

Episode #37
A Nonpartisan Look at the Impact of the McCain, Obama Economic
Proposals on Commercial Real Estate Investing
June 18, 2008

Good Morning and welcome to Income Property Investment Talk with host Peter Mosca and co-host Dean Essa. Together they will help you make smart investments in real estate. Now here are your hosts, Peter and Dean.

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: Peter, how are you?

Mosca: I'm doing well Dean. With new deference to all independent party candidates, the presumptive nominees for President of the United States of America are set, Senators Barack Obama for the Democrats and John McCain for the Republicans. The debate from now until November will most definitely be intense and unfortunately most likely highly partisan. Today's guest, Dr. Aric Krause, Ph. D., a faculty member in the Bill and Vieve Gore School of Business at Westminster College in Salt Lake City and RealSource chief economist will examine without partisanship the economic proposals of both Obama and McCain as they relate to commercial real estate investors. Dr. Krause will look at each candidate's plans for the economy, taxes, energy, infrastructure, and issues with the potential to influence both negatively and positively commercial real estate investments and therefore the investors of those investments. Time permitting; we will look at other

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issues and those on your mind, if you'd like to give us a buzz at 1-866-472-5790. If you want to know more about Dr. Krause, please go to incomepropertyinvestmenttalk.com.

Aric, welcome to the show.

Krause: Good morning Peter, good morning, Dean.

Mosca: Aric, right up front I mentioned that today we're going to attempt and I know you want to as well, to have a non-partisan discussion. I say attempt because you know me and many of the other listeners do that I'm a political junkie so if I go off track and I seem to be going partisan in any way, shape, or form, guys please stop me. Okay?

Essa: And you do the same for us.

Krause: No problem. If it's okay with you guys, I would like to try to stay away from the political and the social policy and just talk about some of the economic proposals.

Mosca: There's no doubt about that. In fact, I just pulled off the Internet a recent CNN opinion research poll that asked America which of the following issues will be most important to you when you decide how to vote for President in 2008? Not surprisingly, the economy was the one that stood out from the others overwhelmingly. 42% said the economy, the economy, the economy and right now 33% said the national economy is very bad, 45% said fairly bad. So, there's a lot of negativity out there in the minds of consumers. Let's talk about the economy Aric but what I want you to start out with is maybe a big picture look at what is happening. What are besides the economy, the economy as a generic overhaul of everything that's involved with our national picture, what do you see are the major economic issues of the campaign?

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Krause: Great question to start with Peter. I think there's a couple. First of all, you know we've got to be really concerned with long-term job growth in our country. From the aspect of what's going to cause our economy to be stable in the future it always ends up being jobs. One of the major issues is who has proposals that are likely to result in good permanent jobs. One of the things that's bothered me about our economy in the last 15 years is that we've generated a lot of jobs, but those jobs don't necessarily have incomes that allow the American sort of lifestyle. We need to be concerned with jobs. We also need to be concerned as you opened with Peter with energy and our financial markets. We need some folks who are going to try and bring some stability to those markets.

Mosca: You know, jobs and job creation, those are primary to being successful with what we deem on the show we dub location investing. Jobs are at the heart and mind of all Americans today and commercial real estate investors, just like you said Aric have to be concerned with what is going to be happening in the future in and around jobs. It appears as if both McCain and Obama, obviously they both want to stimulate jobs and job growth but, if you go to their websites you'll see that both of them are combining two things that you just mentioned, job growth and energy, advancing technology and innovation in terms of energy independence and climate change.

Krause: That's right. You'll see that is a primary feature on both websites. A little part of me is cynical and says of course that would be there because those are some of the buzzwords. More importantly, we have to keep in the back of our minds that job growth is a function of new technology. Right now we're very concerned with oil, we're very concerned with energy and there are many folks who think that one or the other candidate

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is going to change the way we Americans live because of their energy policy. I just don't think that's true Peter. In my mind, there's a huge economic growth revolution going to happen somewhere in the world in the next five to 10 years and that economic growth is going to be around energy, energy replacement. If you go through history for the United States, or for the world, sorry, there have been new technologies that come around every X number of years that just cause a huge spurt of growth. Whether or not America can participate in that growth or have a significant portion of that growth is a function of the decisions we make today. Energy issues aren't going to curtail our lifestyles; it's going to lead to a whole job generation and reformulation of our overall economy, which has happened since the beginning of time.

