

Episode #34
A Commercial Real Estate Survival Plan
May 28, 2008

Mosca: Real estate, if purchased well continues to be the single best investment one can make. Welcome to Income Property Investment Talk, a program dedicated to providing investors eager to invest well in real estate, with the knowledge, the resources and the tools to generate increased wealth. Each week we bring the powerhouses of commercial and residential real estate to our show for you to learn from and to call at 1-866-472-5790. My name is Peter Mosca and my co-host just happens to be one of those commercial real estate powerhouses, Dean Essa.

Essa: How are you Peter?

Mosca: I'm doing well Dean. Dean, we all know the national economy on a whole is weaker. The Gross Domestic Product grew a paltry .6% for each of the last two quarters. The key questions at this point are number 1 – how much worse will it get, number 2 – how long will it be until the economy starts to improve, and number 3 – how long will it take the news media to recognize it? Today's guest, Allen Cymrot, principle of Net Gain Real Estate.com, a website dedicated to providing independent, value-added commercial real estate investment information and analysis believes we have seen the worst of the slide and that any further declines in real estate values will not be significant. Cymrot is a former chairman and director of the National Multi-Housing Council, a CEO of two leading national real estate investment companies, and was a strategic advisor and analyst to real estate companies, asset managers, general partners, investors, and attorneys. For more information on Allen Cymrot, please go to our website at incomepropertyinvestmenttalk.com. Welcome Allen to our program.

Cymrot: Thank you Peter.

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Mosca: Allen, for many months now the news media has reported on real estate as a terrible investment, stay away from it, it's doing very poorly right now. While we feel this might be true on a national level, there are markets that are hurting but other markets that are doing very well for commercial real estate investors. Location, location, location is a mantra in real estate for a reason. There are local markets out there that are humming along quite well. How do you feel or what do you think the negative news media of reports or accounts about this industry? Does it hurt the industry? Does it hurt the investor? Does it hurt the economy overall?

Cymrot: I think it hurts the economy. I think they tend to hurt the investor. The reason for that is the news media seems to have bent or a focus on promulgating negative news. When it comes to real estate, the news that they publish really has very little to do with the reality of the real estate. They deal in terms that don't have too much meaning to the real underlying value of real estate.

Mosca: When you talk about the underlying values, what do you consider to be the underlying values of real estate?

Cymrot: As an example, when they make comparisons about real estate and income property, we're talking, Peter, value of income property declining, they say per square foot has sold for less on a per square-foot basis. That's not what determines the value of real estate. One of the keys and we believe the key is the capitalization rate. Has the capitalization rate gone down, has it gone up? What's the effect of it? They don't relate to that. They use terms like gross rent multiplier, which has very little value. It's a validator, it's not a determinant of real estate value.

Essa: Let's talk about the determinators. Give us a better determinant.

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Cymrot: I would probably say the number one determinant of real estate is the capitalization rate. For explanation purposes that's simply taking the income, the real income and that itself is an interesting commentary, the real operating expenses of tracking it and you get something called net operating income. That then determines the value of the real estate, as a percentage of what that yield would be.

Essa: We've use cap rates for years. I was looking at your website and it said that there were actually four different types of cap rates. Later on in the show, I would love you to get into that.

Cymrot: That is true. A lot of people can set almost any cap rate they want by using just a different set of numbers on the income or a different set of numbers on the operating expense side.

Essa: I'm excited to hear more about that a little later.

Cymrot: Okay.

Mosca: If you are talking about cap rates, lets get into it right now.

Essa: Tell us about these four different types of cap rates. I know there are a lot of real estate investors out there, if we've been dealing in income property, we've been looking at cap rates for many, many years and many of us only know about one cap rate. Expand our horizons.

Cymrot: When you say they only know about one cap rate, again as I indicated a moment ago, the key to the cap rate is getting the right net operating income and that's the difference between your collected income and your operating expenses. Let's take the income side first. What income is it exactly you're using? As an example, sellers of real estate like to use a phrase "tomorrow's income and yesterdays expenses". Do you use

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projected income? Do you take this month's collected rent and amortize it? Do you take last year's income collected? What income exactly do you collect? Here you need to be incredibly careful. As an example, you may be looking at leases that are collecting income that will be expiring in six months or a year and the leases were signed in a market that the rents were quite different. Now the rents may be at a 10, 20, 30% discount to your lease rate, so you're looking at income six months from now that's going to take a significant drop.

