

Back to the Future in Real Estate

By: Abraham J. Hidary, President – Hidrock Realty Inc.

AIG, Bear Sterns, Citigroup, Lehman Brothers, Washington Mutual, Bernard Madoff – the financial world has collapsed over the past year. It's trickled down into all facets of the economy and has dramatically impacted all disciplines of the real estate business.

Many complained about the high prices of property that resulted during the recent boom, saying they'd buy a house or invest in a commercial building when prices came down – only to find that with prices down, market liquidity is impaired and it is difficult to commit to a purchase.



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So when will it be the right time to buy again? There are different dynamics to consider:

The case that now **is not** the right time:

- Hundreds of thousands of layoffs have been announced and some have not actually happened yet. So vacancies should continue to increase in the near term, resulting in lower rents.
- With fewer lenders in the market and many properties looking to refinance older mortgages, it is difficult to finance a new purchase.
- States and Cities are showing deficits which need to be closed with spending cuts and higher taxes.

The case that now **is** the right time:

- With so few buyers in the market, contract terms are very favorable to buyers, with prices now well below their 2007 peaks.
- Oil prices are down nearly two thirds from their peak this past summer, resulting in what feels like a huge tax cut.
- Interest rates are back to historic lows.
- Material and labor costs are down, resulting in less expensive renovation costs.
- The Federal Government is putting its full weight behind turning things around – including tax cuts, tax rebates, bailouts, grants to State and City municipalities, and infrastructure improvements.
- Some think inflation could result from the low borrowing costs courtesy of the Federal Reserve, and huge deficits funded by the Treasury Department. Real Estate is a hedge against inflation.

A variety of investments perceived as safe a short time ago have produced huge losses, reminding us that an investor should be well diversified. Real Estate should be part of everyone's portfolio – but within reason.

Real Estate is an asset class meant to preserve capital and grow moderately over time. The past few years yielded turbo charged returns from very high leverage and short hold periods – something which was more a result of the financing market than the real estate business. It is important that any investment is made with proper expectations.

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Investing successfully in real estate involves expertise, focus, patience...and moderate leverage. Even with our 2006 through 2008 acquisitions, Hidrock's portfolio averages about a 52% loan to value ratio. With few exceptions, this has meant steady returns over the years.

Another significant aspect to successful investments is partnering with individuals and institutions that share a philosophy and have similar goals. The purchase and operating of a property has gone from anybody to only a few. Institutions that buy property as part of their investment strategy won't even discuss a project unless their potential partners are credible and have tons of experience.

Transparency is key to developing trust and ensuring long lasting relationships. For instance, Hidrock scans all legal documents (purchase contracts, mortgage documents, leases, service contracts, operating agreements, tax returns, etc.) so that they are available for review by any partner at any time. In addition, we send interim summaries and reports to our partners on a regular basis.

For owners or managers of multiple properties and multiple partnerships, it is important to have a strong back-office to ensure there is never co-mingling of funds. Also, working with a large and reputable accounting firm is a must – a firm that challenges procedures and asks questions.

This is a time for pessimists to reign but we are not a member of that club. We look for opportunities in all markets. We've heard the term "blood on the streets" a lot recently. Should we wait until there is blood on the streets to begin buying again?

We think not. We are conservative but recognize that nobody can confidently call a bottom to the market, and in most bottoms, opportunities are scarce and financing is difficult. If an opportunity arises today, and we feel it could succeed with hard work, moderate leverage and patience, we intend to jump on it.



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