

Episode #27
The Financial Mess: How'd We Get Here and Where Will It End?
April 9, 2008

Peter: We've all been hearing slow down, recession in 2008. What are the root causes of today's economic turmoil? That's the focus of the program today. Is it the high unemployment rate, stock market meltdown, and rising foreclosures, a combination of the Iraqi war spending, unscrupulous sub prime lenders, the unregulated excesses of the financial markets, or a combination of all of these plus an out-of-control indebted American consumer? Dr. Aric Kraus, a graduate faculty member at Westminster College in Salt Lake City and strategic economic analysis consultant to national and multinational corporations will provide us today with a historical, current, and future perspective on three critical markets to us as real estate investors; the stock market, the real estate market, and the financial markets, all three as they relate to the overall state of the US and global economies. He will detail how long he feels the current economic cycle will last and address the value of understanding markets and market cycles, knowing where and when to invest in real estate and when to move on to the next market for future investment success. Aric thank you for being on the show today.

Aric: Good morning Peter. Good morning Dean.

Dean: Good morning.

Peter: Aric, before we get into the economy and all the markets that we talked about I want to talk to you about Westminster College. I think it's important for you to talk a little bit about it, for us to know a little bit more about it since I looked at your website and you say you enjoy the personal aspect. So, why don't you think a minute or two, tell us about the Westminster College feel in Utah.

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Aric: Well, Peter it's a small private university here in Salt Lake City, but I would say it's a small private university with a global outlook. We have students and faculty from all over the world. We take our education role very seriously that the way students learn best is when they have a commitment to learning and we engage students not just in traditional education which carries mostly about what you know, we care more about what you can do with what you know so it's a slightly different aspect.

Peter: Well, I was looking on the website and I looked at your bio and knowing you for the last couple of years I know that you're researching and tech teaching interests include information technology, technology commercialization, research and development globalization, intellectual property rights and of course regional economic growth and national and international location strategy. It's really those last two, the economic growth and international location strategy that we want to talk about here today. Let's start out with that international because I know we spoke on the break, but before the program you were saying you're going off to Europe very soon and I know you've been to a lot of different places. So a lot of people talk about the correlation between regional economies in the US and international markets. I guess that's true then isn't it?

Aric: Yes, it is Peter. Each year that goes by, the two become even more closely related. A hiccup felt in one economy in the world is definitely felt in other parts of the world so the interrelatedness of our global economy continues to grow and will continue to grow. There is no way to stop that.

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Dean: I noticed that you not only study overseas markets but I was looking at one of your websites and saw that you travel to all these places too so you really get a good look at them.

Aric: I do have a little bit of a travel bug, so I try to travel as much as possible. I've been to pretty much every continent and many countries. I like to do that just to observe. I think it's interesting to see how the world is changing in an economic viewpoint.

Dean: Well more importantly, I noticed that you actually moved to Salt Lake from Western Pennsylvania, which is where I'm from.

Aric: Yup, yup, yup back in 1999.

Dean: Taught at Clarion and I have a bunch of friends that go to Clarion now and have graduated.

Aric: Great little school.

Dean: Yes, nice little school.

Peter: So while traveling over to all these different countries is fun for a personal perspective but from a professional perspective I guess why the college is doing it and why you're doing it is so you can learn firsthand from these people and the economies that in other markets and what they do maybe bring some of that knowledge that you gain when you visit those other countries to the states and to the multinationals and the other corporations that you consult for.

Aric: That's right Peter. If we take a long-run picture, we're going to primarily talk about short run economic issues in the United States but if we take a long-run issue or a long-run look you know the long run feasibility and strength of the US economy is in our

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ability to build and create new jobs and new industries, industries that we don't have right now most likely. For example, we have tremendous energy issues at the moment. While there is a whole bunch of opportunities in that field over the next 30 to 50 years and whether or not we as the United States participate in that or have some of those jobs is a function of how willing we are to use international best practices in business and in research etc. My real interest in traveling is observing what are those international best practices. I think we have a lot to learn from the rest of the world and the world has a lot to learn from us. The day we stopped learning is the day we become an unimportant country.

