



## SMITH SYNDICATION *by Verity Investments LLC*

**Jeffrey D. Smith, General Manager**

***Mission Statement:*** *Syndicating projects for repositioning and stabilizing distressed apartments for **Radiant Wealth Creation** to serve an emerging market of displaced former home owners and new family formations.*



## INVESTMENT OPPORTUNITY

**To the extent that any of the proposed transactions referred to herein would be deemed, under federal or state securities laws, to be the offer or sale of a security, be advised that the securities described herein have not been registered under the securities act of 1933, as amended, or applicable state securities laws. The securities described herein have not been approved or disapproved by the Securities and Exchange Commission (the “SEC”) or any state securities commission or other regulatory authority of any jurisdiction; nor has the SEC or any such state securities commission or regulatory authority passed upon the accuracy or adequacy of the information contained herein, or the merits of the securities described herein, nor is it intended that they will. Any representation to the contrary is a criminal offense. The securities described herein, if any, may not be sold, nor may an offer to buy be accepted, prior to the time an offering document describing the offering and disclosing the risks of an investment in the securities is delivered in final form. Under no circumstances shall the information contained herein constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the securities in any jurisdiction in which such offer, solicitation or sale is unlawful.**



## HOUSEHOLD FORMATION IS KEY TO APARTMENTS

**Jeffrey I. Friedman**, chairman, president and CEO of Associated Estates, a multifamily REIT based in Richmond Heights, Ohio, took time to chat with REIT Insider, sharing his thoughts on weak job growth, future apartment demand, cap rates, potential overbuilding and REIT valuations.

**REIT Insider:** *"Everyone always talks about job creation as the demand driver for the apartment market, but you've been pretty vocal that household formation is more important. Can you explain your perspective?"*

**Jeffrey I. Friedman:** *"There's a bit of misconception that what is going on in the job market drives demand for the apartment market. That's not true—household formation drives apartment demand. What is going on in the job market impacts our ability to raise rents.*

*"We've had five years of increased household formation and an increase in the number of people who are most likely to rent—the 21 to 35-year-old cohort group. And the number of renters is at an all-time high. At the same time, homeownership rates are declining. So basically, demand will continue to be strong."*

**REIT Insider:** *"It sounds like apartment owners should be really happy right now. Are they going to be happy for much longer?"*

**Jeffrey I. Friedman:** *"Typically we've seen three-year cycles in the apartment sector. In our view, the down cycle ended in 2010, and 2011 was the first year of the up cycle. We actually think this up cycle will be longer, but of course we don't know how long. We do expect the fundamentals will continue beyond 2014."*

**Source: National Real Estate Investor, 2012-06-12**

[http://nreionline.com/news/friedman\\_household\\_formation\\_job\\_growth\\_apartments\\_06212012/](http://nreionline.com/news/friedman_household_formation_job_growth_apartments_06212012/)



DISPLACED FORMER HOME OWNERS NEED APARTMENTS

- The Great Mortgage Meltdown of 2008 displaced millions of home owners.
- Adjustable Rate Mortgage resets are continuing to force home owners into foreclosure.
- **Problem:** Millions of displaced former home owners suffer the indignity and stigma of foreclosure and eviction.
- **Solution:** Affordable, clean, comfortable, spacious apartments provide opportunity for a fresh start with dignity.
- **Opportunity:** Apartment owners over-paid and under-managed, causing physical and managerial distress and default. Distressed properties and defaulted notes are on sale!