Essa: I can imagine that could be a little bit dangerous on an acquisition side, acquiring property based upon future income, especially in a "soft market".

Cymrot: Exactly, so first you have to make a reasonable determination as to what is the real income, what is it you expect to collect. That has to be analyzed and that's determined. As an example, is a major employer moving out of the area or is a major employer moving into the area? You need to analyze every aspect that impacts income, and then come up with what you believe is the real income of the property, not what a realtor or broker gives you or certainly not what the seller gives you. Not to take away, but the seller's interest is at cross interest with you. They want to get the highest price possible and that's realistic but that's a function of inputting out the best look on the income side. On the operating side, you have to again look at on a line item basis all of the expenses and you have to compare it to past years as well to make sure that expenses that showed up last year should and do show up this year. You have to project out those expenses. You have to sit down and look at the real numbers of what the cap rate is going to be and the slightest change in that cap rate has a very, very dramatic impact on the price.

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Mosca: Well, there's no doubt about that. One of the things that I wanted to, or one question I wanted to ask you specifically in regards to these media reports and what is happening in the market today, a lot of these reports and a lot of stories are talking about now it's such a good time to buy, now is a great time to buy this, that and the other thing. They mention some of the markets where there is higher foreclosure rates, in other words these reports are telling people you can get yourself a bargain, you can find a piece of property. I tend to think that maybe in those particular markets where there might be bargains just maybe they're not those bargains that they're reported to be. Maybe income property right now, if you're looking to buy income property, perhaps you shouldn't steer yourself to these markets that are hurting instead of finding those markets that are going to perform in the next 12 to 48 months.

Cymrot: It's that kind of reporting that have gotten my cofounder partner and I started and wanting to put this whole blog together. When you would use the word, Peter, bargain, I think we have to define what a bargain is. You may buy a sweater, \$100 sweater that was listed at \$100 for 70 that may be a bargain. Real estate is a very much different story. As an example, there were many apartments, shopping centers, strip centers that were built out in areas that had anticipated jobs coming to those areas. They anticipated other things happening and those things didn't happen. What was going to support that real estate isn't there. Because you could've bought the real estate at one price and now is much cheaper doesn't make it a bargain. The fact is it's selling at a price that the market believes that's the price that it's worth today.

Mosca: That's really where a professional broker, a professional realtor can help an investor. Not only do your own due diligence but also rely on relationships. We talk a lot

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here, Allen, about the importance of relationships. We live in a do-it-yourself society however we feel in order to invest well like I talk about early on in the program, you should reach out to professionals and build relationships with professionals who understand this business. How do you feel about that?

Cymrot: Very strongly. You're on track, Peter. I take it a step further. I have a philosophy; it's in our blog, that as an investor you're making decisions. What is the foundation of any good decision? The foundation of any good decision is based on the information that you're able to gather. The more information and the more qualified that information is the better your decision. That information comes with the professionals that surround the area. You used two words a moment ago which are critical to determining whether or not an investment is worthwhile and those two words were due diligence. I can't emphasize enough the extent of due diligence that is necessary to investigate a property before you buy it.

Essa: I'll give you a perfect example to buoy your point. I help people analyze income property, multifamily in particular. I have some custom software we've had designed to help us. I know you have your own software and your software is phenomenal as well. Like I noticed on one of your cap rate indexes on your website that it says a good buy is a 7 to 7 ½ cap and a strong buy would be a 7 ½ to 8 cap. I can't tell you the clients who have called and have asked me to analyze properties for them and I'll go up there and they'll all claim to be 7 and 7 ½ caps. I'll analyze 20 properties and by the time it's done when I've cut down the expenses to reality, maybe only one out of 20 has a 7 cap. How easy is it for an investor to make a mistake if they don't have a seasoned professional in their corner.

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Cymrot: Without a doubt. Most people don't understand the characteristics that go into income property and why it's so important if you understand those characteristics to do the due diligence. Let me describe income property to you because it gets depressing if you describe it but it's an awakening to force you to do the right kind of research. Income property is a capital-intensive, flexible, single resource, revenue business. Now think about with high cost of sale and limited liquidity, think about that. Those are not positive characteristics for a business. How you neutralize all of those characteristics is as I said a moment ago, picking up what you said, is doing the right due diligence. That gets to that article that we wrote a while ago, the story of four cap rates, will the real one stand up. You've got to determine the real cap rate. That sets the stage for your knowing exactly what kind of leverage, what kind of debt service to put on. Without knowing the real cap rate, this is like going out and buying a residential house and not knowing what your W-2 form is.