Peter: Wow, don't say that you're going to upset a lot of people maybe in DC. I was just reading an article and it was about the sub prime crisis that's going on in our country right now. It was in Forbes and they quoted the Mayor of Trenton, his name is Douglas Palmer, and for me someone who lives in New Jersey, loves New Jersey and you know this I'm a New Jersey snob sort of, it sent chills down my spine because he is talking about and we pay some of the highest taxes in the country if not the highest property taxes in this country and this is what he said "Homeowners that were in this crisis felt it first. It became a problem for the city when we saw our homes vacant and when Wall Street started feeling it he became a problem for the federal government. The cycle now is coming for the school budgets."

Aric: That's right.

Peter: And then to couple that he mentioned a statistic from the National Center for Education Statistics, "28% of funding for America's public schools come from local

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property tax, property tax revenues. Many areas of the country like New Jersey have risen consistently over the years. For us, for the rest of the country this cannot be good news."

Aric: That's exactly right Peter. When one remembers how complexly interrelated our economy is, one can see that as soon as employment begins to fall or property values start to fall in a particular community it's going to have an impact downstream on the tax revenue that is raised and that's going to have an impact on the government's budget obviously which always includes education. The interesting thing I think to that comment from Forbes is that why did it take us so long to understand what was going on in these markets. Why was it the case that even while homeowners were feeling it no one else was really recognizing the problem? That's a complex issue.

Dean: One would think that whoever you are, you're a homeowner.

Aric: That's right. These folks, these individual homeowners have been feeling this pain for the last couple of years. Last year, in early 2007 in communities all over the country people who had bought their house for the express purpose of selling it three years later to try and take advantage of that capital gain were seeing that the market was way slowed down and they were having to leave their house on the market a lot longer and maybe drop the price a bit. That was a year ago so we should have been seeing it.

Peter: Why do you think that was, Aric? Why do you think people, people in leadership positions, whether it was business, governmental, even nonprofit, why wasn't there more action to solve it years ago?

Aric: That's a really great question. You have to think about that back in the context of 1992 to 95 when the financial market in the United States really got deregulated and

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opened up. The amount of capital that's been floating around the country has been humongous. It's a lot, a lot of money chasing returns. A lot of it got put into real estate and that caused prices to be escalating as the number of people trying to buy as the demand increased it meant prices were escalating. You don't really want to recognize this type of a problem when it arises, Peter, in your economy. You don't really want to recognize it because the second you recognize it it becomes a self-fulfilling prophecy. Almost 70% of our economy and the United States is dependent on consumers and what they do and how they consume. If those folks start to think that the future is not looking right then they are going to curtail their consumption patterns and that has large, multiplicative effects on the overall economy.

Dean: They were even saying this morning on CNBC that they're feeling really strongly that the people who are going to get this credit back on their taxes are more than likely going to do two things with it one, pay down their debt and two, put it in their savings first as what it was meant to accomplish. Do you have any feeling about that?

Aric: That's a great question. If everybody took that \$600 or \$1200 check, whatever it is they're going to get and they ran out to Wal-Mart and they bought American produced goods than that would have a significant impact on the United States economy. It was clear out inventories, it would really help things out. But, if the American consumer with their \$600 check or \$1200 check goes and buys something made in a different country or they use it to pay down their debt or they bank it or save it, it'll have zero impact. Those impacts are blanked out.

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Peter: So then all the talk out of DC coming from the powers that disagreed with that money coming in to us as Americans, maybe they didn't have it right maybe and I have to admit I was one of them, I didn't think that that little amount of money would have an impact. So you are saying if we spend and spend it on US goods and services that will have an impact on our economy.

Aric: It will have a partial impact. There is an offsetting factor though as there always is. That money, those checks that you receive that everyone receives one must remember that we are borrowing the money to give you that money. That money is not cash that the government has the government is actually borrowing the money to send you that check. So, you as a taxpayer Peter while you're going to get a \$600 check eventually you're going to have to pay back 600 plus interest. So, we'll end it well.

