

# ARIXA CAPITAL ADVISORS

## Fourth Quarter 2011 Newsletter

Dear Friends and Associates,

I learned the real estate business through experience in commercial real estate. Shopping centers, apartment buildings and industrial properties were the bread and butter of my work as a real estate acquisitions professional at Standard Management Company, founded in 1961. (For those of you who know Sam Freshman, you might want to congratulate him on surviving and thriving for 50 years as the founder and president of his real estate investment company).

When I began Arixa Fund I in early 2010, I was breaking with my traditional area of expertise to take advantage of a unique opportunity in the residential market. As I've continued to watch the residential market evolve over the past eighteen months I have become increasingly convinced of the potential in that market.

### **Conventional Wisdom: Sophisticated Investors Don't Invest In Single Family Homes**

Many commercial real estate investors have frowned upon single family home investments. Their reasons have included the following:

- Single family homes are too difficult to manage as rentals;
- There are no economies of scale from investing in homes ("the effort to buy and manage a rental home or 10 unit building is the same as a 200 unit building")
- Too many small investors and prospective homeowners are competing for these investments, resulting in high prices and unfavorable cash flow.

### **Market Reality in 2011-12: Single Family Homes Represent an Opportunity**

While the first two points remain valid, some of the conventional wisdom about why to avoid investing in single family homes has been turned on its head. Here is the reality today:

- Lenders hold \$1.1 trillion of non-performing or sub-performing single family home loans. This is more than 20 times the \$46 billion volume of defaulted commercial and income property loans.
- There is plenty of money chasing the relatively small commercial real estate market, and a notable dearth of capital willing to deal with investor-owned single family homes.
- In many areas, the cap rate from rental homes (the ratio of cash flow from operations to cost) is higher than the cap rate from apartments. Operators of rental homes in some areas are seeing an 8% unleveraged yield (cap rate) while many apartments trade in the 6%-6.5% cap rate range.
- Banks are frequently willing to sell foreclosed homes for less than retail value, particularly if they require rehabilitation. In contrast, commercial and income properties rarely sell at a significant discount to fair market value.

### **The Housing Market Needs to Heal**

We project that between two and three million homes in the U.S. need to transition from owner-occupied homes to rental homes. This would bring the U.S. home ownership rate from 66%, where it is today, down to 63-64% which is probably a sustainable level today. Some experts are predicting a decline to a 60% homeownership rate, which is possible given that many young people have no desire to own after the boom and bust of the last 10 years. Lenders who embrace this trend and provide capital to operators of rental properties will earn solid risk adjusted returns. They will also facilitate a healing process that is needed in the housing market before the economy can really start growing again.

Sincerely,

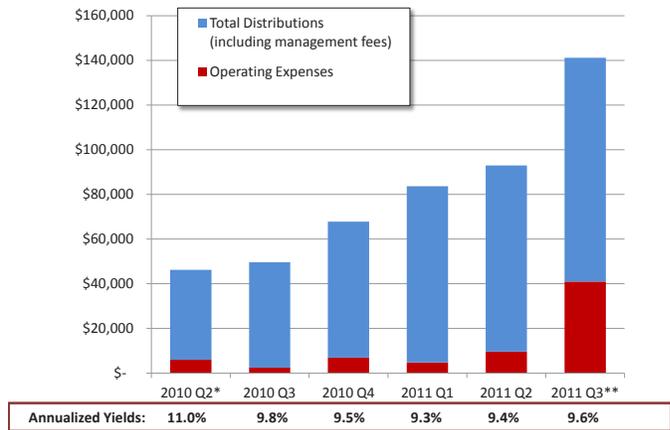


Jan B. Brzeski

Please contact us at (310) 846-1754 or find us online at: [www.arixacapital.com](http://www.arixacapital.com)

**Arixa Fund I Delivers Strong Results In Spite of Default**

Arixa’s “fix-and-flip” home lending fund recorded a 9.6% return (annualized return, after fees) for the third quarter. This result was in spite of an unusually difficult default in which the fund took ownership of a property, rehabilitated it, and sold it profitably. Among the challenges with this default were (1) there was a lawsuit recorded against the property, which had to be removed before the fund could have clear title; (2) the property went onto a title company “blacklist,” requiring us to appeal to the highest levels of Fidelity National Title to secure title insurance for the sale of the property; and (3) the buyer claimed that substantial improvements were unpermitted, requiring us to research and secure evidence of permits for most of the additions to the property prior to sale. This default demonstrated to me both the underlying security of our lending strategy, and also the complexity involved in being a lender, which should make most investors think twice before doing it themselves. The chart on the right shows the results of the fund since inception.