Mosca: Let's stop you right there for a second Allen. We are going to take a short break. When we get back we'll talk more with Allen Cymrot, principle of Net Gain Real Estate.com.

BREAK

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Mosca: That's correct. If you want to talk to Allen Cymrot, principle of Net Gain Real Estate.com, give us a call at 1-866-472-5790. Allen, before we cut out for that first break, you were talking about the definition of income property. I was hoping maybe you could

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repeat that, because the message kind of got cloudy there and then what I want you to do is transition or I'll transition you over to why it is, you mentioned Net Gain Real Estate.com. You call it a blog; I believe it is because you allow for comment back and forth. So let's first talk about the definition of income property.

Cymrot: I'll even pick up and expand a little on that, Peter, because income property by the media is treated as some type of commodity that floats among different people, that just transfers into different people and they buy it and they sell it and so on. When you get into the characteristics of what it is, it's a capital intensive, non-moveable. Most businesses, if they don't like where they are, they move to another state or another city. You can't move real estate. It is where it is. So, it's capital intensive, it's non-moveable. It's a single revenue source, which means that in almost all cases, 95% of the revenue stream comes from the lessees. So it's a capital-intensive, non-movable, single revenue, high cost of sale, illiquid business. That's what it is. As I said, those are not positive characteristics but with the right due diligence and understanding what it really is, I'd just like to add to that what income property is is a business and once you understand that like any business, its value is determined by the bottom line. We have a philosophy, it's very simple if you buy income property and the bottom line is X today and you're able to manage it accordingly and tomorrow the bottom line is X+, the probabilities, a very important word, the probabilities are that business will be worth more with a higher income. That is the whole idea.

Mosca: Outstanding. You do mention due diligence and we talked earlier about the relationships. I was hoping maybe you could talk to us about why it is or how it is you started Net Gain Real Estate.com, where that came from and maybe talk a little bit about

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how you and your partner started things and where you are today and what type of audience you're reaching.

Cymrot: It sounds a little folksy but it is very true that just about two years ago my partner, Bob Mann and I were sitting having coffee and commenting about this explosive growth of seminars and websites all promulgating this information that really had very minimal value to investors other than promotions. A lot of them sounded quite frankly like the old medicine man that pulled into town and offered you this bottle of alexia that cures everything. We have seminars that you could make a lot of money with no risk, no money, no experience and quite frankly no effort.

Mosca: You saw those commercials, those infomercials on television. They're not true?

Cymrot: They're about true like the Las Vegas stories that when you pass through the casinos and you see once in a while somebody make some money and they scream very loud about it. Most people are busy sweating giving their money away. Real estate is a business and you have to, I used the word before and the key to that business is probabilities and you have to increase the probabilities. When we saw this going on we said if we could put something together that offers independent, value added information. Meaning independent, could we put a business model together that doesn't sell any services or products and because of that we're able to offer unbiased, independent information to people with a philosophy that minimizes the risk and maximizes the potential of a gain in investment property. We thought we could do it and we have done it and it's growing phenomenally. What we did as a business, we developed four core aspects to this blog of ours. One is we put out on a biweekly basis contemporary articles, 500 words to 2000 words, assessing what's going on. For example, the impact of the sub

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prime market, developing a strategy for 2008 for buying income property, a checklist for what to do during a recession, are we going to have a depression and et cetera, et cetera, contemporary articles like that. Then we developed a national income property index called NIPI. This is a proprietary formula that we've come up with that incorporates the unemployment rate, the 30 year fixed APR, and a consumer confidence index. Very purposely we've done that because the unemployment rate is a lagging indicator. It tells you where you are at a time, the 30-year APR rate tells you the cost of leverage, and the consumer confidence index is a leading indicator telling you where you're going. By putting those together, we put a formula together that recommends a general, overall capitalization rate that we would suggest.

Essa: I know you have two more to go but I just want to interrupt you because you brought up something very important about this consumer confidence index. Isn't this a significant announcement that you've just made as a company, that you're introducing this consumer confidence index into the formula for recommended cap rates?