Peter: Let's do this we are speaking with Dr. Aric Kraus, graduate faculty member at Westminster College in Salt Lake City. When we get back we'll talk more about location investing, jobs, and everything that goes into successful investing in real estate.

BREAK

Thanks for tuning in today to Income Property Investment Talk. If you have a question for Peter or Dean call now, listener lines are open. The toll free number is 1-866-472-5790. That number again is 1-866-472-5790. Now back to Peter and Dean.

Peter: We're talking with Dr. Aric Kraus, faculty member at Westminster College. Aric, before we left for break we were going over some generalities about markets and market timing in what's happening in the economy. As you heard on a commercial there's a company called RealSource out there that does location investing, that's what we talk

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about on this program, how real estate investors can be successful and do it through location investing and I believe jobs is an important element of that location investing. Our country is a whole lot more mobile today. It opens up job opportunities. When housing is not an obstacle more than 5 million men and women on average, nearly 4% of the nation's workforce moves annually from one place to another to a new job after a layoff or to high-paying work. Now with the market the way it is unable to sell their homes as quick as they would like to, tens of thousands of people are maybe sitting on the fence and the labor force is less flexible. In a booming market interstate migration could reach anywhere from 2.2 million people in 2006 drops down to 1.6 million in '07. In 2008, what's the outlook on a national level for jobs in this country?

Aric: Let me get out my crystal ball real fast and well you know it's interesting. Right now the US economy seems to be in a little bit of a slowdown and perhaps a recession but there are other parts of the world that are operating very successfully. They're growing at rapid rates, they're creating tons of jobs, and it's true in the United States too. Here's my point, it's true in a United States too. There are regions in the United States that are creating jobs even today, even in the turmoil that we hear about there are communities that are doing very well and they're creating jobs very well and high-paying jobs at the same time. While overall it doesn't seem to be all that positive right now, it is positive in different parts of the country and one has to keep that in mind because we see it in the international economy, and the same thing's true in the national economy. Again, our long-run ability to generate jobs Peter is a function of how cutting edge we are in what we build, in what we make. That's a very important aspect.

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Peter: That's why I sit here I scratch my head sometimes. I don't mind being called an environmentalist, I don't mind being called a hippie, have no part with that. I look at that as favorable adjectives when you describe me and who I am. I scratch my head and I say to myself okay why are we not getting the fact that we need to do something about this energy crisis that you referred to earlier and that there are plenty of opportunities, take your pick and let's jump on board. Maybe let's try a few of them and you know what if we do how many tens of thousands if not hundreds of thousands of people will have jobs and most likely half of those are going to be high-paying jobs.

Aric: If I were running for president right now and I were to give an honest assessment of some of the challenges our country faces I would never get elected. It's in no one's political best interest to point out that the economy has some very difficult corrections that need to be made. It's in no one's interest to talk about that. So we still dance around the issues publicly. This dancing around the issues bothers me a little bit because it's just like you if you have a health issue, if you ignore it for a longer period of time it's just taking that much longer to fix whatever that health problem is. It's the same with an economy. Until we recognize that we have some fundamental and structural issues that need to be addressed, we are not going to see them repaired. One of the big problems we have in the United States right now and Peter a way that we could generate millions of jobs instantly would be for us to commit to upgrading our infrastructure in the United States. Our electricity capacity, our phone capacity, our roads, our bridges are all out of date, all need repair, all need replacement and these items needing replacement means that it's more difficult, more expensive to do business in the United States. So we could

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create millions of jobs instantaneously by deciding that we are going to upgrade our infrastructure. Think about what that means for some of the areas that aren't doing too well right now.

Dean: Well if it's political suicide for them to address it, what can we do as passionate people, citizens? What can we do to address it? Say the three of us on this line believe that infrastructure is a huge key into making this thing happen, what can we do from a commercial perspective?