PROBLEM: STIGMA AND INDIGNITY OF FORECLOSURE

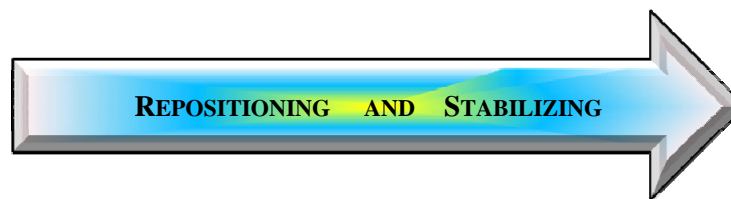


SOLUTION: CLEAN, COMFORTABLE, AFFORDABLE FRESH START



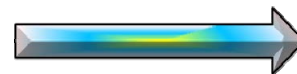
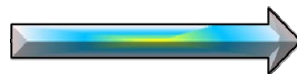
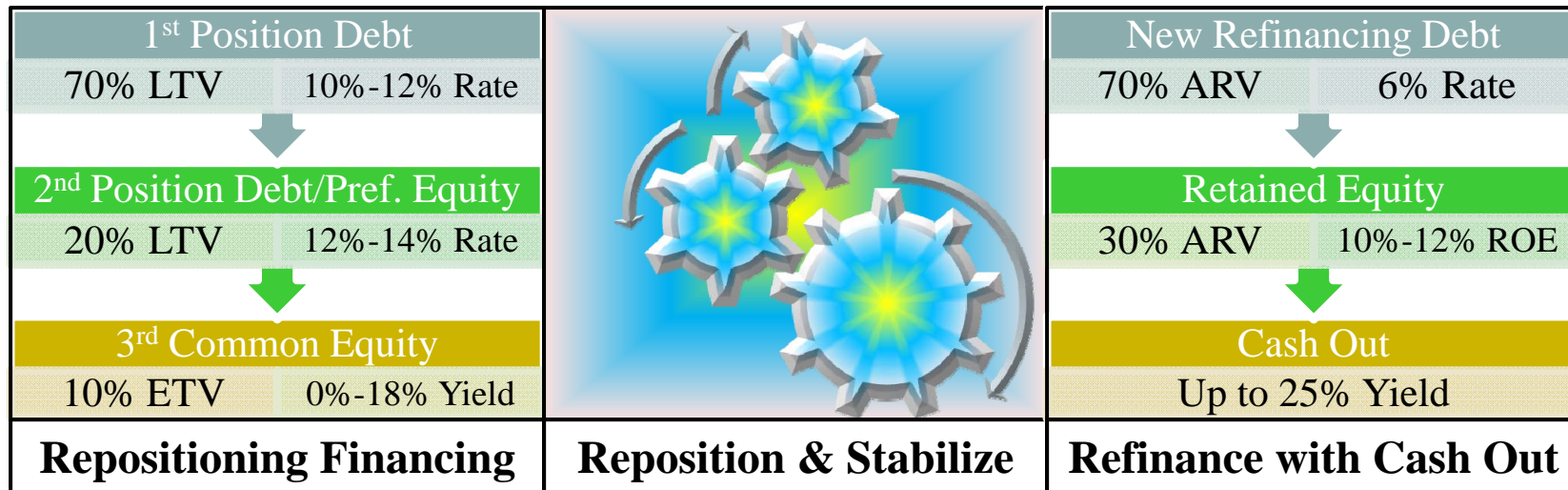
**INVESTMENT STRATEGY AND OPPORTUNITY**

- **Acquisition Strategy:** Physically and managerially distressed multifamily properties, offering deep price discounts from motivated sellers.
- **Experienced Power Team:** Our *Power Team* has strong experience in analysis, due diligence, acquisition, repositioning, and management of multifamily properties.
- **Strong Industry Fundamentals:** Favorable industry and economic conditions have created optimal investment timing.
- **Focused Opportunity:** Strongly recovering employment fundamentals in **Tier 1 MSA** markets, housing migration from owning inflated single family homes to renting in multifamily community lifestyle, and steep price discounts for "all cash" acquisitions.

