

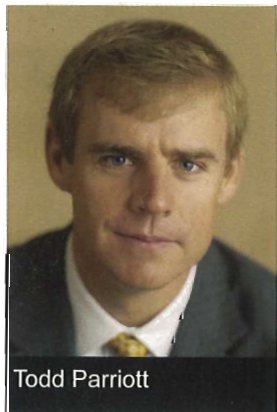
Todd Parriott

## Shows How to Make the Wake a Party

### By The Editors

For some there is a sense that we just witnessed the death of real estate. Nothing could be further from the truth. The death we witnessed was that of speculative investing.

Speculative schemes only work when a market moves up. Strike an economic hiccup or slowdown and they collapse like a Ponzi scheme. Flawed business models fail. These begin



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with unrealistic buyers, dodgy promoters, lenders, investment bankers, and gurus with plans that begin and end with feathering their own nests.

### THICK & THIN

Companies like Consolidated Mortgage have prospered through these cycles before. Founded in 1977 and based in Nevada, Consolidated Mortgage is one of the oldest and most respected trust-deed investment companies in the West. Led by master investor and chief executive officer, Todd Parriott, Consolidated has become one of the largest, private, trust-deed investment firms in the U.S.

Parriott's vision of a successful real estate company did not begin with an education and apprenticeship in real estate, but rather working in marketing in the casino industry.

The popular image of the casino manager is far from the operational reality. The marketing details of data-

base mining, customer segmentation, rank modeling, and relationship building that are the standards pioneered by industry icons Steve Wynn, Merv Griffin, and Kirk Kerkorian. Parriott was a part of the development of these multibillion-dollar gaming empires, employing marketing skills and relational database analyses to find, rank, and serve customers, from the "whales" (high rollers) and the "good players," to the penny-slot regulars, determining profitability by segment.

The reality is that the hundreds of "good players" betting less than a \$100 a hand, but many hands a day, can deliver greater profitability than a couple of Whales. But, what about the \$50 player and so on?

### VOLUME VECTOR

Casinos are attached to hotels for good reason; there's a strong relationship between room occupancy and average play per person. An increase of three or four minutes in playing time can increase revenue by up to 30 percent. Millions of pieces of data are analyzed to reach this conclusion and allow predictive modeling. Being able to determine volumes and trends improves profitability.

This level of customer segmentation and analysis develops a deep understanding of the need to manage customer relationships to build mutual loyalty and allegiance to a brand. The casino business offers many options, beginning with giving away (comping) rooms, food, and beverages to the high rollers, then ranking the most important or profitable customers to the least profitable segment.

The goal is to find breakeven by offering progressively fewer, and less costly benefits that extend playtime, maintain loyalty and optimize profit.

### NO GAMBLE

Parriott climbed the casino corporate ladder and found that he wanted more. He made the move to Consolidated Mortgage 12 years ago and immediately used his business administration (Bachelor of Science, University of Nevada, Las Vegas) and market segmentation experience to determine real estate demand, transactions, and trends to optimize the practice.

"Rigorous segmentation and analysis applies to any market," says Parriott. "We want to understand land availability and inventory supply against demand. Take Las Vegas, Phoenix, and Los Angeles. Each market has differing land restraints and end-user demand, and as a result, specific market potential. We are looking for movement and spread."

"Consider Las Vegas," says Parriott. "There is a limited land supply with fast entitlement and a demand for about 5,400 acres a year with a limit of 36,000 acres left. In California there is much more land but there is a three-to five-year entitlement process that creates artificial boundaries and limitations. Phoenix is somewhere in between these two market extremes of land availability and entitlement process affecting price points accordingly."

### 15 MINUTES FROM CENTRAL & MAIN

"The current market offers extraordinary deals for our investors," says Parriott. "We are buying well and lending on deals that make economic sense again."

Consolidated has just participated in buying \$50 million in finished lots ranging from \$40,000 to \$50,000 each, well below replacement cost.