Cymrot: Yes. We felt that based on where the consumer confidence index is today and getting low numbers that we had to bring that in because furthermore, and point of trivia, consumers account for 70% of the gross domestic product. Functionally, their confidence, where they think things are going translates to how's it going and how much money they're going to spend and this has a very direct impact on the future of the gross domestic product.

Essa: That's phenomenal because most software only analyzes raw data and you cannot ignore the qualitative side of the investment. I don't want to interrupt you. You have a couple more. You were saying there were four. What were the last two?

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Cymrot: Each are their own importance. I used the word due diligence before. We put together what we think on the Internet and universally was probably the number one due diligence system for evaluating real estate. We have identified over 100 characteristics that affect the value of income property and on our website what you can do is you can rate these according to the property that you have in mind. You get a score at the end, we've produce a PDF suggesting to you whether it is they buy, hold, or sell relative to all of the information you fed into all of these characteristics. We think that is an invaluable one. To do that you have to be a subscriber and there is no cost to subscription. Then we have a weekly question-and-answer where that's almost like a college course, if you go through the list of questions that come in and they come in all the time, all over. What you think of at 1031 exchange, is now the time, what about the latest tenants in common is that a good thing, bad thing? Can we buy now, should we buy now, and et cetera, et cetera? Those are the four core characteristics that we have on the site. I might add that by very careful design during the last two years we have built this site up to now where we get interest from over 60 countries, over 700 cities because of the universal appeal. In fact, as I speak we are beta testing a stealth site which has been designed to really introduce socialization into our site and as soon as we pass the beta testing within a month we're going to transfer it over and that's going to allow realtors to talk to realtors as well as us. It's going to have bulletin boards and it's going to have all this information inter-exchanged so each country is going to have its own and all of these cities. Look for some very explosive, exciting things to happen in the near future taking this where it is. Interestingly enough, I said a business model because with all this going on some of your very astute listeners may be saying well all that's nice, to give all this information out but

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nobody does anything for nothing. They make money. That's the fascinating thing about this site, what quite frankly we've enjoyed so much. What we have done is we have an arrangement with Google and others who place ads on our site. We screen these ads because we're not interested in an ad that tells you how to make \$1 million next weekend by sleeping late. We have others that put ads on. When people come to our site if they see these ads and they are interested in they click them and that generates income for our site. If you think about that, what does that mean? That means that we have to get as much attraction and interest in our site. How do we do that? By providing useful, practical information. The more and better the information, independent, practical, useful information the more people will come to our site.

Mosca: That's the foundation really, what you just explained is the foundation for why the Internet has basically exploded in growth exponentially over the last few years. You're taking advantage of all the different opportunities that exist for companies that create business models like this. You deserve a lot of praise for doing that. One of the articles or essays of the four things that you do provide talks about a commercial real estate survival plan. That's something I want to get involved in and talk about. We have about a minute before our next break, so maybe quickly Allen just introduce what you mean by a commercial real estate survival plan and maybe where that essay started from in about 30 seconds and we'll come back after the break.

Cymrot: In 30 seconds, we believe, you had a question before, is now a time to buy real estate, income real estate? Our philosophy is it's always the time providing you buy it correctly. Given the fact that we are in a weaker economy and it may be weaker for the

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remainder of this year how do you buy real estate minimizing the risk involved? We put together a survival or strategy of how to buy real estate in a weaker market.

Mosca: Let's hold that thought and when we get back from this short break we'll talk more about that commercial real estate survival plan and eliminating risk in income property purchases.

BREAK

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Mosca: We're here with Allen Cymrot, principle of Net Gain Real Estate.com. Allen, before we left on that break we were talking about putting together a commercial real estate survival plan. You mentioned that there's a lot that goes into that. We also talked earlier in this program about the economy, where we think it might be going and I would like for you to touch on where you see it and where it's going over the next 6 to 12 or 18 months and how you plug into that feeling or that belief your survival plan. Do the two necessarily have anything to do with the other?

Cymrot: They have a lot to do with each other. First, where we think it's going. We have an essay there which if you get a chance talks about the cycles, the economic cycles.