**Before Renovation****After Renovation**

**INVESTMENT FINANCING AND YIELDS**

- **Access to Repositioning Financing:** Readily available short-term private commercial financing as debt, preferred equity or joint venture provide "**all cash**" offers (no seller financing or assuming notes) and fast closing.
- **Access to Institutional Refinancing:** Institutional refinancing debt is much easier to acquire with a proven performance history, especially on multifamily housing with strong protective created equity margins.
- **Attractive Yields:** Superior cash flow margins with strong debt coverage ratio protection to tolerate recessionary pressure on income and expenses. Targeting double digit annualized yields from 10% to 15%, with recovering the initial investment within 12 to 48 months while retaining ownership and net positive cash flow (infinite yield), with apparent Return on Equity (ROE) from 10% to 12%.
- **Tax Free Cash Out:** Refinancing with cash out is tax free and available for rolling into the next project.



COMPANY OVERVIEW



## COMPANY OVERVIEW

- **Smith Syndication** is currently a division of *Verity Investments LLC* (a Colorado Limited Liability Company).
- **Smith Syndication** focuses on the acquisition and repositioning of moderately to severely distressed multifamily (apartment) properties, with the intent to refinance to recover all repositioning financing, both equity and short-term debt, while retaining strong created equity and cash flow margins. Lesser performing properties are sold to "retail cash flow" investors.
- **Smith Syndication** is currently focused on finding opportunities in the desert southwest ("*sand states*") of Arizona (cities of Phoenix and Tucson) and Nevada (cities of Las Vegas and Henderson), and our home state of Colorado (near Denver, Boulder, Longmont, Fort Collins, and Colorado Springs), and on the mature oil industry states of Texas (cities of Dallas and Houston) and Oklahoma (cities of Tulsa and Oklahoma City). We focus on small to medium sized properties from about 20 units up to about 50 units. This property niche size allows for quickly *fine tuning* our portfolio, instead of waiting for a year or two to sell a larger (hundreds of units) property.
- **Smith Syndication** selects *Power Team* members for their extensive experience in all aspects of the process, including financial analysis and due diligence, acquisitions, financing, repositioning, asset management, and disposition.





EXECUTIVE MANAGEMENT



## GENERAL MANAGER



Jeffrey D. Smith, General Manager

**Jeffrey D. Smith** has over 7 years of experience in real estate financial investment analysis, including over 5 years as a licensed Colorado Real Estate Broker. He has excelled in dozens of real estate law and investment classes, and published articles, books, and educational videos on real estate investing. He has authored dozens of sophisticated Excel spreadsheets for real estate analysis and financial modeling. He sells some of his Excel spreadsheets and investment courses to real estate investors. He presents educational real estate investing courses both for online and live seminar formats. He provides private consultation services to wealthy real estate investors.

**Jeffrey D. Smith** is fully trained in all aspects of private commercial mortgage finance. His business acumen and leadership skills provides the expertise for personally negotiating contracts with attorneys and executive management, and financial analysis and structure.

As General Manager, **Jeffrey D. Smith** is responsible for vetting and selecting the **Power Team** of local professional service providers (property sourcing, attorney, real estate broker, private commercial lender, property management, title company, insurance, general construction & renovation contractors), negotiating contracts, and supervising the project plan from start to finish.



**POWER TEAM FUNCTIONS****1. Property Sourcing**

- Commercial Listing Brokers: Pocket listings, website registration for email notification.
- Property Management Companies operating in target market ([irem.org](http://irem.org)).
- Commercial Listing Websites: [LoopNet.com](http://LoopNet.com), [CoStar.com](http://CoStar.com), [Craigslist.org](http://Craigslist.org).

**2. Due Diligence**

- Selected Property Management Company provides the repositioning business plan.
- Selected General Construction & Renovation Contractor Company provides scope of work.
- Financial, Physical, and Legal due diligence performed by local professionals.

**3. Repositioning**

- The winning bidder General Contractor begins renovation.
- The winning bidder Property Management Company begins repositioning for new tenants.

**4. Stabilizing**

- The Property Management Company stabilizes and seasons the tenant base according to higher rents and the marketing plan.
- Seasoned financial performance records are submitted to refinance lender.
- The cash out refinance fully redeems all repositioning financing, and provides tax-free\* cash out for rolling into the next project.