Their goal is to buy within 15 minutes of Central and Main where there are major opportunities for patient money. "Much of this entitled land was dumped as a result of panic selling by builders for economic or tax reasons," says Parriott. "Sophisticated investors like hedge funds are not looking at this asset with a one dimensional spreadsheet or a short payback."

## ACQUIRING LAND — INCOME EN VOGUE

"The income side of the balance sheet is the best quality it has ever been," says Parriott. "Our trust-deed and investor customers realize that the bottom of market has formed with today's reassessed values, so being income driven makes sense again. Any future growth becomes a bonus."

Consolidated modeled the market in 2005 and saw potential for a 30 percent correction in residential real estate; but what they did not expect was a 70 percent correction on land. These were technical changes (financing and investment). They did not anticipate any exceptional events (e.g. a natural disaster) that would change market fundamentals and core population demand. In 2008, Consolidated has already seen the expected tightening in supply in these markets. Consolidated, under Parriott, is already making selective purchases with a three- to five-year exit strategy.

Consolidated Mortgage's business has gone from lending \$30 million a

month to builders, developers, and light commercial in 2007, to a total of \$45 million in the first half of 2008. The loan-to-value of the land has improved because of the downward pressure in prices, so the conservative LTV and Consolidated's lending standards are easier to meet.

"We are now looking at our land acquisitions, lending, and experience to joint venture with troubled builders, and expect to buy and hold land for three to five years," says Parriott. "Consolidated has great local connections so we know our market well. In Las Vegas we have the contacts to go to a lender and make a deal that makes sense for the current lender and any owner in danger of default."

For example, a particular master plan had zoning for condos at 18 units per acre. As the market slowed, it made more sense to put in an apartment complex in one location (24 units per acre). So for a fee the developer lifted the restriction. With local knowledge, market contacts, and sensible business calculations, Parriott and Consolidated arranged for ownership and fees that allowed the owner to redraw the plan ethically and within acceptable city density.

## PERSPECTIVE

Parriott says that "individual and market perspective is interesting. When California slowed in the late 1980s and early 1990s, many felt burned by real estate; however, those with an invest-

ment perspective that entered that market had 10 years to recover. If you got in at the correction, you had a 10 year upside. This market is similar. It is not an event, but a process."

As real estate investors, we applaud this steady insight and resulting strategies that make Consolidated's management master investors and a potential partner for balanced long-term, hands-free, trust-deed investing.

**Income Investors:** Consolidated Mortgage's core strategy is trust-deed investments with a 12- to 24-month hold paying monthly interest with repayment of the principal upon maturity, and an option to roll into the next trust-deed.

**Appreciation Investors:** Consolidated Mortgage has additional vehicles. With their "loan to own" lending standards, Consolidated only loans when we are ready to own, meaning should the borrower default on the loan, Consolidated is equipped to joint venture to ensure the project becomes profitable. These investments are longer term and do pay monthly interest during the joint venture period. When the project is completed, the principal and interest are repaid or rolled into another Consolidated opportunity. ■

## RESOURCE

Consolidated Mortgage  
[www.consolidatedmortgage.com](http://www.consolidatedmortgage.com)  
877-739-9094

## AUSTRALIAN LESSONS FOR THE U.S.

Having steered clear of the property market for most of the year, first-time homebuyers are storming back, says mortgage broker Australian Finance Group. The volume of loans arranged by AFG for first-time homebuyers has increased by 120 percent in three months at \$474 million in November, versus \$215 million for August 2008.

The Government doubled the Australian equivalent of our down payment assistance program

from \$7,000 to \$14,000. Interest rates have dropped, and as a result, mortgage repayments are significantly lower.

Insight from HomeVestors of America indicates that they expect Congress to restore the Down Payment Assistance Program to help deserving first-time homebuyers. They expect more oversight this time around, so that homebuilders and others are not tempted to game the system.