Essa: You mentioned jobs and trying to make a distinction between the right types of jobs that really needs come on line. I know for many years RealSource and the economists for RealSource have always talked about the ancillary effects. Is it still true that certain jobs have a much stronger ancillary effect, what we call the butchers, bakers, candlestick makers that support those types of jobs? If that's the case, is that the type of job you're referring to now regarding energy and R&D, that those types of jobs are going to create that ancillary effect that's going to boost our retail sector?

Krause: That's exactly right Dean. The types of jobs that tend to generate ancillary jobs are those that are higher income, highly skilled, higher income types of jobs. One of the difficulties is in the last 10 years a significant number of the jobs that have been generated in the United States have been retail and leisure and hospitality. Those are not typically high-paying jobs so those jobs are not generating another wave of jobs. If we

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are able to get to the front of the line in this energy issue and innovate and have smart workers who are making high incomes, then those jobs generate a lot of secondary jobs.

Mosca: I noticed both Obama and McCain want to not only look at those jobs but help displaced workers either get training for those types of jobs or create opportunities to move those workers into those types of jobs. I thought that was a big plus reviewing both candidates' positions.

Krause: I agree with you Peter. There are some issues I think between the two candidates in terms of short run approach and long-run approach. Long run, we need workers who are very smart, who are innovators. We need individuals who are trained scientists. We need engineers. We need people who are generating new technologies. I think that has interesting implications for education policy. You can't just decide that tomorrow I'm going to have a new revolution in energy. It takes a while to get a number of people who are trained in the latest science, who understands the latest technological challenges. You have to train those. If you think about the time it takes to train a scientist, it takes anywhere from four to 10 years, so we need to intentionally start thinking about that and start training people who can contribute in these ways to get to the point where you just suggested we want to be.

Mosca: Absolutely. One of the things we talked about before on this program in relationship to energy, which is a hot topic right now, is all this talk of opening up the oil fields for drilling. Doesn't that take time to actually reach the consumer?

Krause: Sure, for example, two points Peter. Number one, you'll see that between the two candidates, actually if you look at some of the candidates who were recently in the race,

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several of them were looking at advocating for a gas tax moratorium. To be really smart about this election Peter, we've got to separate out what is pandering and trying to give people what they want and what is true growth policy. So, summer gas tax, pandering. But, back to your question, how long will it take us to develop the oil reserves that we think we have...

Mosca: Aric, we are going to hold that answer till we get back from this short break because we're coming up on a break at the 15 mark in the hour. We're talking to Dr. Aric Krause, chief economist for RealSource. When we get back, we'll talk more about energy and how long the oil will take to get down to us and then we'll talk tax cuts and housing.

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Mosca: Welcome back. We're talking with Dr. Aric Krause, chief economist at RealSource and just a quick background before we get back to you Aric. In 1982 John McCain was elected to Congress and in '86 he was elected to the United States Senate to take the place of Arizona Senator Barry Goldwater. Today, Senator McCain is the senior Senator from Arizona. Barack Obama served 8 years in the Illinois State Senate prior to being sworn in as the State Senator in 2005. He is junior Senator to Illinois Dick Durbin. Now, Aric before we cut off on break you were talking about oil drilling and what's happening and if you could wrap that up pretty quickly because what I wanted you to flesh out more is in terms of location investing what some of the communities across this

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country are doing in terms of alternative energy and what that means to the commercial real estate investor.

Krause: Excellent Peter. You know, my point was going to be there are plenty of oil reserves in the United States. About 21 billion barrels is the current estimate. It takes years to develop fields like that. Some of the oil that we have left is not easy to access. It would take years to develop that. I don't think we can depend on spending the next 10-15 years on trying to extract oil that we may not be technologically prepared to drill yet. To the second part of your question, I think the most interesting part of the question. There are communities that are specifically focused on finding new ways of living our lives, new ways, and new technologies of alternative energies. Those communities that have clusters of scientists who are working on alternative energies are going to be those communities of growth in the future, great investment opportunities.