# THE RADIANT WEALTH CREATION FORMULA

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## THE RADIANT WEALTH CREATION FORMULA

### 1. Investment Strategy

- Acquire distressed income properties with private financing.
- Reposition and stabilize for higher income and good quality tenants.
- Cash out refinancing to redeem the repositioning financing, while retaining created equity and net positive cash flow.



### 2. Acquisition Criteria

- About 20 to 50 dwelling units in class "B" or "C" distressed apartment buildings.
- Arizona & Nevada ("sand states"), Oklahoma & Texas ("oil patch").



### 3. Focused Asset Management

- Cost-effective upgrading and possible merging of adjacent dwelling units to create larger, more spacious units.
- Community lifestyle with professional asset management.
- Clean and comfortable dwelling units, with good appliances.



## INVESTMENT STRATEGY

- Purchase distressed Class B or C multifamily assets with *value add* characteristics at stabilized Capitalization rate of 8.5% – 12.5%, Return on Equity 15% to 20%, and Cash Flow Margin at least 35%.
- Create a substantial cash flow portfolio on an asset-by-asset basis in middle markets.
- Select and manage an experienced *Power Team* to oversee lease-up and operations.
- Exit strategy is to refinance to redeem the repositioning short-term financing, and to hold the stabilized portfolio. We will sell the less desirable properties to an institutional investment company.
- After refinancing, our *Private Financiers* have no net cash invested, still retain their ownership interest, have net positive cash flow with strong cash flow margin, and they can roll their cash out into the next project *tax free* (it's cash out from a loan).

## ACQUISITION CRITERIA

- Multifamily properties of about 20 units to 50 units that will be attractive for displaced home owners and for household formation.
- Primary geographic focus is in the "*sand states*" of Arizona (Phoenix and Tucson), Colorado (Fort Collins, Denver, and Colorado Springs), Nevada (Las Vegas and Henderson). We will also look in Texas and Oklahoma ("*oil patch*") as a secondary priority.
- Locations near public transportation, shopping and employment.
- Managerially or physically distressed Class B or Class C.
- *Value add* opportunities that match our required yields and fit our target demographic.
- Middle market trade area.
- Unit mix at least 50% two bedroom units, at least 25% three bedroom units. Possibly combining adjacent units to increase the number of bedrooms, depending on cost effectiveness.



## FOCUSED ASSET MANAGEMENT

**Utilize proven marketing and management strategies to reposition under performing properties:**

- Implement community lifestyle approach, with emphasis on stable household formation.
- Leverage the *Power Team* experience.
- Engage local market team of professionals.
- Grow NOI through proven revenue maximizing strategies and "best practices" management.

**Additional strategies to increase revenues:**

- Add interior washer & dryers.
- Provide access to cable or satellite entertainment services for a percentage of revenue.
- Add utility bill back system (RUBS) or sub-metering for possible condominium conversion.
- Provide premium rent pricing for preferred units (e.g., upstairs vs. downstairs, view units).
- Reduce unit turnover by rewarding good long-term tenants.
- Cost-effective quality improvements for both the interior and the exterior (clean and comfortable).