Aric: I think there's also some opportunities, when I said that the instant thought I had is boy that will mean a lot of tax money so let me address that first. It doesn't mean a lot of tax money. It means some incentives to corporations who are currently using for example the electricity infrastructure. If we were to give electricity companies and generation companies and distribution companies the right to for example write off their capital expenditure in a single year for whatever it is they update that year, they would be incented to rebuild their capacity themselves and now that doesn't fit for all the infrastructure but clearly you can see that it doesn't have to be a net-net cost to the US tax payer.

Dean: We could definitely see that happen on a local basis on markets all across the country in that those governments that had the foresight to offer incentives to corporations to draw those businesses and those corporate headquarters to those cities, those are the ones that want, those are the ones that we have invested in over the last 18 years or so following those markets and those market trends and so if it can happen on a local basis why can it happen on a broader basis.

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Aric: Dean, that's an excellent point. I'll bet you whatever markets you've invested in, I'll bet you that five to 10 years prior to your investment there was a tremendous amount of money spent on upgrading the infrastructure in the capacity of whatever that community was and that investment pays off for a long time. Remember you guys had, Peter, you're in New Jersey, remember you guys had that blackout four or five years ago? People were stuck up in the buildings in New York, people stuck on the bridges and the subways.

Peter: Absolutely.

Aric: Okay, we have not upgraded our electricity infrastructure since then. There's a lot of value at the time about we need to get a better grid distribution system in the United States. Well you know what, we haven't done that. To your point Dean, there have been some communities and some specific regions that have done some regional work but you have to remember that that's great to have a single region but our whole country's electricity distribution network is one. Having a great link in the chain and the rest of the chain's links are weak helps that local link but not necessarily the whole.

Peter: When Dean asked you that question Aric, the first thing I thought about was well you know what we should have done is we should have listened to or maybe move to those politicians up the ladder so to speak who are actually talking about this. But of course, what happens is they get demeaned in the media that they can't win, they can't win, they can't win and they don't get the voice. Early on we heard Dennis Kissinich talk just about what you are talking about here.

Aric: That's right.

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Peter: You heard Ron Paul talk about just what we talked about here today, how instead of spending billions overseas we need to spend the billions here and we could be and should be the strongest country we possibly can. So that was the thought that came to my mind. As voters, we need to get out and if I can real quickly here say we have a huge election coming up in November and no matter who you like or don't like, just get out there and vote. There's far too much blood across this world that gave us that right to do it so everybody should get out and do it.

Aric: That's right. Let's take your point though a step further Peter. Imagine spending let's say \$10, \$20 billion on some of our infrastructure. Let's just make it an even 20. That would create a certain number of jobs. Think of what that would do for these markets that have problems, Peter. That would give an instant stimulus to purchasing of real estate, for example. The downstream of impacts are huge but for some reason we don't want to admit it, we don't want to just take the big step. We'd rather spend our money on far more frivolous things like \$600 checks. If you want to talk about bang for your buck, the \$600 check is not going to give you the bang for the buck that some of these other ideas would do.

Peter: I would think that if you surveyed the American public right now and said you know what were going to increase your taxes by this amount of money but every single dollar that we tax you was going to go into building the infrastructure in this country and to bring this many jobs and bring this amount of an impact to your local, regional, and national economy, I would think the majority of the people knowing they're going to be taxed anyway would be in favor of it.

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Aric: I think you're exactly right. This week's Business Week, if you get a chance to look at it there's an article in the first half about the national competitiveness of different countries. And you'll find that the US is still in the upper half of competitiveness when it comes to the big international economies in the world but our competitiveness is a function, our competitiveness 10 years from now is a function of the spending and the planning that we do today. So, our not planning today has implications 10 to 15 years down the road.

Peter: Absolutely and we can feel it and that only goes to what is going to happen this November, can change be had. I know we've heard that word so often used over the last 12 to 16 months, change this, change that and I just think it's a matter of the American public say enough is enough, let's build this country back up to where we need it to be.

