SOUTHWEST PROPERTY TRUST

Real Estate Since 1976

ASCENSION OPTIONS REPORT

Unorthodox Real Estate Investing

By F. Scott Tonges

Apartments/Office/Retail/Warehouse & Hybrids/Lodging

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Propertytrust@frontier.net / www.SouthwestTrust.com Ascension Options Report Merged 2021

THE ELEPHANT STORY

7% TO 35% TO 100% RETURN ON INVESTMENT…..& UP — REALLY ?

Before you dismiss this preposterous sounding idea, let me tell you the Elephant story. Imagine some modern day explorers are in the Amazon jungle. They come across a remote, primitive tribe. They communicate through an interpreter and exchange revelations to one another. What strikes the tribal leader as impossible to believe is the description the explorers give him about a creature he cannot image: an elephant. It's soon arranged for the leader to be flown to Africa to see for himself. Upon arrival, they take him to an elephant but they approach from the rear. In fact, that's all the tribal leader sees, the back of the elephant. He never sees the animal from the side and front, so learns nothing about the elephants' incredible tusks, his unusual trunk, or his soulful eyes. He's then returned to his tribe, where he is revered as the resident, elephant expert.

For many investors, they never see the whole of what's possible with real estate investment. Putting 25% down or more, holding on to a property for years, then hoping appreciation and a good result will come to pass is the basic plan. They never see the entire elephant.

In this brief report are some options you may want to consider. Then there are some real life examples and explanations. Here's to your success. If you decide to take another step with any of them, we can talk.

The Highlights of These Options

Turnarounds are about acquiring underperforming properties which are most likely vacant or partially vacant properties. They are purchased so that the "all in cost" to buy, lease up, and reposition to full operation is 75% of the end or target, market value. This allows you to refinance 75% of the created value, pulling out 100% of invested capital and keeping the property and its cash flow.

Value Added investments are those in which rents are below market rate or expenses out of line, or both, but operations can be improved and stabilized so that the net operating income is raised such that the value of the property is quickly increased by at least 20%: a $1 million purchase becomes $1.2 million valued property. This can then be refinanced and most of the invested capital returned & a high return (double digit) generated on the remaining equity.

Retail & Net Leased Investments – Retail investing is buying pride of ownership, optimally running properties at market value. Net leased investing is buying investment property, leased by national or regional credit tenants for long term. The most popular are triple net investments in which the tenant pays 100% of the upkeep & expenses of the building.

Building for Owners Business – Rather than own and occupy a single use building and have the associated costs and mortgage expense, it's possible for a business owner to acquire more space than is needed, renting out this excess to others, and cover most or all the operations and mortgage cost with the excess rental income, or even have a net positive cash flow.

Commercial Buy to Flip - I've worked with investors who buy a Turnaround or Value Added building for the purpose of holding it short term, doing nothing to it, then selling it to another investor or user for a substantial profit. In the free Ascension Report offered here, one example is my client netting over a $60 million profit on a $120,000,000 investment. This can be done ON ANY SCALE, as this client told me & I've confirmed.

The cover photo is of Howard Huges' aircraft that never flew higher than show, like many investors real estate assets. Let's fix that. What follows are details on how the returns on investment noted by master investors is often achieved.

A & B Situations

Investment Type: Turn Arounds	Investment type : Value Added
Return OF Investment	Return On Investment
100% + Onging Cash Flow	60% to 70% Return OF Investment
	plus High Return On
	Remaing Equity

I'll deal with both of these situations, Turnarounds and Value Added, as they are variations on the same idea: acquiring properties that are not performing as they could. They may be vacant or partially so, in the case of Turnaround properties, or merely underperforming due to low rents or high expenses, or both, in the case of Value Added properties. As you already know, or learned in my Property Empire book, the value of a well performing property is created by capitalizing the net operating income, as follows:

Annual Income

Less Annual Expense

Net Operating Income (NOI)

NOI / Cap Rate = Value

TURNAROUNDS – SITUATION A's

For a situation A, the NOI may be negative (very poor occupancy) or non-existent (vacant). The first step is always to determine the possible value, once turned around, based on area rents and area comparable expenses for similar properties. In my Property Empire book, pages 67-69, I use a 10,000 SF shopping center, as an example: $15 psf/yr rent rate, 92% occupancy, tenants paying 15% of the 50%-of-income annual expenses. The target NOI in the example is $89,700. Capitalized at 8%, that's a target value of $ 1,055,294.