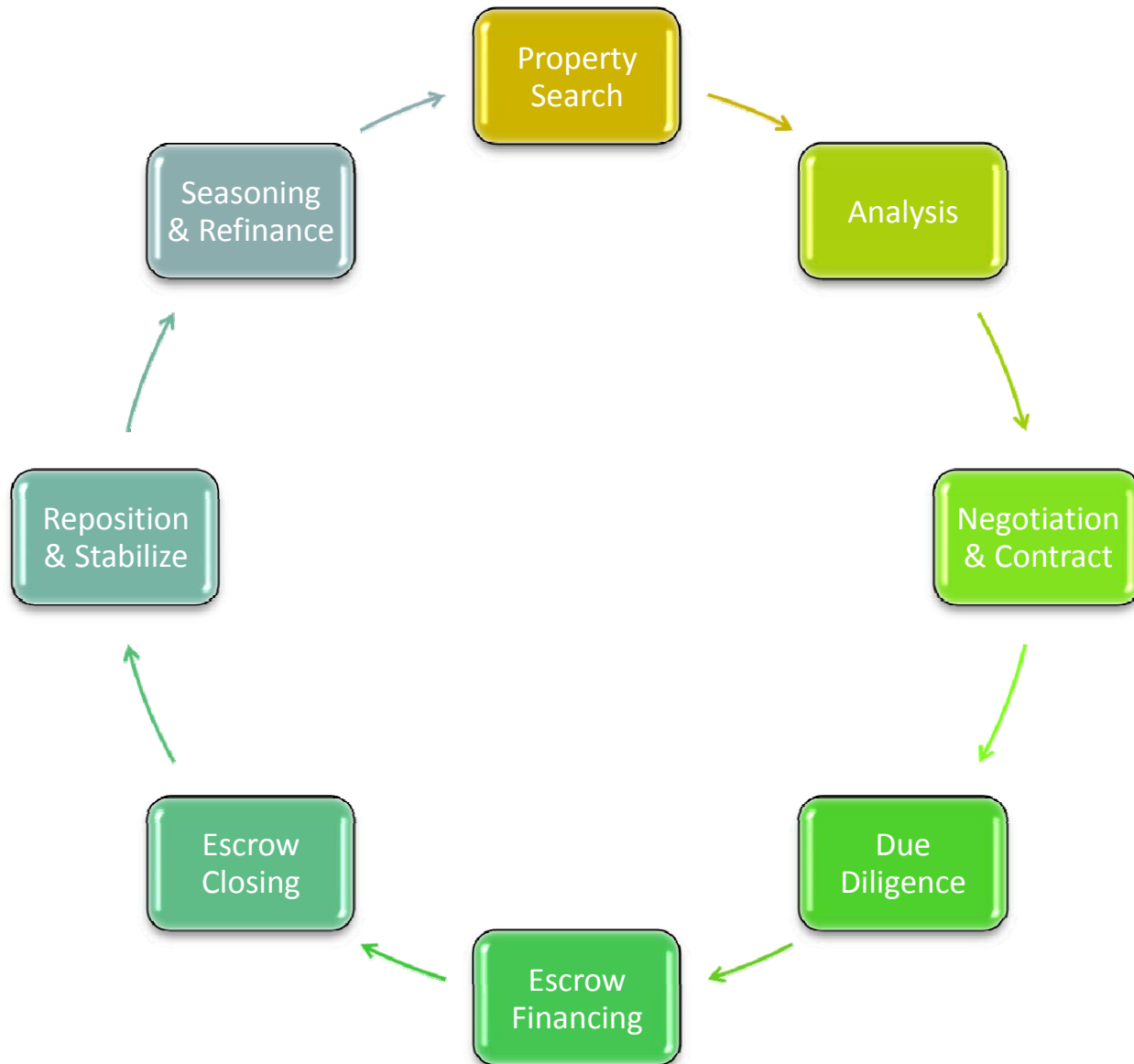


THE INVESTMENT PROCESS CYCLE





PROCESS CYCLE OVERVIEW



COMMUNITY LIFESTYLE



COMMUNITY LIFESTYLE

**Unmatched Competitive Advantage**

- Solves daily living problems of the target demographic group.
- Improves the quality of life for rental customers ("*clientele*").
- Creates a unique living experience so that it's not just another apartment community.
- Builds long-term residents, which leads to higher occupancy and higher rents.



**Clean and Comfortable**

TENANT CONCERNS

- Managing gatherings for family and friends.
- Managing large household family size.
- Cooking space & quality kitchen appliances.
- Social gathering place for "*stay at home*" parents.
- They don't want to live in a "box", especially after getting displaced from a single family home.

OUR SOLUTIONS

**All properties have:**

- Large kitchen with open space.
- Clean, comfortable, modern interior and exterior.

**Our larger properties have:**

- Community activity center for social activities.
- After school program for kids.
- Playground & BBQ area.