When you go to our website pull that one up because we did a study for the past hundred years. Firstly, recessions and down economies is not a new thing. We've had 22 recessions in the last hundred years. Given that fact, I believe a recession is nothing more than a healthy catharsis to remove the excesses. A definition of recession to me is artificial value created through excess. We get that from time to time and we will get it

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because there is no way we've been able to achieve what I call economic equilibrium. That said you can actually measure the average times each of these recessions have lasted. By any real standards, we should be looking forward to a better economy heading toward the end of the year with a big but. The big but is the following, as long as there isn't any legislation that's past that is detrimental to affecting the economy. I don't want to get into a debate here on that, but as an example, if you have artificial value and the government passes legislation to maintain that artificial value, to keep voters happy, all you've done is procrastinated the ultimate decline of that artificial value a little further into the future. That said, in spite of what I just mentioned, I still suggest you buy real estate. We're about to put an article out, an essay out next week on how long the holding period should you own real estate. There are four holding periods and one is you can own it for one day which we really say to buy real estate on the basis of a days rate you need three characteristics. One is naïveté, two is inexperience and three is blind emotional greed. If you've got those three then you should buy real estate on a daily basis.

Mosca: Yeah, maybe even start your own show on cable TV.

Cymrot: Yes, something of that sort Peter. Anyway, then we go for short-term is basically one week to one year and then you have intermediate for one to five years and then long-term is five years plus. The conclusion is very simple because you're only guessing to what aspect of the cycle you're in. You need to buy real estate with an exit and holding strategy of at least five years in case your guess is wrong and you buy in the wrong part of the cycle. That said, since there's a five-year holding period, you want to make sure that you're going to minimize the risk. Obviously, that comes through extensive due diligence and in addition to that following a very careful set of guidelines

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which now takes me to what you're opening question was, the strategy that we talk about, commercial real estate survival plan.

Mosca: You know what Allen, before you go there, I just want to play a little bit of devils advocate here or just mention something a prior guest had said, an economist with RealSource. You talked about holding on for at least five years right?

Cymrot: That is correct.

Mosca: He had mentioned that because of the changes in the markets today and the different factors that affect real estate markets that maybe that five-year hold might be down to a three year hold.

Cymrot: Well, you know we would nicely disagree with each other. If you were to really examine over the years those people who have accumulated considerable wealth in real estate are those people who have not traded in real estate but those people who have bought good real estate and held on to it.

Mosca: Right. I think maybe what I left out of that equation was the fact that with multifamily and income property what they're talking about was leveraging your money so you can do a 1031 whether you sell or hold that type of a philosophy.

Cymrot: That's another aspect. Trading in real estate is a wonderful business for the brokers, the attorneys, the accountants, all of the support services; it's a great type of business. Real estate by its very nature is like a huge ship. It's slow, you're buying in areas where there are jobs and you hope the jobs will remain and grow in that area, the amenities will grow there, and the tax base will be solid. All of these things are slow evolving things that can have positive impact on real estate and they're not overnight things that take place.

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Mosca: Right, so let's turn back over to where you were going. You were talking about or you are going to speak about your commercial real estate survival plan and one of the things that you mentioned there is that an investor should not buy real estate where cash flow is based on raising the rents. Can you talk a little bit about that and some of the other features of personalized commercial real estate survival plans?

Cymrot: Don't buy real estate where the cash flow is based on raising rents is particularly important when you're in a weaker economy. When you talk about anticipation of raising rents, what are you doing? You're buying something that you hope to happen. That in the vernacular is called a speculation. You are speculating on something happening that doesn't exist today. That given the case unless you know of a certainty which is not the case you don't speculate on real estate particularly on an income stream, particularly when it comes to negotiating leases many of which have fallen through, many of which have changed dramatically until they are executed, you don't speculate on your income stream in a weaker market. Speculation, if you want to do it in a roaring market, fine. It's going in one direction. As I indicated a moment ago the markets going sideways, should improve later in the year when we could get legislation which could procrastinate that. This is not a time to buy on the hope of increasing your income stream.

Mosca: Okay. What are some of the other aspects that you feature in your commercial real estate survival plan?

Cymrot: I'll pick out a couple of what I think are overly important. One is you don't buy real estate whose net operating income is below the interest rate or the cost of debt service that you expect to get. This in a fancy term is called a negative spread. The reason you don't do that, I will choose my words carefully, when you buy negative spread you

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are mathematically guaranteeing a loss on the mortgage that you take out. What I'm simply saying is if the yield on the real estate on an all cash basis is 6% and you're going to go get a mortgage at 7% that means you're borrowing money that you're paying 7% for on an investment that's giving you 6%.