Essa: I had a meeting yesterday Dr. Krause, with some very high powered government officials, if I mentioned the names, people will know them if they're up on current events, but they're talking about creating a green community over here in the valley here in Arizona and they're talking about having every condo having an electric car plugged in and everything being recyclable, solar panels, recyclable water, recyclable waste, and a complete self-contained community right off of where the rail is going. No one will even need a vehicle. Everything will be self-contained within this acreage. If they do need to go anywhere, everyone's plugged in at night, charged up, and in the morning, they're ready to go drive. They were saying that this could create the type of jobs that perhaps you're eluding too.

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Krause: Dean, that's exactly it. We can take two approaches on this issue. We can band-aid it and try and spend the next 10-15 years drilling for more oil, but if we don't come up with an alternative in those 10-15 years, we're really going to be in trouble. Or, we can be forward thinking and start searching for new alternatives now. This community you're talking about while people are building it, while they are manufacturing, while they're establishing how it is going to function, they're going to learn so much that's going to put them ahead of the curve, ahead of other communities. Jobs will be generated. New companies will be formed. That's the exact process we need for long run efficiency, not pandering short term, long run growth.

Essa: Working in tandem with the oil drilling?

Krause: That's right. We've got to have some energy solution in the interim so that can be part, but we also need to be investing in ways that are going to keep us long run. An important part is we can be on the front of that with the new jobs; the new knowledge, the new companies, or we can be on the back end and buy it from other countries.

Mosca: Again, I think if you look at both of the candidates websites, it would appear as if and I know unfortunately being that we've grown up in this 24/7 cable TV environment a lot of times when we hear our politicians discuss things, we view it with a cynical eye, but in this case, I believe that both of them understand just what you said Aric, that we need to be focused on alternative energies and what we can be doing, not only for the future of this country, but just for the stability, like I said earlier, of maintaining this preeminence that we have around the globe.

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Krause: Sure. Maybe not maintaining our preeminence but at least continuing to be one of the leaders in terms of growth. Sure Peter.

Mosca: That's going to be important because that's going to have a trickle-down effect. I guess since I just use that word trickle down effect, maybe we can move from energy a minute over to a lot of the discussion right now and always has been and I guess we're led to believe that there's a significant difference between the two parties and I guess we can have a discussion at a later date about this but, tax cuts. Tax cuts as they relate to long-term growth and job creation, what do you see as a connection between or is there a connection between tax cuts and permanent growth?

Krause: That's a great question Peter. It's a big question but I'll try to be really concise. First of all, I'd encourage your listeners to not be thinking about taxes in terms of what's this impact going to be on my personal wallet. If you think about which candidate offers the tax cuts that are going to be better for my personal wallet, I think you're really missing the picture. Here's what I mean. Both candidates have tax cut proposals for people who make less than a certain amount of money. Mr. McCain has some specific tax cut ideas for alternative minimum tax and income tax and capital gains tax, etc. Mr. Obama, of course, has some proposals for cutting tax for people under 250,000 and trying to give some tax credits for education, etc. Those are great policies. Thinking of it in terms of which guy is going to give me 30 more dollars in my paycheck is the wrong way to go. One must look at both of their proposals and think which of these two are likely to cause long-run permanent job growth. I think that is a little more difficult to ascertain. For example, since 1980 our approach has been this trickle-down theory that you referred

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to, for most of that time period, not all of it. The thought was by cutting taxes we give companies and investors incentives to create new companies and create therefore more jobs. Sometimes that was called voodoo economics because there's a lot of voodoo that has to happen to make that actually occur. That's not what actually occurs. In fact, since 1980, our federal debt has gone from one trillion to 10 trillion and in the meantime, the disposable income of our households has not changed at all.

Essa: So you're saying that we're really not any better off as a result of the previous tax cuts?

Krause: Not at all, in fact, if you think about what the American household has done in that last 28 years, we're working more, we're typically moving toward the paradigm of double income just to maintain, just to keep up, and just to live the lifestyle that we've become accustomed too. We don't see significant disposable income increases over that time. This voodoo mechanism, this trickle down just does not seem to work. It's an experiment that's cost us 9 trillion dollars to learn that that's not the way to cause growth. So the question becomes how do you cause permanent long run economic growth? It's exactly as we said earlier Peter and Dean, it's about creating new jobs. Creating new technologies that result in new jobs that pay people. Real growth comes from making what we do more efficient. That's what we need to be concentrating on and that's the tax policies that investors should be concerned with.

