

Investing in Income Properties

3rd Edition

Kenneth D. Rosen

Table of Contents

Introduction	1
Part One – The Basics	3
Chapter 1 – Why Commercial Real Estate?	5
Learning Objectives	5
Introduction.....	5
Real Value, Real Ownership, Real Estate	5
The Control Factor.....	6
Financing Options.....	7
The Leverage Edge	7
Tax Benefits	7
Access to Information	8
Easy Troubleshooting	8
Overcoming Fear	8
<i>No-Money-to-Invest Fear.</i>	9
<i>Fear of Inexperience.</i>	9
<i>Price Tag Fear.</i>	9
<i>Fear of Management and Leasing.</i>	9
<i>Fear of an Economic Recession.</i>	9
<i>Fear of Risk.</i>	10
<i>Lack-of-Information Fear.</i>	10
The Bottom Line	10
Review Questions.....	12
Review Answers	13
Chapter 2 – Real Estate 101	15
Learning Objectives	15
Introduction.....	15
What Is Real Estate?	15
Types of Income Properties	15
What Real Estate Can Do for You.....	16
The Search Begins	16
Purchase and Sale Contracts.....	16
Closing	17
Education	17
Real Estate Lingo	18
The Bottom Line	19
Review Questions.....	20
Review Answers	21
Chapter 3 – Assembling the Team.....	23
Learning Objectives	23
Introduction.....	23
The Broker.....	23
Value of the Broker	24
From Beginning to End	24
Should You Use Only One Broker?	25
Going It on Your Own	25
The Attorney.....	25
Value of the Attorney	26
The Attorney's Fee	26
The Certified Public Accountant.....	26
Setting Up Your Accounting System.....	27
Value of the CPA	27

Table of Contents

Accounting Fees	27
Involvement of Other Professionals.....	28
The Bottom Line	28
Review Questions.....	29
Review Answers	30
Chapter 4 – Getting the Money	31
Learning Objectives	31
Introduction.....	31
Obtaining a Home Equity Loan.....	32
IRA Accounts.....	32
Cash Value of Life Insurance.....	33
Customized Creativity	33
Partnering Up with Your Client.....	33
The Use of Options.....	33
OPM.....	34
Present Sacrifice for Future Benefits	34
The Moped Story	35
The Bottom Line	35
Review Questions.....	37
Review Answers	38
Part Two – The Big Six Formula	39
The Kendar Office Building	40
Chapter 5 – Step One of The Big Six: Location.....	41
Learning Objectives	41
Introduction.....	41
Evaluating Locations.....	41
Type “A” Locations.....	42
Type “B” Locations.....	43
Type “C” Locations	44
Industrial Properties.....	45
Short-Term Gains and Declines	45
Long-Term Gains and Declines.....	46
The Bottom Line	46
Review Questions.....	48
Review Answers	49
Chapter 6 – Step Two of The Big Six: Building Quality and Design Efficiency	51
Learning Objectives	51
Introduction.....	51
Class A Buildings.....	52
Class B Buildings.....	52
Class C Buildings.....	52
Class B Apartment Buildings.....	53
Class B Retail Strip Store Centers.....	53
Class B Office Buildings.....	54
Industrial Properties.....	55
The Bottom Line	56
Review Questions.....	57
Review Answers	58
Chapter 7 – Step Three of The Big Six: Tenant Profile	59
Learning Objectives	59
Introduction.....	59
Factor No. 1: Rental Rate and Terms.....	59
Factor No. 2: Gross or Net Lease.....	60

