

LUXURY RESIDENTIAL RE-PURPOSING Scottsdale, AZ | Scottsdale, Arizona

Loan Amount: \$ 1200000.0

The borrowing entity is comprised of lending professionals who originally procured the asset after reviewing it as a prospective loan. The group was requiring a \$200,000 down payment in order to obtain the loan. When the original borrower was unable to bring cash to close, the group decided to seek funds to purchase the property. One thing that made this possible was the seller-carry back of \$200,000. The borrowers also committed to complete the property. At the time, just 90% of the interior was completed, the property inside and out needed painted and repaired, and the exterior/landscaping was just 20% completed.

The property sits on a 1.33 acre lot, originally built in 2010 and completed in 2014. The property boasts 5 bedrooms and 5.5 bathrooms within 8700 square feet of luxury living space. The home has several custom finishes and landscaping, and is highlighted by:

- New Pool and View Deck
- Grassy Area and Low Maintenance Desert Landscaping
- Access to miles of recreation (four wheeling and horse) property and trails
- Close proximity to golf courses, grocers, churches, schools and downtown Scottsdale with a remote 10 minute drive of separation
- Ideal privacy (fencing and location)
- Ceiling fans and 12-foot ceilings
- Jetted tubs
- Jacuzzi Tub in Master Suite
- Master Chef's Kitchen
- Fireplaces
- Custom Wrought Iron Doors
- Sauna
- Wet Bar
- Patio wraps around back of house
- 4 Car Garage
- Large grand driveway
- RV Parking
- Vaulted custom ceilings and lighting

The borrowers worked to complete the property and experienced several delays because of issues that persisted with the contractor charged with completing the property. Feeling "behind schedule" by the time all but the pool was complete, the borrowers turned to a company to stage and "tend" the home. The home tender not only defaulted the first month, but discourage prospective buyers, failed to care for the property, and required eviction through a lengthy court process to eventually vacate the property just days ago. The home tending company is working to return the property to its best condition so the property can be re-purposed or sold.

Beyond the disposition of the property, the borrowers have researched several commercial uses the property would be ideal for. Below is a summary of each of these options, along with positive components, cost, and general pro forma for each use.

OPTION 1 - LUXURY VACATION RENTAL

Over the past year, the borrowers have managed to re-purpose two properties as luxury vacation rental. One took \$120,000 to completely outfit and restore an 8,500 square foot property that sleeps 36. The property now sees between \$800 and \$1200/night, and is consistently rented after just 5 months improvements before and during renters. The other is a smaller property that sleeps 18. The property took \$15,000 of capital

improvements and two months to enter a cash-generating state. The property booked almost entirely, four months in advance, at \$250 to \$325/night.

The subject property has a slew of value adds that make the property as or more appealing than the group's other rentals. It could sleep 24 without much effort, and command an average of \$1000/night based on research. Because Scottsdale is so close and home to so many year-round events, there is a major demand for large, well-located vacation rentals. At current low-estimate rental rates, and a mere 75% occupancy, the home should produce \$20,000+ per month and \$240,000.

Positives:

- New pool and backyard to add renter-friendly amenities
- Room to host several private guests and common areas to add large sleeping areas for kids (triple bunks, etc)
- Large kitchen with good-sized secondary kitchen.
- Several open bathrooms
- Several common and visiting areas
- Serene, private location relatively close to downtown Scottsdale and several world-class golf courses and other attractions.

Negatives:

- It will take another \$100,000 or so to convert the property without skipping anything.
- The property may be too far from town for some renters.
- The home has a stint of dirt.
- Liability for this business is slightly higher.

OPTION 2 - RESIDENTIAL ADDICTION TREATMENT CENTER

Two of the principals of extensive experience in selecting, converting, licensing, hiring management marketing, and servicing residential treatment centers for addiction and eating disorders. This model has proven both fulfilling and lucrative. In one event, a home was selected, renovated and converted to a drug rehab center. In the two years it's been open, it's been 100% occupied, paid off all its debt, added a second onsite outpatient facility, and is building a second 14-bed facility onsite. Each bed has cash-pay and insurance premium income possibilities that ranges from \$10,000 to \$35,000 per month. Another center was converted from a ranch to a 12-bed facility and sold to adolescent facility for a profit. The eating disorder clinic went from one small home to several locations with a nationally-renowned foundation.

It would take some major effort to outfit and license the property as a residential treatment center. But after researching the prospect with several local managers and pricing, the site is ideal for at least 12 beds. Experts believe the property could get licensed for up to 18 beds. At the low median for Arizona Treatment Centers (\$10,000 per bed, per month), the property could generate around \$120,000 per month. With an expense of \$2000-\$3000 per bed per month, the net is still greater than \$90,000 per month. Thus, without any additional income, the property should NOI at 1,080,000.

Positives:

- Property is the perfect size with room to plan the home for optimal functionality
- Good mix of bedrooms, bathrooms and common areas.
- Interior privacy with long, wide hallways and wood doors.
- Optimal location, close to stores, gyms, recreation, and churches but in a remote location.
- Tall fences for additional security and privacy.
- Garages that could be converted to screening rooms or offices or even additional accommodations
- Managers Quarters could be in Mother-In-Law suite without disturbance of common areas

Negatives:

- Licensing process could take 3+ months
- County and Office of Licensing may require ADA Compliance and Fire Suppression
- Finding a good local manager we can trust will take some time.

OPTION 3 - SENIOR HOUSING

A group out of Michigan made up mostly of retired doctors and a current operator out of FL who owns and operates nine residential homes as senior care facilities have shown interest in purchasing or joint venturing on the home. By their assessment, it would be relatively easy to license, especially being located in senior-friendly Arizona. Their current sites have consistently grossed \$5500 per bed per month and net about \$2800 per bed per month. With 5 beds on average in each facility, the business nets \$1,500,000.

The structures are endless, but both parties believe that the property could facilitate 8 beds at a slightly higher premium. At that rate, the project NOI for the subject property under this use would be \$268,000.

Positives:

- Property is the perfect size with room to plan the home for optimal functionality
- Good mix of bedrooms, bathrooms and common areas.
- Interior functionality, even for wheelchairs, with long, wide hallways and wood doors.
- Optimal location, close to stores, gyms, recreation, and churches but in a remote location.
- Tall fences for additional security and privacy.
- Garages that could be converted to screening rooms or offices or even additional accommodations
- Managers Quarters could be in Mother-In-Law suite without disturbance of common areas

Negatives:

- Licensing process could take a few months
- County and Office of Licensing may require ADA Compliance and Fire Suppression, including a lift up the stairs or elevator

CONCLUSION

Each of these options are great alternatives to a traditional lease. The borrowers are equipped and prepared to engage whichever business model is most appealing to a new partner or lender.

Buffalo Wings and Rings | Hidalgo, Texas

Loan Amount: \$ 2031000.0

The subject property is a .87 acre commercial property in Hidalgo, TX— a thriving border town and suburb of McAllen. The subject property is entitled for the construction of a 6,000 square-foot chain restaurant franchised as “Buffalo Wings & Rings”. The chain has many restaurants throughout the South, Midwest and a few in California.

This property is located in front of a newly built Walmart (August, 2014) in a high growth area. The city is pushing for exponential growth in the area. One of the driver's for this development are large groups of citizens from Mexico who cross the border to shop at Walmart and seek food options before returning home.

The borrower has listed two other properties as cross collateral.