Mosca: What tax cuts are going in to, leading towards that innovation to help the growth, to move us forward. The one concern that I have is at one particular time in the history of the world England was the power, England was the country that was what I've been

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calling the preeminent leader and at that time they were focused mainly on coal. Then our country, we understood what fuel and gas and oil meant to job growth and that was the innovation of the day. I think we're behind the eight ball when it comes to recognizing where that future is. I really am somewhat confident that these two candidates understand that and maybe are going to push us in that right direction.

Krause: Peter, I'm not a historian but I like to dabble. You can find throughout history that every empire, if you don't mind if I use that word, every leading economy reached some point in its growth where it became insular and protective and the day it became insular and protective was the day that it fell off its leading position. It started to decline from its leading position. I think the United States has a choice. We can become insular and protective or we can continue to lead the world in growth, it's our choice. The evidence suggests from other leading economies throughout history that we probably won't make the right choice. I don't think that's necessarily the case, I think we can make the right choice and not become insular and protective and continue to drive world growth.

Mosca: I think we have to understand that everything that you're talking about here today is from the perspective of the commercial real estate investor. What you're trying to say I think here and you correct me if I'm wrong in the couple of minutes we have before break is we need to do something to get us over this consumption of Americans, the habits that we've had over the years to constantly consume, to buy, to purchase leaving us with home equity and credit card debt. If people are in debt that is not going to help in terms of multifamily investments, what we talk about here, in our desire to increase rents.

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Essa: Isn't that true Dr. Krause that most of the consuming in the last 10 years has been debt-based?

Krause: Tremendously. Not just in credit card debt clearly, but home equity, the anticipation of future windfall from one's wealth, which for most Americans is their house. We've definitely seen that connection. Peter, let's go back just for a second. You reminded me again that we're talking about multifamily so let's make a connection for these taxes to the multifamily investor. The multifamily investor needs to be very careful not to vote for tax policy that's going to benefit their wallet in the very short run. A community that's growing, that's creating new jobs is the community in which the properties are going to appreciate over time and that the rent growth will be available. On the other hand, a stagnant community is one where the appreciation, the asset appreciation, will be very low and rent growth will be capped simply because households can't afford to pay more rent. What multifamily investors need to be looking at is who has the tax policy that's going to lead to this permanent, long run economic growth and job creation that we're talking about here.

Essa: That's brilliant because think about it, those investors who are listening right now, you know that your exit strategy is based on the change in your cap.

Krause: That's right. That's exactly it.

Essa: If that cap rate has been taken away because those renters cannot afford that rent increase, there goes your exit strategy.

Krause: That's right. That's exactly right. So look at the candidate. As each of your investors studies the two candidates, they need to be looking for who has the likelihood

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of creating these long-run jobs in the communities around the country. That's I think the person with a sound economic policy.

Mosca: We're talking with Dr. Aric Krause, RealSource chief economist and when we get back we're going to look more into what is happening in both of the campaigns, both the McCain and Obama campaign as it relates to commercial real estate investors. If you have a question, give us a call, 1-866-472-5790. It's not every day you get to talk to one of the brightest minds this country has. Give us a buzz, 1-866-472-5790.

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Mosca: Aric, we were talking about disposable income, we were talking about wages being stagnate, prices rising, do you want to just recap your feelings about those particular subjects and how they relate to the two campaigns and the future of the country?

Krause: Sure Peter. That's really a good question. We do have households that are incredibly indebted right now. These are structural problems in the United States. We do have prices that are rising because of food and energy. These are structural problems that have to be addressed. Unfortunately, I don't think that the inflation is going to be easy to work with for either candidate. There's no way that either candidate can necessarily deal with our food issues around the world and neither of them can necessarily deal with our energy problems on a permanent basis, directly unless they encourage us finding new

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ways to supply our energy needs. So, those are huge structural problems that we have to deal with for the United States and the world. We've got to be very serious. I encourage people to research the candidates with that in the back of their heads. Brazil is 100% energy independent based on the use of ethanol from sugar cane. After the sugar has been refined from the cane, they make ethanol out of it. That's a huge accomplishment, why don't we have that? Why aren't we in the same boat?