So, the idea is to buy this property for an all in cost of 75% of this end value, or $791,470. This figure includes purchase, rehab & tenant build out allowance, financing costs while leasing up, a fund for incentive bonuses to lure tenants to the property, broker commissions, reserve, AND PROFIT or new equity created. One of the tricks the masters use, Jerry J. Moore comes to mind, is to entice a larger tenant or two to commit to leasing space in the center before the purchase. With third party data base information available today, one can, as an example, cherry pick attractive tenant prospects by name, size, and lease expiration dates. There are other ways to prelease a property, too, but that's the way to make this work.

In my book example, the profit, or newly created equity, was $227,554, with no outstanding invested capital in the deal and you still own the property and it's cash flow. You could take the fully refunded investment capital and find a similar deal, or you could pursue this next idea, a situation B.

VALUE ADDED – SITUATION B's

My personal definition of this situation is that the value can be raised by 20% due to the existing property having below market rents or high expenses, usually both. Let's assume we acquire such a property for $1,000,000 with $250,000 down. Using a capitalization rate of 8% in this example, that means the NOI, going in, is $ 80,000 per year ($80,000 / .08 = $1,000,000 value).

Our target is a new value of $1,200,000 so we need to raise the NOI to $96,000. When that is done, we can refinance 75% of the new value for a loan of $900,000. We the repay ourselves $150,000 of our original $250,000 investment, leaving $100,000 of invested capital in the deal. Here's where it gets interesting. Assume the new loan of $900,000 is at 6%/25 years, for annual mortgage payments totaling $64,752 and cash flow of $31,248 (NOI $96,000 less $64,752).

This cash flow is a 31.2 % annual return on your remaining invested capital of $100,000.

Profitable Ownership of the Building Housing your Business

Building for An Owners Business			
10% down			
Excess Tenant Rent Covers Mortgage			

Let's talk about Howard Hughes. You may remember when Hughes withdrew from public view into his own private world, he was living in the top two floors of the Desert Inn in Las Vegas. Below his private quarters was a hotel and a casino. Forget the casino and hotel for a minute and just focus on the fact the he used a fraction of the space to live and the rest of the building was used for income. Even if he paid rent to his firm for the space he occupied, what was his net cost to occupy that space? **The answer is ZERO NET COST,** of course, for the space he used, personally. The building profits were far in excess of his rent. Assuming you don't have the desire or resources to buy, then live atop a hotel/casino, think of down scaling this idea but still becoming your own landlord. The options go from getting a special loan for 10% down (a special government loan available for this owner occupied set up) to buy your own building and having tenants in the excess space cover most of your building operations and mortgage costs, to using even less of the building, and renting out more, with Huges being the example of the extreme. The trick to make this work is to balance area rents with the cost of the building. What if you bought a Situation B building and occupied part? That's even better. I'd be glad to discuss your needs and some ideas.

Net Leased Investments

Net Leased & Retail Investing
Return On Investment
6% to 10% / National Credit

If owning a Walmart building and getting your rent check from Walmart each month sounds attractive, this may be for you. And Walmart takes care of 100% of the building costs and upkeep- taxes, insurance, utilities, grounds, roof, structure, everything. You get a check each month. If you have a mortgage, you'd pay that, but that's all. This is the world of net leased investments. Now Walmart's don't hit the market every day, and when they do, investors are so attracted to them that the return on investment may drop into the mid-single digits, but it beats putting your money in a mattress. Now, a Walmart would likely be in the $7 million and up territory. However, for $1.2 million you could have a similar investment owning a Dollar General building. These are, as you can imagine, very popular investments. Many of the national chain operations lease their buildings from investors. They are not owned by the corporation. Auto Zone, Tractor Supply, Home Depot, US Post Office, Starbucks, and many fast food operations are popular and the list goes on. There are, however, some pros and cons of each, even building type. Many non-national operations lease their buildings from investor-owners too, including medical facilities. I work with clients to decide if this if for them.

