Outrageous Pricing of Real Estate Investments... and the Answer

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It's depressing to watch the apparently unending parade of over-priced real estate transactions that continue to take place. What makes it even more depressing is that the purchasers have no real solid, proven, and reliable exit strategy for these purchases.

A serious look into a significant portion of the purchases that have been completed during the last five (5) years will reveal several common deficiencies in two important aspects of the acquisitions.

The vast majority of the purchase transactions are designed to rely on an acquisition structure (in light of inadequate current returns) that is little more than a **"wishes and dreams"** formula. However, it is commonly and lovingly known as an Internal Rate of Return ("IRR"), but the more popular interpretation is referred to as a **"Fool's Errand."**

The time tested **"Rules of Acquisition"** that have always been reliable and trusted guidelines have now been largely abandoned by the latest new crop of Acquisition Specialists (I call them **"Disaster Creators"/ "DC's"**).

No more buying for **"current value,"** because this newest group of DC's are simply not able to complete a viable, current value negotiation. How strange, that today's DC's believe that at a future point in time, another similar trained DC will gladly pay a profit based on their similar lack of knowledge and no hard current value.

Today's DC's already know the property's **"future value,"** because of their superior judgment and ability to foretell the future. They don't waste time with significant and in-depth due diligence. To a DC, the cash on cash return was always questionable but the market never goes down…

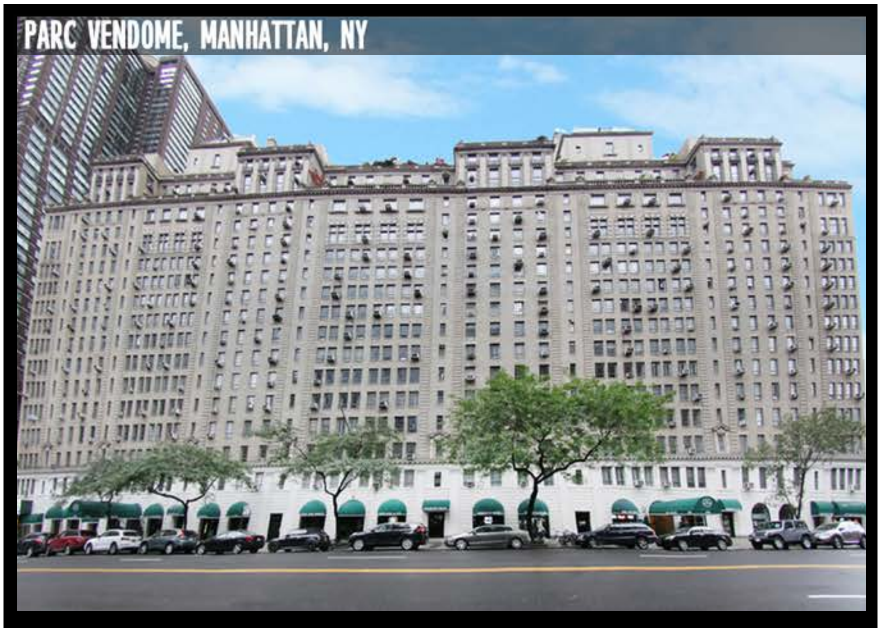
Every DC understands that a purchase for **"present value"** is old fashioned, unsophisticated and is generally out of touch. But those professionals with hard, in-depth knowledge and real pragmatic experience have a keen understanding that the current crop of DC's have a belief system that enjoys all the sophistication of a **"Gypsy Fortune Teller."**

As a general rule, DC's do not bother to arm themselves with the specific local demographics and demographic maps that would actually provide the basis and back-up for their purchases.

The multi-family residential industry has become an industry populated by what I have come to refer to as **"the blind leading the blind economics."**

The name of the game today is to convince the investor that **"substandard"** returns are now **"the rule"** instead of the exception.

To prove this point, Sponsors are now accepting a Seller's representations (as if a Seller's representations ever had any validity), and curbing their own Buyer's **"Due Diligence,"** in order to save on fees for unaffiliated expertise and leave extra funds to pay the Sponsor's annual, asset-based fund management fees.



The current emphasis is placed on usually reasonable front-end acquisition fees, but followed by outrageously abusive, annual asset-based fund management fees. Fees that are charged for **"existing,"** with no strong, ongoing, bottom-line production to back them up. No one can question that there has been significant expertise developed in the field of **"plain-site concealment,"** seen at it's best in the abusive, continuing, asset-value based annual fund management fees.

These fees are now commonly charged for **"nothing of realistic value."** They simply depend on how much money (rightly or as usual, wrongly) was spent by the Sponsor on each acquistion.

The unbreakable, absolute, number one **"Written in Stone"** Rule isn't even known to this latest acquisition gang of DC's. They have actually gotten most current investors to believe in the Wishes and Dreams Promise, known as the **"Greater Fool Theory,"** a much-proven thesis over the years.

The Greater Fool Theory states that an IRR Investor with no solid exit strategy (other than projecting annual increasing rent, therefore ensuring a naturally increasing net operating income), will upon the sale, use an equal or slightly higher than used to purchase (for appearance sake) capitalization rate to determine a property's value for a greater amount than the original purchase amount, of course.

Once determined, the original Purchaser now Seller, will revisit that magic **"Greater Fool Theory,"** to hopefully find another Purchaser as stupid as the original Purchaser now Seller. Their hope, of course, is that the new Purchaser will pay a total price which, of course, is not based on current value but on that same Wishes and Dreams Promise, based on still another round of **"tomorrow's possibilities and promises."**

A Competing Buyer once informed me that **"cash flow"** wasn't important because of the continuing rise in real estate prices, and that their company would make a high enough Internal Rate of Return when his company sold the property in five or so years.

My entire professional life as a real estate acquisitions specialist, has been based on one of the industry's most important acquisition Rules... **"YOU MAKE MONEY ON THE DAY YOU BUY THE PROPERTY, NEVER ON THE DAY YOU SELL."** Also, one of my own **"fun"** sayings... *"It's hard to get out, after getting in at a getting out price."*

So please, remember that when you are presented with "facts" that have no "basis in fact," it's always best to ask specific questions (nicely and without anger) and push for realistic answers. If you can't get those answers from the seller, go to the Contact page on the Guterman Partners' internet site and click on Ask Gerry a Question.

Ask Gerry! There's no charge to you and no expectations from you, period!

A few minutes answering your questions, won't hurt anyone and may be very helpful for you.

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