

Real Estate Investors Groups



Kafarski Equities LLC
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Preface

I have written this treatise for several reasons:

- to discuss commercial real estate investments in general;
- to introduce a method of investing in real estate;
- to introduce my company Kafarski equities LLC.

Real Estate investment groups are not new. This type of investment vehicle is also known as a real estate syndication. Syndicates or groups of investors have been formed for many years in the United States as well as internationally for the purpose of owning real estate.

Real estate is the earth. It is the ground beneath our feet; on it rests the buildings in which we live, work, learn, rest, raise families and recreate. Nearly all human activity takes place on real estate. Real Estate is something that is “real “and something that is valuable as the word “estate” denotes. Real Estate, Realty or Real Property is truly REAL and it is as real as an investment can get. The objective reality of real estate contrasts to the subjective aspect of many other investments including financial instruments such as stocks, bonds, promissory notes, currencies, futures contracts and their derivatives. Real estate is and has always been a primary and basic investment of all peoples wealthy and less than wealthy since time immemorial. Innumerable wars have been fought over real property and countless fortunes have been made and preserved through property ownership. The attraction to property ownership is universal and timeless. Owning a home is considered to be an essential part of “the American Dream”.

Real estate is a finite resource and the dry land area of the earth is obviously not increasing in size. People are actually more concerned with the possibility of rising ocean levels flooding and reducing the amount of dry land.

Of course not all real estate is the same or has the same value. In the United States vast areas of the country are uninhabited or sparsely inhabited. These areas are not desirable for a host of reasons. With few exceptions rural real estate is not as valuable as urban property. The most valuable real estate in the United States is located in urban and suburban areas. The most important factor in determining the value of a property is its location. Not all urban or suburban real estate is valuable and prices will vary tremendously from location to location. Some American cities contain extremely valuable real estate yet other cities in the U.S. include destitute decaying neighborhoods. Often the same city will include both types of neighborhoods.

The Benefits of Income Producing Real Estate Ownership

Real Estate can produce income for its owner in the form of cash from from operations, appreciation in value and tax advantages as well as other benefits as discussed below:

- Cash Flow
This is the profit that the owner may receive after all the operating expenses are paid from the collected rents.
- Appreciation
Property values usually increase over time.
- Tax benefits
The Internal Revenue Code allows investors to deduct Depreciation as an expense. The Depreciation (or Cost Recovery) deduction allows investors to reduce their tax liability on operating profits.

- Increase in equity from mortgage principal reduction
The rental income pays the monthly mortgage payments. Mortgages usually are reduced by the monthly principal payment; over time the mortgage is paid off by the tenants' rent payments.
- Leverage
A real estate owner can use borrowed money (mortgage financing) to purchase a property thereby leveraging the investor's down payment.
- Diversification
Diversification is a basic maxim of investing. An investment portfolio consisting primarily of financial instrument type investments such as stocks or bonds can benefit from an investment of a portion of the portfolio in real property.
- Inflation adjustment
Rents usually increase to keep up with inflation. Also as construction and material costs increase, an existing property's value can increase as the replacement cost of the property increases.
- Transparency
Property ownership records are officially entered into government records and are part of the public domain.
- Real Asset Investment
When you invest in real estate you own a real asset not a stock certificate that may not be worth the paper they are printed on.

The reasons to invest in commercial income property are numerous and compelling.

Investing in Real Estate

If an investor wants to make an investment in income property he or she could buy a small income property on their own. Even with a relatively small scale real estate deal the investor has to:

Search for and analyze properties contacting brokers and sellers, making numerous phone calls and inspecting properties
 Perform financial analysis on the properties
 Negotiate the purchase
 Perform a due diligence investigation covering all aspects of the transaction
 Arrange for financing, insurance, appraisal, legal counsel and engineering inspection
 Manage the property
 Arrange the future sale of the property including negotiations, brokerage, legal and accounting aspects.

There is an alternative to going it alone in real estate!

Investing With a Group

Through a group investment sponsored by Kafarski Equities you can realize the benefits of property ownership without having to go into the real estate business on your own.

You can benefit from the experience of an industry veteran. Real estate investing is a complex detailed process. It's crucial to have the guidance of an experienced professional when investing in commercial property. You can obtain the benefits of a commercial real estate investment through a much easier process.

We have the local market knowledge and we have the property management expertise!