Commercial Buy – Hold – Sell

Commercial Properties
Buy & Hold to Flip
Return On Investment
35 to 70%

Some of the most successful investors I've worked with over the years take this approach to investing. Remember our vacant shopping center? What if you bought the building for very cheap, as you must if you were to redevelop it as suggested, but then sat on it until a developer or user bought it from you, for a profit? You do nothing to the building. You just buy and hold it while keeping it on the market. You may pay for minimal utilities like lights and base electric and water, though not in use, and accrue real estate taxes, but that's all. Let me give you some real world examples, from small to huge. Well, I'll start with huge.

GEORGE- When I first boarded George Ablah's jet, he had recently completed a $120,000,000 cash purchase. That's one hundred twenty million. The purchase was for appx 800 properties, scattered across the country. The portfolio was all the Chrysler dealerships in America. This purchase was in 1979. Chrysler was in financial trouble and while working to secure a government bailout loan, the chairman, Lee Iacocca, had to raise cash in the interim. So, the sale was made, to George. George then began selling off these dealerships. After about half were sold to third parties, Iacocca, having secured the government loan, now needed dealerships. He called George, asked how many of the dealerships he had left and George said, "About half". Lee then said he'd give George his $120,000,000 back for the remaining properties. If George sold these others for only what he'd paid for them, that's a $60,000,000 profit. He won even if this fluke buy back had not occurred as he'd sold off half in short order. And as George told me that day, "What I do on a big scale, anyone can do on a smaller scale".

The Four Plex Apartment – Taking George's advice, I contracted to buy a closed down, boarded up 4 plex for $110,000. I then sold the contract, but did take momentary possession at closing, for $ 148,000 to the guy who wanted to rehab and keep it. A $38,000, not a $60 million profit, but a profit with, in this case, zero investment.

Sparhawk Development – During the financial collapse in Houston in the mid 80's my management firm took over management of 766 units of a portfolio of about 6 properties. The owner was a financial institution who had foreclosed on the package. We also had them on the market to sell, when an investor from Boston, Ed, showed up and bought the entire package. These apartments were only partially functioning and had low occupancy and needed work. Some buildings within given properties, were closed, but most open and rented. I was expecting Ed to start the fix up, but he did nothing except collect the rents, such as they were, and pay the bills. I kept waiting on the rehab planning, but it never happened. Instead, Ed had me put them on the market, individually. In a matter of months, we sold them all, for quite a large profit.

A Closed Down Fast Food Building- You'd think I'd figured this out by now, but here I was looking into a vacant, free standing building that at one time was a national brand operation. The recent prior were investors and were not in the business of fast food. It seems the owner of the franchise had gotten into some legal trouble and lost the brand, so the place closed down. The investor-owner who gave up the building, had been renting it out to the franchisee. When the franchisee gave up his operation, the investor did not want to own this situation any longer, so he took a huge loss to get rid of it. The numbers I know, from public records, are these. The owner when it was operational bought it in January, 2013 for $775,000. After it was vacated, he sold it for $450,000 in September, 2017. The group that bought the vacant building sat on it for 16 months, offering to lease it or sell it. In January, 2019 I arranged for the sale to a user at $752,000. This buy-hold-sell approach for a vacant building made for a gross profit of $302,000. Now there were some carrying costs, even for a vacant building, but if it amounted to $50,000 that's a net profit of $252,000.

On an investment of $450,000 that's an annualized net return on investment of 42% per year.