Aric: That's right and Dean earlier asked what could we do. We've got to get this message out. We've got to get the American citizen, the American voter to understand that nothing comes for free. That check is not free, it's not going to result in a long-run improvement of the United States economy so what will? Let's concentrate on that and let's get that message out there.

Peter: Okay, you know what we're going to do Aric when we get back from this short break coming up we'll focus more on what can be done. We are going to talk little bit more about the sub prime crisis, how some people view it, how you view it more importantly. I do want to touch back with you on government intervention and maybe helping some of those less fortunate folks out there who were hit hard by the sub prime crisis that are now in foreclosure. What can be done to help them out in a way that's

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going to help out the rest of the country? So when we get back from the short break we'll talk more with Dr. Aric Kraus, faculty member, Westminster College.

BREAK

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Peter: And just like that message just said, give us a call 1-866-472-5790. We have one of the brightest minds in this country talking about location investing, talking about the economy, and he will answer your questions, Dr. Aric Kraus, faculty member at Westminster College. Aric, on April 2 we had the CEO of the American Foreign Investors in Real Estate Association talk about their members did their 16th annual survey and one of the things that the respondents said was that slightly more than 50% of their real estate planned acquisitions in 2008 will be allocated to the United States and 85% of those said that the recent fluctuation in the dollar, i.e. the economic situation we've been talking about for the first half hour here has not prompted them to decrease nor increase their US allocation. I guess ultimately what they're saying is we have confidence in the United States. I think that Americans should also have that confidence in the United States, in the real estate market, but in markets that makes sense.

Aric: That's a fascinating point Peter. Let's clarify that just a little bit. What it sounds like that data is suggesting, I haven't seen the data but what it sounds like that data is suggesting is that since a US investor doesn't have to go through the currency fluctuation of moving his or her investment into another economy, remembering that the dollar is off,

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20, 30, 40% off the major world currencies during the last 18 months. If you don't have to do that then you shouldn't because the United States still has excellent opportunities in the real estate market. Look at it this way Peter there's a lot of volatility in the equities market today. In fact, I was looking just the other day for fun at the amount of volatility in price in 2007 relative to earlier years and the volatility in the equities market is up. That should be obvious to even the casual observer when they see the market fluctuate so much from day-to-day seemingly without logic. Then you remember that the debt market as an investment device, so the equities as an investment device is very volatile and then you remember that the debt market is also another investment device but we've seen what's been going on in the debt markets. It's tremendously volatile and all types of debt have different scary aspects to them right now given the default rate of debt at all levels, even corporate debt. But then you look at a different investment vehicle, for example real estate and real estate in certain sectors is an excellent long-run investment opportunity that doesn't have the volatilities associated with these non-physical asset markets.

Dean: Another thing that they pointed out in the report was that because the global investors do a little longer term hold that a lot of the things like fluctuations of the dollar don't affect the long-term holds but they also said that the overall stability of the US market and they said they did hedge their investments by putting some risky investments into China and India for greater return and a couple other markets like London but they said that the primary market that they had their funds in was the United States because of the safety.

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Aric: That's right. You know, for example Dean if we consider the Canadian economy. If you are an investor from Canada, the Canadian dollar and the US dollar are parity right now which means that you can get 30% if you're a Canadian investor holding your assets in Canadian dollars, you can get a 30% premium by investing those dollars in the United States real estate today over what you could've gotten in a year and a half ago. One must remember that the property in the United States will never absolutely devalue. There will be some relative fluctuation over time there always is but in terms of a hard long-term asset it's the best place to be. Now, you have to be careful because we are seeing in the single-family home market for example that it's probably not the best place to be at this precise moment. There are other real estate sectors that are relatively slightly volatile but they're still excellent three to five year or 10 year plays where one can get a solid return and that assets not going to lose its value.

Peter: One of those property types that we focus on in this program Aric is multifamily. What do you feel about multifamily right now?