Mosca: Those are all very good questions and I think if we tried to answer them, we might break our nonpartisanship rules. Let's talk a little bit about, we haven't talked about trade. We live in a global economy; we live in a global society. International trade is important. You can see now that the international community is somewhat excited by our and I'm being a little less cautious about this but the 2008 election is causing a lot of ripples throughout the international community. There's a lot of countries around the globe who are excited to know that we have a new leader whether it's Obama, McCain or if something were to happen, a third party candidate coming in to lead this country in January of 2009. You travel across the globe a lot Aric, and you visit with other countries. What is your take on international trade and the policies and as they relate to commercial real estate investment here and in other international areas?

Krause: Big question again but, great question, I think I can be pretty concise. There are a lot of communities in the United States that are heavily dependent on export markets and there are a lot of companies are heavily dependent on imports. Peter, this is 2008, we cannot be insular in our approach to the rest of the world. We can't. We are too dependent on the rest of the world. There are some folks who think that we've lost so many jobs to

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the rest of the world. We are going to lose jobs from now till doomsday, we've been losing jobs for hundreds of years. Remember for example, a blacksmith, Peter? They're not here anymore. We've lost those positions, we've lost operators, we've lost many industries over time due to new technologies and due to new trade and what other countries make and specialize in. We're never going to be an insular country. We need to keep that in the back of our minds.

Mosca: I think that's just a part of who we are. In terms of progress and in terms of if we believe in the United States of America, a capitalist society making and generating wealth in certain areas, when we talk about generating wealth here in real estate there are going to be positions, there are going to be jobs that are lost to other parts of the world.

Essa: Isn't the key not so much what we lose, but what we replace those lost jobs with?

Krause: Dean, that is exactly right. Job loss due to trade is always going to occur. What's important is that we have specific policies in place that are creating new jobs simultaneously, hopefully faster than we're losing jobs. Our policy in the United States towards that job creation has been relatively weak in the last 10 years or so. We've been cutting R & D investment tremendously. In other words, we are not spending as much money trying to find new technologies, new industries, new jobs and that's hurting us. We are not funding education anywhere near what we were per person basis just 10 years ago at the elementary level or at the high school or university level. So, we've got some problems there. We have to be replacing jobs over time. We talked earlier about energy. If we were to develop the energy industry and come up with some new technologies, we

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would create thousands of jobs and we would be losing some and that would balance out and we'd be better off. We've got to be intentional.

Essa: So basically we keep coming back to the same thing that don't look for the immediate effect on the wallet, look for the big picture. I keep hearing you say new jobs, education, and I know sometimes we think money towards education; I need something in my pocket now. I can't be thinking about education for the future. But, what I'm getting from you is education and job growth and technology just absolutely has to happen.

Krause: That's right. Let me address your education point Dean just briefly. Look at the two major growth engines in the world right now, China and India. In 1968, India decided it was going to train everybody in high skilled jobs, and not everybody, but a significant portion. What does India have now? They have crazy numbers of engineers, doctors, researchers, and they are doing a ton of the world's R & D right now because they have that. They made an intentional movement to do that in 1968. China, on the other hand, has been financing higher education of scientists and theorists and researchers for 50 years, since the revolution. So they have huge numbers of engineers, we don't.

Essa: The other day, someone said I move into the Silicon Valley. I said where, Bangalore?

Krause: That's exactly right. I was in Bangalore about three months ago and I can't tell you the energy that's in that place and you can't walk 2 feet without walking into a couple of engineers. These engineers are employed, they're innovating, and they're doing innovation for what we think to be our biggest companies, Microsoft, HP, all of them, Intel. The R&D that those companies are doing, what we think are the high tech

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companies is significantly occurring in China and India because that's where the trained, smart people are.

Mosca: So then let's bring it back to trade and the policies of the two candidates, Aric. What do you see is going to happen? A lot of talk like you said earlier, there is this discussion that permeates the cable television environment about how all these other countries are bad for lack of a better word because they're taking all of our jobs. Two-part question I guess, and I keep giving you these large questions so I apologize, how does it wrap around international trade? Then take it and maybe if you can touch on another issue that most definitely will dominate, unfortunately in my opinion, but definitely will dominate the discussion of the next few months, immigration.

