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CELEBRATING 55 YEARS

Go get your share for the summer doldrums

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Timing is difficult to manage. "It's not what happens to you, it's what you do about it," in the words of W. Mitchell a wise personal friend who courageously navigated a series of personal tragedies to become a celebrated and successful motivational speaker among other accomplishments. Several favorable trends are starting to develop in the economy, global to local. Beyond the declining rates of decline, markets are continuing to stabilize. Capital formation from non-traditional private sector sources for real estate investment is increasing to complement government programs and lags in traditional funding, and to meet ongoing demand for refinancing and development. The terms are bound to be expensive; risks from uncertainty abound and so will rewards.

The garden and early bird metaphors break down in this newly started summer season. The plants are rotting and the worms are dead from all this rain. Capital stacks are hard work, and investment criteria and terms are still moving targets. Simultaneously sourcing property investments and capital is what this game is all about. Both the property and capital markets, however, are in an extraordinary state of flux.

Fundamentals are hard to characterize credibly. Replacement costs are a benchmark. Residential mortgage rates are a benchmark. Investment grade bond rates are a benchmark range. Now what? There are still national benchmarking surveys and local market data for consideration in analyzing the local property markets. There are methodologies for isolating and analyzing the risks. Transactions are occurring in some submarkets. The data from these transactions can be helpful brackets in moving the benchmarking data. Diligence is an important component in understanding the risk and underwriting the investment.

Benjamin Graham author of the Intelligent Investor (1973) and mentor of Warren Buffet popularized value investing and related investment risk analysis. Graham taught finance at Columbia and UCLA, and said he hoped to implant in his readers a tendency to measure or quantify. Acknowledging that real estate was not his field, he respected the inflation-hedging qualities of real estate, and his principles for investing in the 1970's have always had some transport value for me. Paraphrased generously, he advised you must understand the risk, and if you understand the risk, it is not risky!

Benchmarking with data and surveys is just the beginning, of course. Expertise to select the relevant information and judgment to reconcile the indicators with the property, the price and the timing are essential skill sets for a credible and workable strategy. Dead worms and plant rot be damned. Go get your share for the summer doldrums. Just as perfectly good ideas like CMBS and hedge funds can be implemented faultlessly, fitfully and criminally, so can distressed investing be mismanaged.

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