Aric: I think that there are some excellent opportunities in multifamily in different markets but Peter I have to put a caution on that. There are some markets that are phenomenal. Earlier I mentioned that there are certain parts of the United States that are doing well economically, growing gangbusters, and investments in those communities will be great but at the same time I don't see multifamily as being bubbled across the country so there are probably some opportunities in multifamily in many markets if you do the right due diligence, if you find the right property, in the right location and put

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some capital into it, do some cap acts, make sure that property is gaining in value. I think that multifamily is a good place to be.

Peter: Absolutely and again we've had our sponsor, RealSource, we've had their principles on our program and that's exactly what they do. They look into those markets. One of the things I also wanted to mention in this survey and this might be a little out there so if you can't answer it that's fine but I looked at that survey that AFIRE did, the Association of Foreign Investors in Real Estate and for the first time in 16 years they mentioned distressed assets as a strategic focus. I mean right away when you hear that phrase distressed assets you're thinking negativity but I look at it maybe as a new paradigm. Could that be good news for the economy?

Aric: I think it's a short run paradigm Peter and it's probably an interesting short run play, maybe not a long run play. Right now you can buy some assets from different places. You can buy them for \$.60, \$.50, \$.40 on the dollar depending on how distressed it really is. So for that purchaser they're going to make some great return if they have the capacity, the wealth capacity to hold it for a couple years and let it reappreciate. Then they're going to be fine. However, remember that whoever lost that property at the distressed sales price has lost. So in that transaction while one has lost, one has gained, there is still not been any economic value really added. There is some short run opportunity and you know what there is some good to it Peter. You can help somebody who is in a distressed situation get out of that distressed situation so maybe there's a certain amount of goodwill that's generated from that sort of activity. I think it's a short run play. As soon as the markets start turning around then the number of distressed assets

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will start to fall. At the end of the dot-com, let me give you an analogy, at the end of the dot-com bubble when all of those dot-com companies were going broke there was a whole bunch of companies who created new business models off of buying the inventory of these distressed dot-com companies and instantly reselling it. Well, those same companies are no longer doing too well.

Dean: What do I hear there Peter.

Peter: Aric, I think you probably hear Pink Floyd's "Money" and at this particular time that indicates to us that our Mortgage Minute is going to happen and we have on the line from RealSource commercial, Stan Hanks. Stan are you there? Stan, we were just talking about RealSource and how RealSource is a leader in location investing for thousands of investors across the country. What you do there is you find the money for investors. So, what is happening with money right now, lending for commercial investing?

Stan: Well, lending for commercial investing is as it's been over the past two to three months kind of a rocky road. Over the past week we've had some interesting, I would say for those who are little more technical, activity in what they call the CMBS markets which is those who actually buy all this paper that hasn't been purchased for the last six months which is why people have had a tough time getting loans. They're starting to see some of that move very cautiously. In the macro environment that's a good thing but it still is going to take some time. For individuals buying property, especially multifamily there are still great opportunities for lending out there. The rates are somewhere in the between 5 1/2 to 6% if someone is looking for a good multifamily. If they're looking for an office or commercial you're going to be up somewhere around 6 to 6 1/2. The other

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component that people have to realize in this market is they may not be putting down 15, 20% anymore. They may need to put down 25, maybe even 30% but that's just becoming the norm in the industry.

Peter: Right now that's probably because of what's happening in the marketplace.

Stan: It is. It's partly that and it's partly because what they call the debt coverage ratio which I'm sure many of your listeners understand what that is but when you take the NOI from the property your purchasing, what cash flow comes from that property, the lender only once to lend enough so that that cash flow covers their debt and you just have a little extra. If you can't get to that point where the cash flow from that property covers your debt than the lender will continue to reduce proceeds until it does.

Dean: What are they typically looking at these days, about 1.2 or 1.5?

Stan: It got down to, in the crazy days it was down to 1.1 but right now we are pretty much at 1.20.

Peter: That's a good thing overall for not only investors but for the health of the economy as well.