We simplify the investing process by performing these tasks for you as part of an investment group:

- We perform due diligence and analysis
- We find and purchase a specific property
- We provide you with a Offering Document providing detailed information before any investment is made
- You invest with the other investors and purchase a share of the property
- Our company manages the property
- We provide you with regular financial and operating reports
- We distribute any operating profits to the investors on a regular basis in proportion to the investment made.
- We arrange the future marketing and sale of the property

The Benefits of a Group Investment include:

- The real estate receives expert management by a real estate professional
- The Investors' role and involvement is limited in nature
- The investors are not involved in the management decisions for the property
- By investing with a group you join forces with other investors
- You are able to invest in a property larger than you may be able to buy on your own
- By investing in a larger property, the investor benefits because a larger property is more stable economically and enjoys an advantage of scale.
- Your liability is limited to the amount of your investment

Real estate investments in the New York City Area

Consider the largest urban area in the United States, New York City. New York contains some of the most expensive real estate in the world and is endowed with a wealth of valuable natural attributes. Yet within New York City are neighborhoods that are among the poorest in the U.S. ² Its land area is constricted by water and is not easily increased. Yet New Yorkers have added to the land area of Manhattan and its surrounding

² 2010 U.S. Census. Melrose-Morrisania section of the South Bronx.

boroughs since the city's founding. New York has been enlarged through filling in the tidal marshes adjacent to dry land. Most recently the earth excavated during the construction of the foundations of the original World Trade Center was used to fill in the Hudson River and forms the landfill on which Battery Park City currently stands. It is unlikely that New York City's acreage will be increased in the near future. New York will most likely only grow upwards in the future. A great demand for space continues to exist in New York City. This situation of constrained supply and growing demand causes New York City real estate to become more valuable over time.

Cities have been established and prosper because they are places where people want to live and where businesses want to operate. Most great cities can trace their roots to a natural resource and other natural assets. New York has a world class harbor, sources of fresh water and is located at a nexus of well established transportation and trade routes. New York City has many other strengths that contribute to its vitality and growth.

New York City real estate is unique and not all urban property shares its characteristics or value. Some cities are caught in a downward spiral of economic and physical loss and decay. But most real estate located in stable growing American cities has various positive factors that make it an attractive investment:

A ready market of customers comprised by the urban population,
Infrastructure, transportation and cultural attractions

A mature maximally developed urban neighborhood will have an inherent cap on competing real estate.

In a fully developed urban area new competing real estate is not as easy to create as it is in a rural or suburban area. There is less available land to build on so new developments are not quickly produced. Consider retail space in an urban neighborhood. In America shoppers will, with few exceptions, only patronize retail stores located at the street level. In a densely developed urban locale all potential store locations may have been already built. If no vacant lots are available no new properties can be built. The only way new retail space can be added to the existing stock of retail space is for a building to be demolished and rebuilt to include retail space or existing non retail space is converted to retail space. In either case it is not simple to add to the existing stock of retail space in a central city urban area. Therefore the existing retail space can become more valuable over time.

There are downsides to urban real estate. Certain individual American cities have entered periods of decline and decay. New York endured a period of decline from the 1960's into the 1980's. New York has experienced an amazing rebirth in the subsequent years to the present. New York City is the engine of growth and prosperity for its metropolitan region. New York's suburban cities and towns receive economic benefits in the form of employment and business activity as well as cultural benefits.

The New York City metropolitan area encompasses the largest real estate market in the United States. It is a very complex market and includes a broad spectrum of property types from skyscrapers to single family homes. Investment opportunities are available but the competition can be aggressive. City and state laws affecting property owners are complicated. The factors affecting real estate can vary greatly from neighborhood to neighborhood and even from block to block. Experience and expertise are prerequisites for success in New York real estate.

Apartments, Retail Property and Offices offer investors a suitable combination of risk and reward. Apartments offer an obvious advantage: they are in great demand in New York City and a vacant apartment can always be rented. Retail Property also benefits from the high concentration of people needing the services and products sold in New York City stores as well as from another factor unique to urban areas: street level retail space is in finite supply as the existing stock cannot be easily increased. New York City and its environs have been fully built out and densely developed and there is not much vacant space available to build additional retail store space. This constrained supply bodes well for the future value of retail space in New York City. Retail and office space is unfettered by the burdens of rent regulation and represents an excellent potential investment.

Apartments in New York City proper fall into two categories: free market and rent regulated. Rent regulated apartments are subject to layers of complex regulations promulgated by New York City, New York State and Federal agencies. Any investment in rent regulated apartments in New York City must be done under the management of a local expert; any other course could be problematic.

We pursue investments in New York City area free market apartments, retail property, and properties that include combinations including office space and to a lesser degree rent regulated property.

We are constantly in the property market seeking and analyzing potential Property Investments on a daily basis. We target properties in stable neighborhoods offering immediate cash flow and good potential for appreciation in value.

Opportunities in the New York metropolitan area:

Kafarski Equities LLC focuses on two property types:

Retail property

Rental Apartment buildings

Properties that contain both retail stores and apartments

We know through long experience that these property types offer the best means of ***preserving invested capital while offering cash flow and potential for asset appreciation***. These types of properties provide places for people to live, to buy the things they need for everyday life, to transact everyday business.

Even during recessions people live in apartments, need to buy the staples of life, and customers still patronize businesses.

Certain types of businesses and properties are less affected by economic recessions than others. Apartments and retail properties serving the local neighborhood fare better in economic downturns than other types of real estate. These properties can also generate cash flow and appreciate in value over time.