Krause: That's a big one. Let's go for the trade first. Mr. McCain doesn't say much about trade on his website if you will notice. The Republican Party has typically been pretty favorable toward trade and I'm just going to assume that that's going to be the approach they take in the future. Frankly, I think that's the right approach. Mr. Obama worries me a little bit in his approach. He talks a lot about fair trade and fair trade is interesting. Fair trade is kind of like saying if you don't play right with me I'm going to take my ball and go home, sort of an approach. I just don't think that's the right approach. It suggests that we could remove ourselves from the world and become this almost compound like private entity. It's just not going to happen Peter.

Essa: We've been globalizing for 50 years. Anyone who thinks that we are not, we can get around it, it's just not going to happen.

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Krause: That's right. You know what, go to Wal-Mart and look at the prices on some of the goods you're going to buy, shirts, food, sorry some categories of food, clothing, appliances and if you think back you'll notice that the price of those things has been declining for years. The reason it's been declining for years is because of international trade. Every household in the United States pays less for the stuff they're buying these days.

Essa: So there's a little silver lining is what you're saying?

Krause: Tremendously. Trying to cut that off, if we cut off some trade right now, let's just pick one country. We cut off some trade with Brazil lets say. Let me tell you, the products that we are trading with with Brazil will go up tremendously in price. That means that everybody has less disposable income because their paycheck will not go as far. So we have to be really careful with this idea of trade. We can try to cut ourselves off and be insular or we can decide that we are going to compete with the world head on and go for it and do it and actually fund what we need to fund to make that happen.

Mosca: The discussion always seems to center around the fact and you alluded to it earlier, that if you don't play by our rules then we're going to take our ball and go home or play by ourselves. That seems to dominate the discussion. How do we move beyond that? How do we say to the American consumer, the American investor but that's okay? That other countries, it's almost like our foreign policy in the last eight years, if you're not one of us then you're our enemy.

Krause: That's right. That's what I think Peter that concerns me about Mr. Obama's approach. This idea of fair trade just doesn't get anywhere. It's almost like you're

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pandering to people who are in sensitive parts of the United States. I well recognize that there are parts of the states that are still devastated. If you go to Pennsylvania and Ohio, you'll still find parts that are still suffering from when steel industry evolved in the '70s and '80s. Why are they still suffering from that? Why weren't we more intentional on trying to come up with some new ways for folks to earn incomes?

Mosca: Probably the same reason why we're talking about being behind the eight ball with energy. We'll be right back talking with Dr. Aric Krause.

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Mosca: Aric, we've been talking about the Obama and McCain campaigns and their policies and their intentions for the future of this country. We had promised right from the very beginning of this program and in our promotions before airing this program that we were going to talk about the commercial real estate investor and how these policies and programs relate to that investor. I start every program by saying real estate if purchased well continues to be the single best investment one can make. Now, I get arguments from all the other investors of different types of investments what say you on the topic?

Krause: It's funny that you should bring that up Peter. Just yesterday I was looking at the historic levels of the NASDAQ and the Dow Jones. If you look at both of those indexes, you're going to find that they are, today, right around 12,080 when we started the show.

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They are nearly at the exact same points they were eight and 10 years ago. The Dow Jones nearly hit 12,000 in 2000 and the NASDAQ went over where it's currently at in 1998. So, if you think about that, that implies that investing in the markets represented by the Dow Jones and NASDAQ or the companies, you wouldn't have made a lot of return. Sure, you would have made the dividends and the cash flow, but not the appreciation play at all. Real estate, on the other hand, even in single-family homes, even with the bubble that we're currently in, a single-family home today even after depreciation of the bubble is still worth more than it was in 2000. So no matter how you look at it, the saying is true. If you want the long run, safer play, it's going to be real estate.

Mosca: What about the relationship then. Based on everything that you said over the last few minutes, it appears as if, I know we've heard this before, every four years we hear the statement this is the most important election in the history of the country. Based on what you've just told us, it appears as if the winner in November will have a major impact on multifamily and apartment owners' investments.

