# Private Money Update

CLEAR SKY FINANCIAL NEWSLETTER

April 2020

## Letter from the Editor

Spring has arrived. With everything going on in the world this spring, March was a "wait and see" type of month. We did a couple of loans during this time. Our April loan volume will be much higher, as we have gotten used to and adapted to this new business environment. We are one of the few private lenders who are lending right now, and we have tightened up many of our parameters. April monthly loan payments were really good. We are anticipating a few more late payments in May.

### CHUCKLE'S CORNER

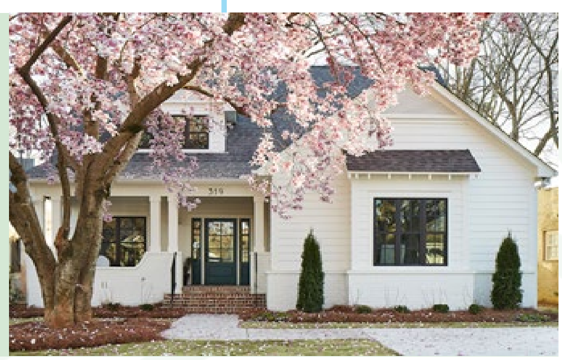
*"The first of April is the day we remember what we are the other 364 days of the year."*
– Mark Twain

## Food for Thought

Thank you to everyone who attended our April webinar! This live webinar covered the topic, "Real Estate Investing During a Recession", and was held on April 30. Please visit http://www.cskyfinancial.com/upcominevents.html to view a replay of the webinar.

### In This Issue:



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## What Are Clear Sky Properties & Clear Sky Financial Doing During COVID-19?

We hope that this newsletter finds you safe and healthy as we all work through the difficult issues that COVID-19 has brought to our lives. The article below outlines the Clear Sky Properties (CSP) and Clear Sky Financial (CSF) response to the crisis.

We have recently participated in many virtual meetings and FaceTime calls with others in the real estate industry, and the same question keeps coming up: "What are CSP/CSF doing during these times?" Although each company has a different business model, both companies are staying active while maintaining a cautionary approach. We are anticipating a price decrease in the D.C. metropolitan area housing market. Price changes will be at the sub-development level, and will not impact each property in the same way.

There has been a huge shake up among our competitors in the private lending space. Those companies that totally relied on Wall Street Capital have effectively stopped lending. Other lenders are either going out of business or just not lending into this business environment. We (CSF) do not rely on Wall Street capital and we are continuing to lend! This is our approach for each company during this time:

CLEAR SKY FINANCIAL
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1. We are continuing to lend money!
2. We have modified our lending parameters. We will be lending less money per transaction as a percent of the After Repair Value. Where would previously lend 75% of the ARV, we might lend 60% to 65% going forward.
3. We are modifying our Loan to Cost parameters (LTC). In cases where we might have provided 95% to 100% LTC, we are now adjusting to 80% to 90% LTC

CLEAR SKY PROPERTIES
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1. We are continuing to complete our projects and get them on the market. We fully anticipate that we will have to rent out some of the properties that we would normally sell.
2. We are continuing to buy properties. We are starting to see good buys to hold as long-term rentals.
3. We are continuing to buy properties to fix/flip.

<u>**UPDATE 4/27/2020:**</u> In the past month, CSP has rented out two houses that were vacant, and has purchased or is in the process of purchasing five houses. Two will be flipped and the other three will be placed into our long-term rental portfolio. CSP has also gotten six houses under contract (all of which are flips). Our workers and crews are continuing to work, and CSF has closed five or six loans, with another seven to eight loans in the loan pipeline. We are open for business!


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# Moving Forward with Real Estate Investing in a Disrupted Market

The pandemic has created a significant disruption to the national real estate market. As active investors in real estate, we created a response plan to the situation. Real estate isn't like a stock portfolio where there is always a market and you can elect to just move to the sidelines. So, how are we responding at Clear Sky?

First, we increased communication with our internal team. We have weekly conference calls to check in and make sure that everyone has access to everything they need to do their job. Even though we have all worked from home since the business inception 19 years ago, the stay home orders associated with the pandemic have caused some process disruptions. Beyond our internal team, we looked at all of our contractors and service providers to find out how they were working through issues. Materials delivery has slowed dramatically, and is stretching construction timelines. Our service providers and attorneys have moved to working from home models with varying degrees of success. Some of them don't have well-functioning remote work environments and have limited server and telephone access. We continue to support them and work with their teams with direct cell phone and email communication. As a result, some settlements are taking longer to be completed.

Secondly, we did a survey of every borrower and tenant to see how COVID impacted their ability to remit payments. Fortunately, less than 5% of our borrowers and tenants require any accommodation related to their payment obligations. Repairs on our rental portfolio assets have to be managed carefully as tenants don't want to be exposed to the contractors. Inspections of construction sites related to the lending business need to be conducted either through video contact or when the sites are cleared of workers.

Next, on our flip portfolio we got very active in the marketing of our properties. Since the stay at home order, we have started marketing our properties through 3D videos. We follow up with all in-person showings to answer any questions that come up. Even though at a national level the number of pending contracts is lower than it has been in a year, we were able to get all of our houses for sale under contract. Two of our higher-end properties in D.C. are in areas where sales have slowed, so we converted them into rental properties.

Finally, we took a look at our loan marketing. Many of our competitors have left the space, so there is a huge demand for our product. We significantly altered our lending criteria in response to the slowing economy. Every borrower has to put much more money into their deal. The out prices (after repair values) are projected to be lower than they were previously, and the borrower's ability to sustain payments in a down market are carefully evaluated. As a failsafe, we don't do a loan on a property unless we think that we could add it to our rental portfolio if we ended up taking it back. Even though these are much more stringent lending criteria, we are continuing to find great deals.

We look forward to the end of this financial down cycle. In the meantime, we will continue to react to it to find the best opportunities.


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# Deal of the Month

The March Deal of the Month involved Clear Sky Properties. We purchased three houses at great buy prices. We purchased two of the houses to keep in our rental portfolio, and one to flip. All three houses will meet our 100 times rents rule, but we have decided to flip one. The first rental property was purchased for $142,000; had $15,000 put into renovations; and will rent for $1,950/month. The second rental property was purchased for $129,000; had $25,000 put into renovations; and will rent for $1,650/month. Both houses have really good equity positions, as well (even after factoring in COVID-19 pricing).

# March Deals


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