Stan: It is. You're talking to someone who I actually believe that what we're going through now, this correction is clearly something that probably needed to happen. It's a painful process that we're going through but it is getting us back to what we term as the 2003-2004 underwriting. Before all the craziness this is how things were underwritten and it was a healthy fundamental way to underwrite loans and we're getting back to that.

Peter: On this program we like to talk about relationships and how important that is to successfully investing in real estate and Aric, I'd like to bring the guest in at this time as

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well. Do you have any questions of Stan about what's happening in the mortgages or lending communities? Have any feelings about he talked about the commercial backed securities, anything in that area?

Aric: Well Stan, what I just heard you say, all the data you just gave and the spreads, etc., it still sounds like the lending institutions are very positive on real estate, it just sounds that they are trying to manage their risk in a slightly different way. It sounds like there are other centers that they are not willing to finance at all anymore. If they are still willing to finance, it sounds like they are pretty positive on multifamily. That's the way I read what you just said. Is that accurate?

Stan: It is. I think that there is a sense that multifamily is not all the way but somewhat recession proof of an asset type. So I think you're accurate. I think there's just going to be some components that are getting a little more tricky. It's going to be a little more difficult if people are getting groups together and we'll do a tenant in common approach and buy larger properties. That has clearly become much more difficult, much more challenging, you have to understand the landscape, you can call any lender and they'll say that that structure right now is probably one of the most if not the most difficult to get financed. That's structure not an asset type.

Peter: That's a niche market that you focus on, is it not Stan?

Stan: It is and for good or for bad it is one that we have had a lot of success on in the past and we are facing the same challenges other lenders are and we can still get them financed. For example, if you have listeners that are putting a group of 15 people together and want to buy a property the sponsor, the person putting it together, they're looking

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that that group put in 20 to 25% of the equity on the deal, which is new. Historically that has not been. It's been zero. Those are some of the things that have changed. It's not in every case, but that's an example of something that's new.

Peter: Stan Hanks, RealSource Commercial, how does someone get in contact with you? You have about 20 seconds.

Stan: 800-929-2150 is our 800 number. Also, go to our website. We update our rate sheets each week so you can go to RealSource.net and go to commercial loans and you'll find our rate sheet and a way to contact us. We look forward to helping anyone out there.

Peter: Excellent Stan. Thank you so much. We're going to take a short break. When we get back we will have about 11 minutes more with Dr. Aric Kraus. Give us a call, 1-866-472-5790.

BREAK

Thanks for tuning in today to Income Property Investment Talk. If you have a question for Peter or Dean call now, listener lines are open. The toll free number is 1-866-472-5790. That number again is 1-866-472-5790. Now back to Peter and Dean.

Peter: Okay, I'm shocked that no one called in today to take advantage of asking Dr. Aric Kraus some questions, so Aric has volunteered and we thank him for that. If you go to our website at incomepropertyinvestmenttalk.com, two things, you can look at a video of Aric talking about location investing and secondly, you can click on our Ask Us button and Aric will answer any email questions that come through any of our listeners. Aric, we have about 7 minutes left in the program. Let's talk about location. In real estate what makes location great?

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Aric: That's a great question, Peter. It should be no surprise that the number of jobs that are generated in a particular area, it's an issue of demand and supply Peter. Let me tell you that. But, the number of jobs that are generated in an area is directly correlated to the strength of investing in that area. Let me say that in the converse. If you can find a community that has strong job generation then you are going to find that there are positive effects on the real estate values in that particular market. Of course, that has to do with supply, as long as supply is within control. If you look at the markets that are having the most difficulty in single family home right now, let me be more specific Florida, Nevada, and California. There is tremendous overgrowth in some of these markets and that led to some of the problems that those communities are having right now. But, there are other communities that if there is strong job growth, strong economic prospects, then you're going to find that those markets are doing very successfully right now.

Peter: One of the other things that we were talking about and has been a theme almost of the program is government, whether it's local, state, regional, national. I would think that governmental policies and economic development type authorities in certain locations also plays a major role in whether or not a market is going to be successful today or in the future.