Krause: I agree with you Peter. Now, granted I've only been a voter for six elections so I could be a little biased but this is a critical, critical time for us. The world is growing whether we like it or not. The world is growing around us in a way that we've never seen before. We've never had the changing economy, the changing fundamental basis of the global economy as we are seeing right now. That's a very large issue that we need to be thinking about. Let's get down to the fundamentals. If you're going to invest wisely in real estate, you're going to do it in a community that is growing, a community that has greater than average job growth, a community that has the right fundamentals. Isn't that the plan?

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What we need to be concerned about in this election is who of the two candidates has policies that are not pandering, that are not election getting policies, but policies that are designed to create in the long run, in a global economy, competitive, high paying jobs. As you do your research, you need to find which of the two candidates is going to do that and that will tell you that the future of real estate investing is going to be strong, that will tell you where the future of real estate investment will be strong.

Mosca: The bottom line too, and to re-iterate what you talked about earlier is maybe it's more important not to look at you as a person, but you as the investor. Can that be the overall, what I call every week the nugget for today? Look at yourself not from the personal standpoint but from an investor standpoint, what's best for you as an investor.

Krause: That's so right. Peter, this is a perennial issue. It happens every election, every interim election as well as every four-year presidential election. Don't think about which candidate is going to give me 30 more dollars in my wallet. There are a couple candidates who want to do the summer gas tax exemption. In fact, Mr. McCain is still holding onto this. Do you know that that would ultimately only put about \$30 and the average person's pocket.

Essa: What I think is a paradox is by the time they put that in effect, whatever money we'd save, the increase at the pump would pass it up by the next week.

Krause: Precisely. Some voters just look at that and say summer tax I like that idea, I'm going to vote for that guy or that person and that's just ludicrous. As a multifamily investor, one has to be thinking about what is going to give me the improved cap, what is going to give me the appreciation and the cash flow that I want out of a piece of property,

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the greatest potential. That comes down to whose policies are best for creating long-term jobs regardless of what some of the short-term issues are.

Mosca: So, there's going to be this movement of investment back toward the urban areas because of the energy in the short run.

Krause: We're seeing it already.

Mosca: Okay. In terms of, and this is just more of a personal thing that I've had discussions with cousins over the last few weeks, do you think gas has any chance of going down at the pump rather than just continuing to go up?

Krause: No. I've seen some estimates recently here Peter that are demonstrating that approximately, these are very preliminary studies, that say that approximately 40 to 50% of the price increase we've seen has been due to speculation. The other 30, 40, 50% has been due to the actual demand and supply issues around the world. Speculation will correct itself, it will be a bit of a bubble and it will correct. The supply and demand issues of oil around the world are not going to change. The Asian and Indian oil consumption is growing at such a rate and we're not replacing it in terms of capacity at such a rate that prices will continue to rise. Oil is \$130 a barrel now. I think even after the speculative bubble, it will be 100, 110, \$115 a barrel. So it's not going to go down. We need to get past that and think about where do we go from here.

Essa: We've got to get back to the urban core. We've got to start going vertical instead of suburban sprawl. The reason I know we have to go that direction is because this is the first time in many, many years where people are actually saying do I really want to go across town to that appointment? Is it worth it for me to drop \$18 in my tank? Am I going

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to get my return on my money? There are people that are literally passing up appointments for the first time in years.

Krause: I chuckled a little bit when you were saying that because we had a warning in the '70s that oil is going to be an issue someday. We had two warnings in the 70s, 1972-73 and 1979 the two oil shocks in the '70s. We knew this was going to happen. A slightly silver lining, this oil price going to be the impetus that cause us to jump into a whole new generation of technological advance for the world. It's going to cause us to move in the direction of new technologies and new energies. It's going to be a better world as a result.

Mosca: Dr. Aric Krause, you're one of our favorite guests. We look forward to having you on in the future. I wanted to leave it right there because that's one of the beauties behind who you are as a person. You like to take things and then leave us with that rosy, positive outlook and I couldn't agree with you more. True American, true America is taking advantage and moving forward rather than looking backward. We thank you for your time on our program here today, Income Property Investment Talk. We look forward to having you back on. Next week, we're going to have Kathy Cunningham. She's going to come on and talk property management. As you know, if you are a commercial real estate investor who invests in areas outside where they live, the property manager has a significant role. We will get into the nuts and bolts.