Voyager Pacific High Yield Fund III, LLC

CONDOMINIUM CONVERSION AS A DEVELOPER'S TOOL

The Conversion of Apartments and Commercial Assets to Condominium Ownership

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When people talk about condominiums, high rise urban buildings often come to mind but it is just one of many examples of condominium ownership in the world of real estate. The principals of Voyager Pacific High Yield Fund III consider condominium as a form of real estate ownership a valuable tool to maximize the value of it's real estate investments. Incredibly, the sum of the parts is often worth more than the whole. How can a simple change in the form of ownership make the exact same asset worth more money? Our experience confirms the willingness of prospective purchaser to pay a "*homeownership premium*" for a condominium unit as compared to the value of the same unit as a rental. Need liquidity for an unexpected reason? If the developer prepared and put in place a condominium plan when they purchased or developed a building they could sell a few units as opposed to selling an entire property or taking on a partner or endeavoring to refinance the property. Planning a joint venture? Let each partner go their own way with condominium units at the completion of the building or project.

First, some baseline information:

- ✓ What is an Offering Plan? A document prepared and provided by the Sponsor that offers detailed information regarding the property and the sale of the individual units. Generally, the Offering Plan needs to be submitted and approved by the Attorney General in each and every state that the real estate is offered for sale.
- ✓ What is a Sponsor? Contrary to realty folklore, the Sponsor is not some shadowy, Wizard of Oz like figure behind the curtain. Most Sponsors are simply the developers who built or converted the building and offer the units for sale via an Offering Plan. The Sponsor is the person who brings all the pieces together (the contractor, the architect, etc.) and offers the finished product to the public. When a building is constructed or converted from a rental into a co-op or condominium, the Sponsor takes responsibility for selling off the apartments in the building, and will often retain a number of them as investments. These units are often referred to as Sponsor Units.
- ✓ What is a Sponsor Unit? When a condominium or co-op apartment is described as a Sponsor unit, it means it is being sold by the original developer or owner of the entire building. The buying process of Sponsor units tends to be quicker and more streamlined.

As you will observe in the examples that follow, condominium owners will supplement the purchase of their home via the purchase of storage units, parking spaces, garages and other accessories that upgrade the ownership experience. It's surprising to non-real estate professionals that you can create a condominium plan for properties as small as a two-family home or as diverse as a parking space airplane hanger or a boat slip. The principals of Voyager Pacific High Yield Fund III have had direct experience in the development and or conversion to condominium ownership of the following types of real estate: residential apartments, townhouses, parking spaces, garages, storage units, commercial parking garages, and boat slips.

Often, an overlooked item in the development process is the preparation, submission and approval of condominium offering plans and HOA documents, in coordination with the intended phasing plan of a particular development, by the respective state's Attorney General's office. Frequently, developers undertake this process after obtaining all zoning and entitlement approvals and it becomes the critical path item for sales. Taking the overall picture into account, it is important to consider the proper phasing of the project with the necessary offering documents to begin selling units, buildings, land parcel(s) or any other piece of real property. Further, what we, the Sponsor, is selling needs to be considered and provided for in an offering plan. Items such as parking spaces, detached garages, storage bins or rooms, commercial or retail units, ground and or roof rights can all be sold if properly provided for in the Sponsor's offering plan. Additionally, we have often prepared simple offering plans for commercial buildings, providing the developer with the maximum long-term flexibility and or exit options to finance or sell all or part of a building or project. The principal's of Voyager Pacific High Yield Fund III have managed the submission and approval of more than nineteen Offering Plans, many Homeowners Associations and countless amendments.

The following projects represent an interesting cross section of projects in which we have seen condominium ownership used to maximize investment returns and or to manage risk.

- ✓ A common use of the condominium tool is the conversion of a rental property to condominium ownership. For example, the principals of Voyager Pacific High Yield Fund III purchased a 16 unit garden apartment building on a cap rate basis for $3.350 million. The property contained 16 residential units, 11 garages, 9 on-site parking spaces. Over the course of the next several months, we vacated all apartments, prepared and filed a condominium offering plan, and renovated the units and interior spaces. Within the building we found areas to create secure individual storage units. The on-grade parking was reconfigured to create additional parking spaces. We applied constant pressure to our team to complete all aspects of the project. Every member of the development team, from our attorney and title company to the general contractor, had worked together with us on multiple occasions. Total project time from acquisition to individual unit closings: 24 months.