Mosca: Now, Allen isn't the industry stepping up and trying, maybe that's sort of what you were referring to earlier about legislation that might expand this particular situation we're in right now. But hasn't the mortgage industry kind of tightened up, the lenders have tightened up and said we're not going to give you money in those types of situations?

Cymrot: The answer is yes and the answer is they've improved, but there's still lots of room because people are now looking at cross collateralization and other ways to develop comfort levels for buying something that still makes no sense. When you talk about legislation and helping out, that really is focused on the residential industry not income property. When I say residential, I mean owner occupied residential versus rented out residential. You just don't do it; even if you were a buyer and you had the opportunity from a lender you don't do it. It's bad business.

Essa: Now what about listeners who would like to register on your site? How do they go about doing that?

Cymrot: Simplest thing in the world because as I said we want to do everything to encourage people to come. Once they come to our site because of what we provide, they are very, very loyal and come back. It shows you how to do it, there's no cost. You just put your name and e-mail address and then you get all of our mailings for everyone of the

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new things, the new articles that come out and all the announcements and press releases that come out.

Essa: If we had an investor and they were looking at an acquisition, are you saying that they could send you that information and you would give them a little guidance in whether they should or should not pursue? In other words, are you going to recommend as a buyer, a strong buy?

Cymrot: The answer is no directly, what they have, they will have by subscribing is access to our economic valuation system, EVS and that system allows them to enter in the information on their property as I indicated before on over 100 characteristics on their property. We break it down into seven different categories, the region, the location, amenities, the structural integrity, the capitalization rate, the leverage, and the mortgage. We break all of those further down into all different segments and they identify it for their property. They literally rate, grade it and based on those scores we produce for them a PDF making the recommendation. It's pro active.

Mosca: Absolutely. That's one of the biggest benefits to the Internet and what it affords really surfers from around the globe the opportunity to access information and what I like to call knowledge in one particular location and you can find that at Net Gain Real Estate.com. We are coming up on our third and final break. When we get back we'll talk to Allen more about income property and maybe we'll touch a little bit about property management as it relates to the commercial real estate survival plan that Allen has been talking about in this segment and we'll continue to talk about on our next segment.

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Mosca: Overwhelmingly, Allen, we talked about the importance of if you're going to invest you need to invest well. We talked about due diligence and one of the things we haven't talked about is property type. On this program we feel that multifamily, apartment building investment, if done well are almost recession proof. An investment that is doing well and could stay strong anywhere from a 1 to 5, 3 to 5 year period. What is your overall feel about multifamily right now as an investment for listeners?

Cymrot: If I had to rank an investment type for overall general attractiveness, I would say that residential would be number one for many, many reasons. There's a key characteristic, let me just add this to it. With the cost of energy and the cost of gasoline all real estate has got to be close near its support amenities, whatever supports it, whether it be schools, jobs, etc., etc. That said, all things being equal, residential housing is more affordable, offers all of the amenities that people generally look for in a way whether it be swimming pool, on-site tennis courts, whatever it happens to be and owners have developed the ability to be more supportive of lessee needs, tenant needs than in the past. So I see residential housing, multi-housing as being a very attractive form and I also happen to like it because I think in the long run real estate still maintains a very bullish aspect and I like the fact that they're only generally speaking one-year leases. You can be responsive to market conditions in the future.

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Mosca: When you're talking about multifamily residential, residential, or apartments, what we do have to focus on is making sure that you have positive cash flow versus negative cash flow, correct?

Cymrot: That is correct. I find that to be fascinating because my definition, remember real estate is a business. It's a business whose product is square feet. That said what is negative cash flow? The definition of negative cash flow is very simple. It's a failing business. I have a fairly standard rule, I don't like to invest in a failing business especially when I have to compete with a successful one across the street. It makes life very difficult.

Essa: I can't tell you the times that an investor will come to me and say, there about to make an acquisition and they say I only have come up with X out-of-pocket every month for this one. I'm like, why? Let me get you into something that's going to get you positive out of the gate with the potential of increase down the road.

Cymrot: Dean, I'm going to hit him, to be a little corny but I'll just simply say to some investor something like I'll tell you what instead of that I've got a drugstore that we can invest in. Now look it's only losing \$5,000 a month but would you like to invest in this drugstore. All of a sudden there is a reality check, I would never do that, so why would you do it with real estate?