Table of Contents

Factor No. 3: Size of Units	60
Factor No. 4: Impact of a National Tenant	61
First Scenario	61
Second Scenario	61
Factor No. 5: Potential Condo Buyers	61
Factor No. 6: Parking Considerations	61
Factor No. 7: Adverse Impact of a Particular Tenant	62
The Bottom Line	62
Review Questions	63
Review Answers	64
Chapter 8 – Step Four of the Big Six: Upside.....	65
Learning Objectives	65
Introduction.....	65
Tenants Can Set the Price of a Building	67
Upside Strategies	68
Converting Buildings from One Use to Another	68
Creative Thinking.....	68
Expansion Potential	68
Mismanaged Buildings	68
Turnaround Buildings	69
The Bottom Line	70
Review Questions.....	72
Review Answers	73
Chapter 9 – Step Five of The Big Six: Financing.....	75
Learning Objectives	75
Introduction.....	75
Before You Begin: Your Credit Report.....	75
Financing Components and Dynamics	76
Interest Rates	76
Loan-to-Value (LTV) Ratio	77
Debt Service Coverage (DSC) Ratio	77
Balloon Mortgage.....	78
Loan Points	79
Prepayment Penalties	79
Assumption.....	79
Appraisal	79
The Advantages of Dealing with Local Banks.....	79
Ideal Financing	80
Getting Your Loan Approved	81
Insurance Companies	81
Private Lenders	81
The Romance of Leverage.....	82
Infinite Return	83
All-Cash Buyers	83
Burn the Mortgage Quickly.....	84
Mortgage Brokers	84
Healthy Versus Unhealthy Debt	84
The Bottom Line	84
Review Questions.....	85
Review Answers	86
Chapter 10 – Step Six of The Big Six: Price	87
Learning Objectives	87
Introduction.....	87
The Price-Is-Too-High Syndrome.....	87

Table of Contents

The Louisiana Purchase	88
You Got Here Too Late Young Man	88
Things to Know	88
Length of Ownership.....	88
Motivation	89
Decision-Maker.....	89
Seller Financing	90
Quick All-Cash Deal.....	90
Capitalization Rates	90
Knowing the Numbers.....	91
The Bottom Line	92
Review Questions.....	93
Review Answers	94
Chapter 11 – Anatomy of a Big Six Deal.....	95
Learning Objectives	95
Introduction.....	95
Adam's Manor	95
The Sellers	95
Listing the Property.....	96
The Buyer.....	97
Setting the Stage	98
The Buyers' Strategy	98
Sealing the Deal	99
Brokers Meet the Sellers.....	100
Five Years Later	103
Now What?.....	104
Interest Rates/Inflation	105
The Bottom Line	105
Review Questions.....	106
Review Answers	107
Part Three – Moving Forward.....	109
Chapter 12 – Management and Leasing to Enhance Your Investment	111
Learning Objectives	111
Introduction.....	111
Managing Apartment Buildings.....	113
Managing Small Retail/Hybrid Centers	115
Managing Small Bay Warehouses	118
Managing Office Buildings	120
The Bottom Line	124
Review Questions.....	125
Review Answers	126
Chapter 13 – Condo Conversions.....	129
Learning Objectives	129
Introduction.....	129
My Start in Condo Conversions.....	129
Criteria for Condominium Conversions	131
Location.....	131
Architectural Design.....	132
Apartment Mix	132
Privacy and Open Space	132
Reasonable Maintenance Costs.....	132
Seclusion.....	132
Critiquing the Units	132
Existing Tenant Profile	133

Table of Contents

Existing Leases	134
Purchase Price	134
Announcing the Conversion	134
How the Tenant Incentive Program (TIP) Works.....	135
Announcing the Improvement Program	135
Handling the Unsold Units.....	135
Legal Requirements.....	136
Bradford Terrace: A Mini Case Study	136
The Bottom Line	140
Review Questions.....	141
Review Answers	142
Chapter 14 – One Good Real Estate Investment is Worth a Lifetime of Labor.....	143
Learning Objectives	143
Introduction.....	143
Love at First Sight by Tony DeRosa	143
If I Never Made Another Deal by Cliff Suchman.....	145
You Can Never Know Too Much by Anthony Dilweg and Andy Roberts.....	147
I Made It in Buying by Kenneth D. Rosen	148
The Bottom Line	150
Review Questions.....	152
Review Answers	153
Glossary.....	155
Index	161