a broker is worth a lot,” said Eric Silverman, founder and managing director of Boston-based investor Eastham Capital. “Knowing people, and having worked with them before—seeing that they come to the closing table, and the deal closes, and the money funds, and they get paid—that means a lot to these brokers.”

Diamond in the Rough

Such seasoned broker–buyer relationships are especially important in uncovering hidden gems.

“I think [it’s an] art form to identify a market that has some growth driver to it,” said Mitch Siegler, managing director and co-founder of Pathfinder Partners, a real estate investment firm based in San Diego.

For example, areas where there’s growth potential stemming from a new employer, large hospital, or university can shine a favorable light on a tertiary market.

“[Some place] that’s creating spin-off companies and jobs, or something else that’s causing it to have a tailwind—that’s the only way we’d go into a true tertiary market,” Siegler said.

And yet small markets without their own growth engines can actually offer good yield opportunities, too. Eastham Capital has found success in under-the-radar Midwestern markets such as New Albany, Ind., outside of the Louisville, Ky., submarket—a smaller suburb featuring high cap rates but proximity to a job center.

Smaller cities such as Boise, Idaho, and Albuquerque, N.M., can also be worthwhile for investors, especially since they have solid fundamentals but are often overlooked by larger investors.

“We like markets like that because they’re not on everyone’s radar,” Siegler said.

A Thorough Vetting

Some of the typical due diligence items on an investor’s checklist include property management, access to financing, and title issues.

Whether or not a property is professionally managed can speak volumes about its relative appeal.

“If the property isn’t professionally managed, there might be an immediate value-add opportunity,” Siegler said.

On the financing end, projects under \$3 million aren't very attractive to most equity investors—it's inefficient to allocate capital in such a piecemeal fashion. And smaller properties can have a more difficult time finding debt financing, which can turn off potential investors. Yet if a property is eligible for an agency loan, it's a big plus.

"If you can get FHA financing, it's a much more compelling opportunity," Valger said.

Property reports ranging from environmental assessments to title histories can present another investment hurdle if the costs to remedy the issues outweigh the benefits.

"No one wants to buy a property that has a bad title," Silverman said.

Looking at a project critically with an investor's eye can reveal the pluses—and minuses—that translate to either a deal or a missed opportunity.