Special Investments

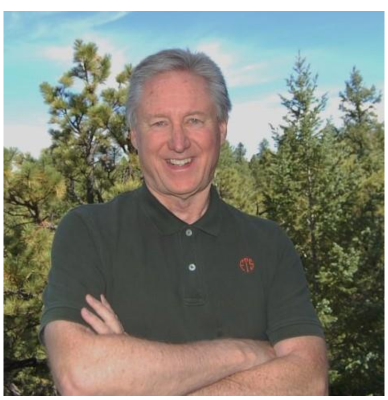
	SPECIAL INVESTMENTS		
	Return On Investment		
	100 to 500 %		

These are special situations that, for larger scale investments, $ 5 million and above, I offer to active clients. You can get a sense of some of the components of these situations in Chapter 10, More Secrets of Master Investors, in my book, Property Empire. These offerings often combine some of the concepts noted in this report with features detailed in Chapter 10.

A NEXT STEP

I provide various levels of consulting and asset management for both passive and active investors. If you'd like to consider my help, let's have a talk. I look forward to hearing from you.

Here's to Your Success.



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Some Past, Paying Consulting & Asset Management Clients of Scott Tonges

Client letter excerpts regarding Scott Tonges. Full letters & more at **www.SouthwestTrust.com** then to **"About"** tab.

Re: Medical Center Del Oro / 60,000 Multi-Tenant Investment Building. Letter from Owner-Bert Zweig, Esq / Chairman – Corp Finance Division of the law firm Finley, Kumble, Wagner. Beverly Hills, CA. "*I can say he is an expert in real estate finance, development, and sales. Mr. Tonges has performed such services for me and for others with whom I am associated, all to our great satisfaction. I respect his experience and rely heavily on his judgment in such matters."*

Re: Analysis of a Planned, Full Service Hotel Acquisition by Brokers Client. Brokers note to me after a meeting with his client on a paid basis. Broker: J. Jackson. Colorado *"Scott, thanks so much! Your knowledge in this area of real estate is quite obvious"*

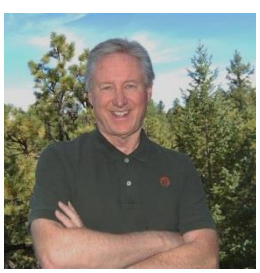
Re: Management and Sale of Apartment Complexes. Owner: Eastern Savings Bank – Scarsdale, NY. Coleman Donaldson, Assistant Vice President. *"…they (Tonges – McKelvy firm) possess broad knowledge of the financing and marketing of commercial real estate projects which is essential in today's competitive & complex market. I hold both individuals in the highest esteem"*

Re: Development & Brokerage. *Service: Employed Attorney; Joe Bax, Esq – Hoover, Bax, & Shearer.* *"…has always conducted himself in professional manner. He is a most capable individual with a rather broad range of abilities."*

Re: Acquisition Brokerage, Management & Resale of 713 Unit Apartment Portfolio – Client: Sparhawk Development-North Reading, Massachusetts "Scott and his firm have done great job managing the apartments and also reselling 566 units for a profit**"**

Re: Single Mom seeking to own her first 4 plex. Unsolicited email. Laura N. "*I never forgot you & am so thankful and blessed that I received your time and coaching years ago…As of December 2016, I purchased my first 4 plex…I did it !"*

Re: 168 Room Hotel Sale – Owner: Group of 15 attorneys – Tom Farr, Managing Member/ Miami, FL / Cash sale. *"…the letter of intent was signed Nov 15, and the transaction closed December 27. Our group was pleased with Scott's professional attitude and methods of keeping everyone informed, especially given the fast pace once this final transaction got underway."*



Named among the top 25 commercial real estate brokers in the US, Scott's 42 year career has spanned every facet of investment real estate. Spending an average of 6 years focused on each commercial property type, he founded a commercial property management firm operating in 5 cities, has developed both commercial and residential properties, founded a residential brokerage firm, and has been involved in transactions from modest to $220 million dollars. Today he's a private investor, consultant, broker, trainer, and author.