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Investor vision is the true creative edge in real estate

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Many of us have been brought up to believe that real estate is a good investment. And for the most part, statistics confirm that belief. People who bought homes, storefronts, or industrial buildings, usually realize a pleasant surprise when they cash out at the end of their use for the property. In these instances, the person or company purchased the property not as investors, but as consumers willing to pay for the use of the space. What they really did was assume two roles: that of consumer or tenant, and another as the investor or landlord. Of course, it is in the role of investor that we experience a return.

The overall long-term trend in real estate is to go up in value. So, if you held a property long enough, as do many professionals, families, and businesses, it is almost impossible not to make money on the piece. Variables, such as short-term economic downturns and localized phenomena, appear as deviations on a constantly upward norm. This principal works well for consumers (who are their own tenant) and long-term investors who do a reasonably good job of getting into a property with a positive cash position.

Where people have typically been burned in real estate is trying to bet on a short term gain, in a process more akin to gambling than investing. In what we regard as boom times, many investors will buy a property with the intent of 'flipping' it without any real value being added. We call this the 'greater fool' theory, where we assume there will always be a greater fool to follow on the wave of rapidly escalating prices, willing to pay even more than we were. Of course, the bubble always bursts, and in the end, a 'greatest fool' left holding a suddenly depressed piece of property.

The one principle that is effective in rendering a short term gain is to add value to a property. This is what a developer does... he buys some vacant or underdeveloped land, adds what we call 'improvement' and sells the resultant product at a profit. Real estate development is an industry unto itself, built on the very sound principle of adding value. Of course, as with any business, if you pay more to create something than you can sell it for you will lose money; so you need to make the numbers work. A developer once told me that he 'makes his money on the buy'. That is to say, he buys a property for the right price, already knowing what it will develop into and what it will be worth. The first rule of real estate is: Location, Location, Location. It's been said "You can pick your friends, and you can pick your nose, but you can't pick your friend's nose." In real estate, we might sanitize this to say "You can pick your neighbors, and you can fix your house, but you can't fix your neighbor's house." It all boils down to location. You can improve your own property, but you can't do much about the area around you or the proximity to certain other amenities like transportation, waterways, and things that may be beneficial to your purpose or intended use of the property. More importantly, keep an eye on trends: is the community improving or decaying? What is the trend in property values? What industries are moving in or out of an area? How does your project or property fit into the direction the neighborhood is going in?

One can't talk about investment without talking numbers. No matter what you invest in, if you are buying apartments or a shopping mall, the numbers have to work. The 'boom investors', who intended to ride the inflation wave and sell, did not suffer their greatest losses because they could not sell after the bubble burst; their biggest dilemma came from not being able to lease the property for enough to cover their carrying costs. The best position for any investor to be in is having the choice to sell or hold. So, even if investing for the short term, as a rule, be sure you have a sound investment that can perform long term.

As with any commodity, real estate is traded competitively, that is, other investors are bidding against you at all times. Like it or not, you will almost always be the highest bidder for any property you purchase. Properties that are fully developed, at what we might regard as their highest and best use, will have the most appeal and attract higher bidders. On the other hand, you may find an ugly duckling of a property, where nobody is really bidding against you, and if you have the vision to see it, this may turn out to be a diamond in the rough, and with a little polish, you may have a real gem on your hands.

So, what exactly is the secret to buying property right? Of course, sticking to the fundamentals and applying some good common sense should keep you out of trouble. But that extra edge, picking up those rare gems of real estate, how do we find those? We all are looking at the same market; nobody sells a property by keeping it a secret, so what is the secret? More than anything else, it is being able to see in a property that which others can't see. Visualizing what a property can be, not just seeing as it is. In a word: Vision. As a broker, I do all the things good and competent brokers do to service their clients, but if anything, the one service I feel really helps clients to connect with an outstanding opportunity is to assist them in visualizing the possibilities. Brainstorming or visualization, whatever you want to call it, this is the true creative edge in real estate; the rest is just 'connect the dots'.

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