\*March 11, 2010 - June 30, 2011  
\*\* Operating Expenses include expenses related to default

*Arixa Fund I has generated consistent returns since inception, in line with its goals of preserving capital and providing attractive income.*

**THIS NEWS ITEM IS NOT AN OFFER TO SELL SECURITIES**

**Arixa Fund II Set to Launch Before Year End**



*This Southern California home was acquired by one of Arixa’s partners and is rented such that it generates more than an 8% return on cost after expenses.*

As described in our last newsletter, Arixa is launching a second fund to appeal to family offices and small institutional investors. Originally conceived as a commercial bridge lending fund, we have chosen to add in a residential “fix-and-rent” lending element to address the huge demand for this type of financing. Whereas Arixa Fund I makes very short term loans, Arixa Fund II loans will mature in 1-7 years. The blend of shorter-term commercial and medium-term residential lending strategies is designed to generate attractive current income plus some capital gains, since the residential loans will feature participation in the profit on the underlying properties. This fund is open to accredited investors. For more information, contact Jan Brzeski.

**THIS NEWS ITEM IS NOT AN OFFER TO SELL SECURITIES**

**Arixa Secures Key Tenant for Norris Rd. Warehouse**



*The Norris Road Warehouse was originally operated by Dole Foods and was used to process more than 90 million pounds of almonds per year. California produces about 1.5 billion pounds of almonds per year, or 80% of global production.*

Several years ago, in conjunction with Standard Management Company and its owner Sam Freshman, Arixa sponsored the acquisition of a 275,000 sq ft warehouse in Bakersfield, California. The tenant departed at the end of its five-year lease and Arixa found a tenant to occupy a 91,000 sq ft vacancy, bringing the building’s occupancy to more than 90%. The tenant, Jess Smith & Sons, was founded in 1943 and is a major grower and marketer of both cotton and almonds. Jess Smith has signed a five-year lease, with two five-year options, to build an almond processing facility at the site. Jan learned of Jess Smith’s desire to build this facility through his work as the asset manager of an almond orchard near Bakersfield, which Standard Management Company and Arixa acquired several years ago.

**Arixa Plans for 7th Annual Real Estate Investment Roundtable at the Anderson School at UCLA**

Each year for the past six years, we have organized a round table discussion at UCLA’s graduate business school with some of the region’s top real estate investment managers as speakers. Last year’s event drew more than 230 attendees with its mix of great speakers, a very low registration price, networking, food, wine and beer. This year’s event is titled “Dog Days: How Will the Great Real Estate Workout Unfold?” We chose this theme to draw attention to our need as a society to solve the \$1 trillion residential mortgage default mess before the much smaller commercial real estate market can prosper again. For more information about the event and to register, please go to [www.arixacapital.com/conference](http://www.arixacapital.com/conference).

## DOG DAYS:

### HOW WILL THE GREAT REAL ESTATE WORKOUT UNFOLD?

**\$1.1 Trillion**  
Home Loans in Default



**\$46 Billion**  
Commercial Real Estate  
Loans in Default

**Panelists (To Be Confirmed)**  
**Jon Brady** | Head of Global Real Estate | Oaktree Capital Management  
**Samuel K. Freshman** | President and Founder | Standard Management Company  
**William R. Lindsay** | Founding Partner | PCCP, LLC  
**Raymond W. Lowe** | Senior Vice President | Wells Fargo Real Estate Banking Group  
**Jan B. Brzeski** | Fund Manager | Arixa Capital Advisors, LLC

**Moderator**  
**Jesse Sharf** | Partner & Co-Chair of the Real Estate Department | Gibson, Dunn & Crutcher

Arixa Capital Advisors  
proudly presents a spirited discussion among  
five established real estate investors.

LOGISTICS & REGISTRATION:

February 2012, Exact Date TBD  
The UCLA Anderson School of Management  
Korn Hall

6:30 pm to 7:30 pm - Reception  
7:30 pm to 8:30 pm - Round Table Discussion  
8:30 pm to 9:00 pm - Audience Q&A

**Beer, wine and hors d'oeuvres are included**

Cost for registration is \$15 in advance,  
\$20 at the door  
Space is limited

TO REGISTER, PLEASE VISIT:  
[www.arixacapital.com/conference](http://www.arixacapital.com/conference)

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**Jan Becomes a Contributor to Seeking Alpha**

*SeekingAlpha.com* bills itself as “the premier website for actionable stock market opinion and analysis, and vibrant, intelligent finance discussion.” Jan has contributed eight articles to SeekingAlpha in the past 90 days on topics related to real estate investment. Using his experience as a manager of a portfolio of mortgage investments, he published two articles outlining the risks built into the business model of Annaly Capital, the largest mortgage REIT. These articles struck a chord, generating more than 50,000 page views and ranking Jan one of the top 5 analysts of REIT and financial stocks on the site. To see the articles, go to [SeekingAlpha.com](http://SeekingAlpha.com) and search for “Brzeski.”