Essa: Exactly. That's been our motto for years if you can't get it in your backyard that's been a lot of people's arguments. That's the best that we have right here but we say there are markets all over the country that we can get you positive cash flow. Our philosophy has always been live where you want to live but invest where it makes economic sense. If you don't know where it makes economic sense, let us help you.

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Cymrot: Don't buy. When you buy negative cash flow and somebody gives you the story well that's the way it is in our neighborhood, then what you're saying is well it's lived on a greater fool theory and a matter of when the merry-go-round stops will you be the one that's stuck? By the way, in types I'll just add this, we put out a very controversial essay a short time ago and it's called "The Demise of the Regional Mall in America". We quite frankly believe that when future years out regional malls as we know them today will no longer exist.

Essa: Do you think it'll be more of the power centers?

Cymrot: Power centers, yes. What you have going on right now for what it's worth is a major, major shift in the habits of the consumer as he buys goods and commodities.

Essa: Online for one.

Cymrot: Up to 3 1/2 percent right now starting from zero of all retail sales going straight up and the cost of gasoline are going to further validate it. The efficiency of products delivered, the security of buying on the Internet all improving dramatically. In fact, most of the retail stores are like dogs eating their own tail; they're coming up with their own websites so you can buy products on it. You've got a big change taking place there.

Essa: So, are you saying on the retail sector that there is really no retail sector that you're bullish on other than web because that's the direction it's going?

Cymrot: Power center or local strip centers that provide convenience and immediate needs.

Essa: Okay, got you.

Cymrot: I see the regional malls as big piles of immovable concrete, standing there trying to fight off changes in a consumer buying habit.

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Essa: I really like what you said earlier about how your real estate not movable and I found out the hard way in my divorce because I remember telling her hey, we can't move this house, one of us is going to have to go and she's really enjoying it.

Mosca: What are some of the other items? I'd like to touch on the one you mentioned earlier about energy, Allen. I think energy is a big factor in terms of buying and investing well into the future. Are you surprised as much as I am that local, regional, state and nationally we have not done as much as we should be doing in terms of alternative energy sources in this country?

Cymrot: Energy is a real problem. It's a very real problem in our concern for the economy. I was never really overly concerned about the sub prime because I felt that was a manageable issue vis-à-vis the markets can make appropriate adjustments, there will be pain and so on and the Fed's ability to step in and manage it. The problem that you just mentioned with the energy is we have no energy problem, we have no solution on hand, a bunch of short-term voter happy pieces of legislation that respond really to nothing and this is a real issue. The impact on real estate since it's a real issue means people will be driving less, want to drive less, so you've got to be very careful that you select real estate that is supported by easy egress and ingresses and accesses to whether it be job sites, school support, entertainment support. You can't buy, that's why I indicated earlier on in the program where you think you're getting a bargain out in the hinterlands somewhere because you're buying what appears to be very cheap comparative real estate but the point is sometimes you buy cheap and it stays cheap at a very heavy cost.

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Essa: I guess the exception to that would be if it's a super master-planned community, which incorporated everything in that community by way of shopping, schools and everything that may be a little thing that may hedge it, correct?

Cymrot: Integration.

Essa: Integration.

Cymrot: Critical, critical. A critical term to be used, yes, absolutely.

Mosca: Allen, we're up to the point in time where I typically ask and I know my friend Jackie's getting a kick out of this but this is where I ask my guests to leave us with the last minute with a golden nugget. What one thing can you say the next minute to leave our listeners with?

Cymrot: To be a little self-serving, if you're considering minimizing your risk and maximizing your value in income property, go to Net Gain Real Estate and we wish you all the very, very best in successful investing in income property in the future.

Mosca: Allen Cymrot, principle Net Gain Real Estate.com thank you so much for joining us on Income Property Investment Talk.

Cymrot: Thank you very much. I enjoyed it.

Mosca: Excellent. Next week we hope to have members of the RCA, the Realtors Commercial Alliance from the National Association of Realtors on the program, as well we might have Dr. Aric Krause, a professor at Westminster College in Utah and an economist for corporations across the country including many throughout America and internationally as well. We thank you for joining us on Income Property Investment Talk and we look forward to having you on next week.