Aric: That's partially true. On the other hand, I use, quite often when I'm looking at different communities, I use every one of those that you said as sources to gather intelligence about what's happening in a different community. It's that local government that's going to determine whether or not the infrastructure is strong. It's that local

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government that's going to determine whether or not the pursuit of jobs into that community is happening. It's that local government that makes many of these choices. There are some anti-growth communities around the country; Peter and you will find that in those communities that have an anti-growth government, they also have a lack of growth. So, there's a direct correlation between the two. In the bigger picture, it's more private markets that determine the big growth of a particular community. I can think of some communities for example off the top of my head, I won't tell you which ones they are, but I can think of some particular communities that have huge job growth right now and coming up in the next couple of years. Those communities are growing gangbusters. They're not bubbled, but they're still growing stable, nice, positive growth. In those communities, one can find some investment deals, one has to be really careful and make sure that they do a proper due diligence. I mentioned earlier I use a lot of those sites you mentioned as places to do my due diligence. One has to find the right place and the right investment being very careful. The opportunities are definitely there and Stan said, I think he said those are recession proof to a large degree. There's going to be some short run fluctuation, but long run these are recession proof types of investments.

Dean: Dr. Kraus mentioned that there were markets out there, that these fundamentals are there and that he's not going to mention them on the air however, if you go on our website, incomepropertyinvestmenttalk.com and send us an email, there are ways we can get those markets into your hands so we should look forward to hearing from anybody out there. I know that there are thousands of realtors and investors that listen to our show.

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Peter: So Aric sustainability, we've heard that word often, whether it's green related or economy related sustainability is a big part of success in real estate.

Aric: Yes. You know, I'm going to make a prediction for you Peter, one that I feel very confident in making. Any community or region or company, you can look at it any of these ways who has really taken seriously, sustainability, who has really taken this green stuff seriously, who is really looking forward to new ways of doing business and new ways of... In multifamily if the investor who's willing to put in the new energy systems and reinsulated their building and do some of that capital expenditure, these folks are going to see returns because this energy problem is not going away. Our air problems in the United States are not going away. The companies, investors who take this stuff seriously will see payoff. I have no doubt in my mind.

Peter: So ultimately in order to and I start out every program by saying real estate is the single best investment one can make as long as they're investing well, part of what you're saying is in order to invest well you really need to know the right place at the right time, to look at all of the different variables that you spoke about here today.

Aric: Is that really the statement you use at the beginning of the show?

Dean: It is, at every show.

Aric: That is an excellent statement. It incorporates the whole thing. When I talk to people or when I'm doing my analysis, it's got to be the right place; it's got to have the right economic fundamentals. When I'm working with different investors, I say it's got to be the right asset. It can't be any asset. If your expectations for the return are realistic and the property is a good property and it has the right fundamentals, you can't go wrong.

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Somebody said, you should invest in property; they're not making it anymore. That's not going to change.

Dean: There are a lot of listeners who, our concept has always been live where you want to live, but invest only where it makes economic sense. There are a lot of listeners who happen to be in a market where the fundamentals aren't there right now, so they sit on the sidelines. We're here to stand on the stump to say we can put you into those markets. Go up on our website incomepropertyinvestmenttalk.com and then we'll give some guidance.

Aric: Just a quick point about that. There are 19 million people in greater New York City, 19 million people. For the small individual investor, New York City is not the place to invest but there are tons of other places that those 19 million people can go and invest if they find the right place and the right property.

Peter: And if you're interested in learning more about Dr. Aric Kraus, who he is, how he feels about location investing, like Dean said, go to incomepropertyinvestmenttalk.com. We have a video there, you can click on the Ask Us button, we'll send Aric the email and he'll answer that for you. Aric you have about twenty seconds; can you leave us with anything in this short period of time?

Aric: Well, I think this is a difficult economic time but any difficult economic time leads with specific opportunities. Great talking to you guys today. I had a lot of fun.

Peter: Aric, we look forward to having you back on Income Property Investment Talk sometime in the next quarter.