

Real Estate Strategies

A Pro's Quick Guide To Value Real Estate Investing

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THERE'S A CLASSIC STORY ABOUT A VISITOR TO MANHATTAN WHO STOPS A LOCAL FOR DIRECTIONS TO A RECITAL, BUT GETS VALUABLE ADVICE.

Visitor: "Excuse me, sir, how do I get to Carnegie Hall?"

New Yorker: "Practice, man, practice!"

Practice, too, is the key to success in taking a disciplined approach to value commercial real estate investing.

Basic Rules

Value investors should stay true to these basics:

- Develop detailed first-hand knowledge of your market and region.
- Identify properties undervalued by the market.
- Select properties with little or no regard to asking price.
- Take a patient, long-term buy-and-hold strategy for achieving results.
- Avoid "timing the market," which traditionally yields much smaller returns.
- Be aware of markets attracting institutional capital flows, and go elsewhere.

So how does the investor determine a property's value? Information! Value



creation begins with obtaining relevant and useful research.

Value investors kick tires. By drilling deeper and concentrating on future value rather than market price, value investors often succeed where property flippers usually flop.

The successful investor must be able to identify what asset class will be in demand in any given sub market and for any given location within that submarket.

It also does not hurt to think out of the box, literally. For example, what appears to be a great industrial site may be better positioned for a mixed-use office – retail - condo development that will outperform other property investments.

Where is the Institutional capital?

Smart money looks where the institutional capital is not. Capital tends to go where it already is. Why? Herd mentality.

Protection of principal is the primary driver for many real estate investment funds and therefore a built-in belief that there's safety in numbers.

The technology bust of 2001 is a good example of the dangers of following institutional capital. As more and more institutional funds put large amounts of capital into the technology sector back in 2000, many technology stocks became overvalued. After the bubble burst, many funds managers noticed that certain commercial real

estate asset classes were posting impressive returns. As a result, more and more funds are being allocated to real estate.

For the value investor however, this means higher level competition, increased multiples and lower yields. These factors make it more difficult for the value investor to access investment options where the intrinsic value exceeds market price. Therefore, real estate value investors must look outside the areas that attract institutional capital.

Understand your market

Stick to the basic strategy for value investing and achieving consistent returns. It pays to have a macro sense of the economic conditions and trends in your local area and the region as a whole.

Infrastructure issues such as roads and utilities as well as economic development, job growth, labor force, new home starts and good school districts should be considered in any real estate investment decision.

It is crucial to examine the economic conditions of a certain area and then draw conclusions on what is likely to happen over the next several years. It's also a good idea to get involved in the community...close interaction with community officials and civic leaders provide a unique advantage of having actual first hand knowledge and input in decisions within the local community instead of simply hearing reports of these changes.

Keep in mind the basic rules of successful long-term value investing. Don't follow institutional capital and do understand your market when deciding which asset classes to consider for investment. One option is land. Few institutional funds invest in land holdings due to lack of yield. Land multiples are therefore attractive compared to other investment options; however, the holding period is much longer.

Outside The Mainstream

Other investments now favored by institutional capital include office-condos-metal industrial buildings, and unique assets like marinas and other

specialty real estate properties. In making any investment decisions outside the mainstream of capital, the value investor has to be concerned with and fully evaluate exit strategies and the longer potential holding periods.

So in searching for real estate investment options, you must understand the entire playing field. What are the prices, multiples and rents on all options, such as office, industrial, retail and land?

Where is the institutional capital, and where isn't it?

The hard part is finding the niche that provides the best combination of intrinsic value, low bid price and the highest potential for returns.

When you've done your value investing due diligence, make sure you have an exclusive buyer representative in your corner to ensure that you set off for the long term on the right foot.

This article appeared in the September 2007 Issue of the ITRA Newsletter, Real Estate Strategies.