A summary of the project sales and expenses follows:

Sales Revenues:	
Residential Units	$6,355,800
Garages	$385,000
Parking Spaces	$92,500
Storage Units	$8,500
Total Revenues	$6,841,800
Development Expenses:	
Property Acquisition	$3,350,000
Renovation Costs	$860,000
Soft Costs	$200,000
Total Expenses	$4,410,000
Gross Profit	$2,431,800

- ✓ The principles of the Fund converted a market rate apartment building to condominium ownership. A unique aspect of the property was that it was located in a community that prohibited overnight parking on its public streets. Fortunately, the building contained a private, off-street parking garage. Accordingly, as the Sponsor of the condo conversion we caused to have prepared an offering plan to sell each unit individually and a commercial garage unit. The commercial garage unit was initially priced at $350,000. The Sponsor reserved the right to sell or not sell any unit, including the garage unit.

  Upon the sell out of the residential units the Sponsor converted the garage condominium unit to a cooperative unit, sometimes referred to as a "CondOp" in order to "sell" individual spaces rather than the entire garage. Parking demand remained strong due to the municipal restrictions on street parking and the desire of unit owners to enhance the value of their unit by acquiring a dedicated, indoor parking space. We offered shares in the condominium unit for sale accompanied with a proprietary lease for the exclusive use of a specific parking space. Spaces were priced between $10,000 and $20,000. Total sales proceeds from the commercial garage condominium unit was $750,000.

- ✓ Our attorney recently prepared an Offering Plan for a joint venture developing a mixed use building that contained a commercial parking garage, street level retail space and a boutique hotel above the retail. The joint venture consisted of a hotel owner, a parking garage operator and an investor desirous of the retail space. The joint venture gave birth to a 3-unit condominium: a retail condo unit, a garage unit and a hotel unit. Each partner arranged for their respective permanent financing to take-out the construction lender. Post construction, each unit owner controlled the destiny of their respective business/unit, managed their own affairs, paid their own real estate taxes directly to the municipality and a roadmap, the Offering Plan, was in place for the shared use of common areas.

- ✓ The suburban two-family home is a cornerstone housing type in many communities throughout the country. Similar to other types of commercial real estate it is priced based on a capitalization rate of the net income of the property. The same exact property sold as two individual units, individually for sale, generally reflects a pricing premium associated with homeownership. The following is an example of a newly constructed two-family home in suburban Connecticut. Monthly rent for a tenant is projected at $3,500 per month. A homeowner who purchases one unit for $999,000 (assuming a conventional first mortgage with 20% down payment, 30-year term @ 3%) would have a monthly mortgage payment of $3,370, less than the cost of rent for the same unit. The homeowner will enjoy the tax benefits of homeownership and will benefit from any appreciation in value. The Sponsor/Developer will generate +91% more revenue for the exact same amount of time and effort.

Comparison of same property for sale a two -family home v. 2 condominium units	**Two-family Home: House v. Condominium**
Revenues:	
Unit 1	$42,000
Unit 2	$42,000
	$84,000
Expenses:	
Insurance	$3,500
Real Estate Taxes	$12,000
Reserves	$6,000
Total Expenses	$21,500
Net Operating Income	$62,500
Value @ 6% cap. rate	$1,041,667
Value of two condo units	$999,000 each or $1,998,000 total
Condominium Premium	+91% ($1,041,667 versus $1,998,000)

- ✓ For a myriad of reasons, Sponsors of condominium projects choose to sell their unsold inventory at or near the end of the planned marketing program, sometimes earlier if they are in financial trouble. Reasons to do so could include new or unexpected competition, changes in the market or the frequent litigation a Sponsor faces after turning the Condominium Board over to unit owners. We refer to these sales as "Blocks of Unsold Condominiums". Blocks of unsold units are often difficult to finance unless you are experienced in doing so (*as we are!*), making them attractive to a smaller pool of buyers. We like this predicament as competition generally depresses returns.

  The purchaser of a block of unsold Sponsor units has the ability to declare themselves a Successor Sponsor and as such has preserved all of the rights of a Sponsor while simultaneously insulating the Fund from the acts and obligations of the original Sponsor. Some of the benefits of the Successor Sponsor designation is the ability to sell, rent and convey units without the Board of Manager's approval and or input. Successor Sponsors can set their prices and are not subject to the Board of Manager's right of first refusal.

The goal of the principal's of Voyager Pacific High Yield Fund III is to maximize the return of each and every investment made on behalf of the fund. The ability to sell, buy, or re-sell real estate assets as a condominium is an important skill and tool that we have at our disposal.

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