**Jan Brzeski Joins Advisory Board of CAIA’s AllAboutAlpha.com**

*AllAboutAlpha.com* is the online publication of the Chartered Alternative Investment Analyst (CAIA) Association. The CAIA is devoted to training investment professionals who focus on alternative asset strategies such as hedge funds, commodities, private equity and real estate. Jan is writing a series of articles about today’s real estate investment environment. Because AllAboutAlpha attracts readers from Europe and Asia as well as North America, Jan will curate articles by real estate investment experts from outside the U.S. about which investment strategies are working in their respective regions and why.

**Webinar Set for December 7**

Arixa will hold a webinar for clients on Wednesday, December 7 at 10:30 a.m. Pacific time. Topics covered will include our view of the U.S. real estate market; niches we expect to deliver attractive risk-adjusted returns; and specific investment programs that we are pursuing to take advantage of opportunities. To register for the webinar, please contact Jan Brzeski at [jbrzeski@arixacapital.com](mailto:jbrzeski@arixacapital.com) or go to [arixacapital.com/contact-us](http://arixacapital.com/contact-us) and indicate your desire to participate.

**Arixa Capital is Named Receiver for Arizona Shopping Center**



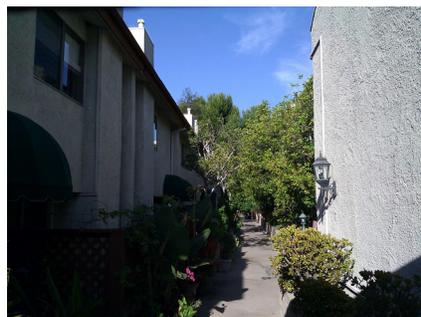
*The shopping center for which Arixa is the receiver encompasses 64,000 square feet*

When a commercial real estate loan goes into default, the lender has the right to request a receiver to oversee the property for purposes of protecting the value of the collateral for the loan. The receiver is appointed by the courts in the county where the property is located. Arixa has been appointed by the Maricopa County court system as the receiver for a shopping center in Phoenix, Arizona. The loan on this property is a Wall Street-originated CMBS loan and the special servicer is C-III Realty Services, the nation's #2 special servicer. Arixa's role is to select and oversee a local property management company and leasing team, and ultimately to arrange for the sale of the property. We agreed to take on this assignment because it demonstrates our abilities as a hands-on commercial real estate investment and asset manager. A photo of the property is shown at left.

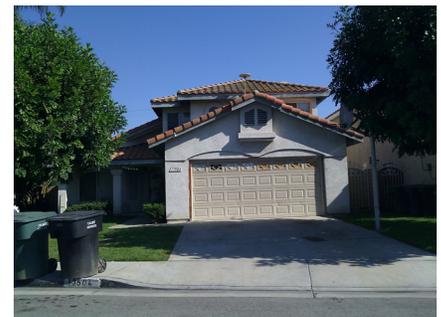
**Other Recent Short-Term Loans**



<b>Location</b>	Vista Tierra, Rancho Palos Verdes
<b>Loan Amount</b>	\$ 266,400
<b>Purchase Price</b>	\$ 332,000
<b>Appraised Value</b>	\$ 430,000
<b>Loan to Cost</b>	80%
<b>Loan to Value</b>	62%
<b>Rate*</b>	12.99%
<b>Origination Fee*</b>	2 Points



<b>Location</b>	Kester, Los Angeles
<b>Loan Amount</b>	\$ 180,000
<b>Purchase Price</b>	\$ 225,500
<b>Appraised Value</b>	\$ 301,000
<b>Loan to Cost</b>	80%
<b>Loan to Value</b>	60%
<b>Rate*</b>	12.99%
<b>Origination Fee*</b>	1 Point



<b>Location</b>	Parker, Paramount
<b>Loan Amount</b>	\$ 197,000
<b>Purchase Price</b>	\$ 247,000
<b>Appraised Value</b>	\$ 330,000
<b>Loan to Cost</b>	80%
<b>Loan to Value</b>	60%
<b>Rate*</b>	12.99%
<b>Origination Fee*</b>	1 Point

\*These loans were funded by Arixa Fund I, LLC. All interest and origination fees are collected by the Fund and distributed to investors according to the Fund's operating agreement.