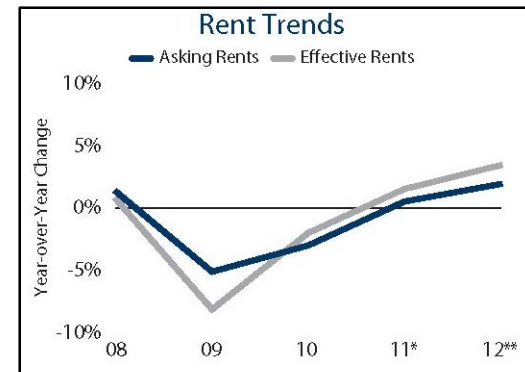
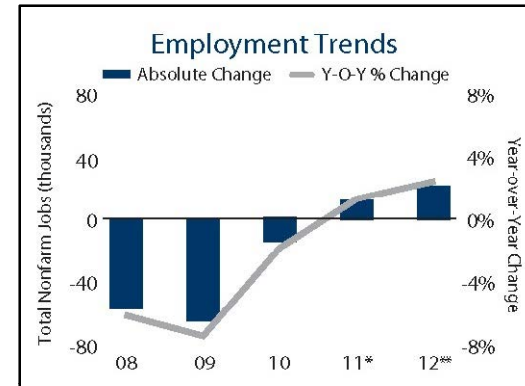
KEYS FOR SUCCESS



**KEYS FOR SUCCESS**

1. Management selects an experienced *Power Team* with a proven investment strategy for acquisition, repositioning and asset management experience in repositioning and stabilizing multifamily properties.
2. Focus on displaced former home owners. One of the biggest impacts to the rental housing market is the changing demographic profile of this country. Displaced home owners still want clean, comfortable shelter and they will pay for it.
3. Offer Unmatched Competitive Advantage. Create a unique niche community lifestyle for displaced home owners who are shifting to rentals, but still require cleanliness and comfort. Our community lifestyle attracts new household formation, as well.
4. Favorable Industry and Economic Conditions. Multifamily properties have the strongest real estate industry fundamentals of all asset classes, and real estate intrinsic values are well below replacement cost in many areas creating great buying opportunities. Physically and managerially distressed properties offer the deepest discounts and the greatest upside potential for repositioning and stabilizing, by creating strong protective margins for cash flow and created equity.

**Las Vegas, NV**



\* Estimate \*\* Forecast  
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA



SMITH SYNDICATION WORKS WITH PRIVATE FINANCIERS

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## SMITH SYNDICATION WORKS WITH PRIVATE FINANCIERS

**Smith Syndication** is pleased to offer competitive investment alternatives for sophisticated and accredited investors, especially those who are looking for better yields than stocks, mutual funds, or bonds, and backed by solid commercial real estate with professional management.

**Smith Syndication** is executing a tightly focused acquisition strategy of buying middle market (class C or class B), physically or managerially distressed multifamily assets that can be repositioned toward the rapidly growing displaced former home owners demographic niche market using a community lifestyle approach, and providing for new household formation.

The ***Radiant Wealth Creation*** formula is a time-tested, proven business model for acquiring distressed assets, repositioning to a higher and better clientele, stabilizing and refinancing to redeem the private repositioning financing, then re-investing the tax-free cash out into the next project. Shifting the equity into new projects while retaining cash flow *creates infinite yields*.

We have learned that buying value-add, under-performing multifamily properties and repositioning them to a growing and under-served target segment using the ***Radiant Wealth Creation*** formula creates excellent opportunity for profit:

- Creating more pricing power from unmatched competition.
- Managing risk better because of the predictable outcomes.
- Producing consistent investment returns from stable operations.
- Our ***Radiant Wealth Creation*** formula increases prosperity for society.

*If this niche real estate investment strategy appeals to you, then we cordially invite you to contact us to learn about how you can be a **private financier** for these prosperous projects.*



CONTACT INFORMATION

*You can learn more by contacting us:*

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