

Optimus: A Performing Fund

In this number of the Optimus newsletter, we'll talk about performance. We'll provide details on why Optimus is a successful investment fund and present additional data that backs up our assertion that the Las Vegas, Orlando and Phoenix markets are recovering.



Rental Profits Above Expectations

How do you measure success in the business world? – Profits. And while you're on your way to this ultimate and most important objective, execution of the business plan. On both counts, Optimus has established a stellar

record. The fund has achieved profitability in Q3 2011, which allowed it to make its first distributions funded by rental operations. In fact, the results were so good that at the end of 2011, we exceeded our expectations of a 3.78% yield and delivered 4.5%!

4.5% returns in 2011

Expectations were 3.78%. Forecast for 2012 is for even better results.

We expect great things from 2012, too. With rents reaching the 80 cent per sq. ft. mark, we still have ways to go until they reach stabilized values of \$1-\$1.10 per sq. ft. Any rent increase positively affects profitability, and with the increasing employment and migration numbers we see reported in the press, we expect a continuation of the upward trend in our rental income stream.

Growing Real Estate Portfolio: from 363 to 547 Condos

Optimus made the acquisition of an additional 184 condos in a 358-unit project called Dolce by the Lakes, in Las Vegas. The units have been acquired for an average price of \$49,000, which is only 47% of the cost needed to build them (what we call “replacement cost”). Occupancy is at 90% and the cap rate (rental income yield at the property level) is in the range of 6% (of purchase price).

Furthermore, this deal was done using bank financing. The quality of the portfolio assembled to date, has enabled Optimus to obtain a \$10,000,000 line of credit facility at a competitive rate of

6.94% per annum (interest only payments with NO personal guarantees) from Stearns Bank (which is a privately owned and operated bank with branches in Florida, Minnesota, and Arizona). Approximately \$9.4 million of the proceeds were used to acquire the Dolce property in Oct. 2011. This also differentiates Optimus from other funds, in that, despite the relative unavailability of commercial financing, Optimus was able to obtain this revolving facility based solely on its portfolio and management execution / track record to date.

Not just anyone can get financing in the US, these days. But Optimus did.

Why condos and how Optimus can purchase so many of them?

We'll say it again; residential condos is one of the best asset classes the fund can invest in right now for its purposes. The market conditions are such that product is available at very attractive prices (approximately 50% of replacement costs) and there is sufficient demand that rental operations generate 5–6% cap rates.

Condos as investment properties, as opposed to single family dwellings, present several advantages: (i) the rental rates in the current market are at a level

that people can afford, especially those who have lost their homes due to foreclosure; (ii) their current value is severely depressed compared to pre-recession levels, making them good prospects for a capital gain play; (iii) eventually, when credit conditions in the US soften and getting a mortgage becomes feasible again, condos will turn out to be the one of the entry-level properties low-to-mid income or first-time buyers will be able to qualify for, making their sale an

With restriction on credit, condos will be sold more easily than larger more expensive single family homes. This translates to the potential of a much quicker exit.

easier proposition than a large single family home. This ensures that our exit strategy will start at the earliest possible time in the future.



Optimus has been able to purchase condos in substantial quantities (greater than 20 per project) by employing a strategy of pursuing the purchase of the remnants of apartment to condo conversion projects initiated during the “boom” and were unsold due to the sudden collapse of market prices. These “fractured condo projects” (referring to the business model not the condition of the condos themselves) give

Optimus the opportunity to buy a controlling interest in various condo complexes, giving Optimus control of the condo board (or Home Owners Association as it’s called in the USA), as well as using the clubhouse as a rental office. In addition, Optimus also inherits immediate cash flow, as the seller has rented out most (80-90%) of the unsold units in a vain effort to make mortgage payments to the bank.

A Business Model that Works

One other measure of performance is the ability of a fund’s management to execute according to plan. One needs to step back and ask questions about the plan itself: was the plan reasonable in the first place? Did they make the right decisions? Were the assumptions used in the formulation of the plan accurate?

A rare occurrence in the business world. Things going as planned!

In the case of Optimus, these questions have now been mostly answered. The basic assumptions that were made regarding the potential for capital gain and profitability of rental operations have been proven true.



- i. Optimus has consistently found product at approximately 50% of replacement costs based on today’s lower land and construction costs;
- ii. The fractured condo model is presenting several advantages from the points of view of acquisition costs and economies of scale;
- iii. Rental operations are profitable because the recession has increased pressure on

the rental market at the expense of the buying market; and

- iv. The price of the acquired properties in the markets where Optimus is active are close to the bottom or bottoming-out;

Many funds have been unable to fully execute their business plans and have largely not proven their basic business premises to be true. By executing on its business plan, Optimus has created value by minimizing execution risk going forward. When investors see actual proof of a fund's management competence, they know they are investing wisely.

Some Interesting Reads

Clear Capital: U.S. Home Prices Down in 2011, but Market Stability Forecasted for 2012 (9 JAN 2012)

http://dl.dropbox.com/u/19221755/ClearCapital_HDIMarketReport_2011YIR_2012Forecast%5B2%5D.pdf

Shows that while Vegas has dropped 9.2% in 2011 on average, the last quarter was down 2% and that numbers in Nov. 2011 actually showed a slight increase. Confirmed that Miami/Orlando prices rose – partially due to declining REO inventory – though the real question is how much is still going through the “judicial foreclosure” pipeline.

RealtyTrack: 2011 Year-End Foreclosure Report: Foreclosures on the Retreat (9 JAN 2012)

<http://dl.dropbox.com/u/19221755/2011%20Year-End%20Foreclosure%20Market%20Report%5B4%5D.pdf>

The Realtytrac report shows while Las Vegas still leads in foreclosures, it's down 30% from a year ago. There is also a chart outlining the shortest/longest foreclosure times that basically shows that the foreclosure process is longest where states have judicial foreclosures (i.e. NY and Florida).

New York Times: U.S. Economy Gains Steam as 200,000 Jobs Are Added (6 JAN 2012)

<http://dl.dropbox.com/u/19221755/U.S.%20Economy%20Gains%20Steam%20as%20200%2C000%20Jobs%20Are%20Added%20-%20NYTimes.com%5B4%5D.pdf>