Property selection and property management are two critical aspects of the investment process. Although the current economy poses risks for the retail business we believe that well located retail property leased to strong tenants in stable New York City Metropolitan locations will prove to be excellent investments over time. The current economic recession will provide opportunities to buy real estate at prices that will provide cash flow and appreciation potential.

Robert Kafarski's Credo, goals and business philosophy

Wealth can be increased through controlling, owning, improving and developing income producing real estate;

Acquiring real estate usually requires equity capital that is combined with mortgage financing;

By gathering together investors into investment groups we can grow a real estate business;

Through meeting like minded people having similar investment goals and by forming an investment group and a capital pool wealth can be created for all involved;

If the investment group does not succeed I do not succeed;

If you are not happy with your experience investing with my company my company will not grow or prosper.

If you are happy with your business dealings with my company perhaps you will continue to do business with me and refer your friends and family members to me, in this way my business will grow.

My good business reputation is most important;

My word is my bond;

Honesty and integrity are of the highest importance.

The foundation of business is personal relationships;

The Golden Rule – Treat others as you want them to treat you – is one of my life's guiding principles;

I am a man of faith - of faith in our Creator.

If you don't think customers (and tenants) are important, try doing business without them!

I promise you this:

Integrity

Transparency

Informative Reports

And the practice of real estate management in the highest possible level of expertise devoting a higher level of care than I do to my own personal real estate investments.

This document is not an offering and is offered for informational purposes only. An offering can only be made through a Private Placement Memorandum

Robert J. Kafarski ARM, CCIM, CPM

In 1979 I became licensed as a real estate salesperson in New York State. I was fortunate to be employed by a very experienced professional who ran a small residential brokerage on Staten Island. I learned the ropes under her tutelage. I was much more interested in owning and managing real estate as I believed that was where the real money was to be made. With the help of my employing broker I purchased a two family house on Staten Island. In 1980 I took out a personal loan from a bank and assisted by owner financing I purchased a 43 family apartment building in the South Bronx. The south Bronx of 1980 was a tough place to own and manage real estate. The area was actually a devastated blighted part of New York City that was visited by President Carter and pope John Paul the Second as they wanted to see the devastation for themselves and bring national and world attention to the plight of the residents living there. From my perspective the south Bronx offered a way to enter the real estate business as the real estate was inexpensive. That experience was my baptism of fire into the business of owning and managing New York City real estate. In the subsequent years my real estate activities included property ownership and management and I eventually became a real estate broker. I expanded my activities as a real estate broker while continuing to manage several apartment buildings. I have at times I brokered retail space, office space, apartments and Investment Properties. In 1988 I founded my property management company Central City Management Corporation. At one point we managed a dozen properties located throughout Manhattan. At that time I believed that small is beautiful and I never aspired to build a large company or assemble a large portfolio of properties. During these years I was very involved as a student practitioner and competitor in several Japanese martial arts and I attained high ranks in judo and jujitsu.

In 1992 I founded a commercial investment brokerage company with a partner and co managed the firm for five years. I left the brokerage business in order to concentrate on property ownership and management and have not been involved with brokerage since 1998. In 2004 I decided to realize a long held ambition and totally rehabilitate a commercial building. I bought a vacant loft building in Harlem that was originally built as a horse stable. I was the developer and general contractor for the project and I'm very pleased with the results. The Bradhurst carriage house loft condominium located at 458 west 146th street was a great success and broke the price barrier for condominium sales in the Hamilton Heights neighborhood of Harlem. In recent years I've concentrated on upgrading renovating and managing my portfolio of commercial properties. I have also purchased two properties in recent years including 610 Main Street, New Rochelle, NY.

I've also been involved with the CCIM institute helping found the New York Metro CCIM chapter in 2008, serving as secretary, Vice President, board member and most recently chapter president. I have been honored to receive the professional degrees of A R M (accredited residential manager), C P M (certified property manager) and C C I M (certified commercial investment member).

I have achieved success in the real estate business in New York and I have enjoyed my journey through New York real estate. I could tell many colorful stories of the people I have known situations I have been in both dramatic and comedic as well of the many business insights I have gleaned through the years. I could speak at length about my perspective of the regulatory climate of residential real estate in the New York metropolitan area.

During my career I have been intrigued with the concept of real estate investors groups also known as real estate syndications. As I studied the careers of real estate titans of bygone years I learned of the importance of bringing together investors into a group to buy real estate. I have always been interested in this concept and have spent a good deal of time learning about it and actually attempting to form investment groups in the past.

This treatise discusses insights and conclusions resulting from my study of and work in the New York real estate industry.

This publication is not intended to be legal, accounting or investment advice. My intent is to offer investors and others who are interested in commercial real estate information that I have learned during my real estate career. I have worked as an entrepreneur in many different sectors of the commercial real estate business in New York City since 1979.

My hope is that the reader takes away something of value from these pages.