

## *Introduction*

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Real estate investing is a broad subject, and the hundreds of books written about it range from little more than expanded dictionaries put together by the “get-rich-quick” infomercial gurus, to highly technical (and often theoretical) works written by college professors. The usefulness of each depends heavily on the experience level of the author, and perhaps more importantly, the experience level of the reader. My personal library holds dozens of volumes that span the spectrum.

If you are new to the real estate field, figuring out what to study can be as daunting as the business itself. Most texts concentrate on a specific property type or investment strategy, and would have you believe that mastering a certain “system”—theirs of course— assures quick and easy success. The truth is that any strategy requires risk and effort—yours—and there are no guarantees. Being successful in any endeavor requires us to take responsibility for our decisions. Even then, we may learn to apply a proscribed system with some success, but after a while any one tactic becomes old hat. Sooner or later, boredom or discontent leads us to search for something new.

Almost every real estate investor with any level of experience will at some point look at a larger property and wonder if it would better leverage his time and capital. Most quickly discover that it is more complicated than it looks, and outright fear is a common reaction. One may ask if trading peace of mind for higher returns is worth the price.

*DealMaker's Guide to Commercial Real Estate* is written for those who have some working knowledge of real estate and a desire to expand their comfort zone, but are not willing to sacrifice peace of mind in the process. Any success is bittersweet if we're living with constant worry, or miserable with day-to-day routine. What most of us want is the life we've dreamed about, and real estate investing is the means to that end. We're going to approach the subject from the perspective of where we want to end up, and then develop a strategy to get us there.

## **Strategic Investing: An Overview**

The book is divided into four modules with three to five chapters in each. The format divides the material into sections that coincide with the work needed to acquire commercial properties; from getting started to getting deals closed. Each module builds on the previous in logical progression, and you can pick and choose the material to study based on where you may be on the learning curve.

### **Module 1- Observations: Taking Stock**

The first module includes Chapters 1 through 3, and is just what it sounds like. We're going to observe the overall environment of commercial real estate, and the requirements for entering the game.

We start with a broad overview of the commercial real estate universe, with an emphasis on thinking strategically about how our decisions regarding our investments have far-reaching ramifications on our financial and personal well being.

The fundamental ingredient of any strategy is an inventory of the resources we have to work with. We're going to take stock of your present financial status, investment holdings, talents and desires for the future, as well as your capacity for risk. You'll learn how lenders assess your borrowing power, and how to tailor your personal financial information to increase that power. Whether you are a full-time real estate investor or use real estate as only one component of larger investment portfolio, how you present that information can make the difference between success and frustration. You'll see a template for a personal financial statement that may startle you with its simplicity.

Next is the analysis of your present portfolio. To play at this level will require capital, and anyone who tells you otherwise is just flat wrong. We will examine a veritable buffet of methods to raise capital, and by the end of the discussion you may be astounded at the amount of resources at your disposal.

### **Module 2: Orientation- Choosing Your Target**

Chapters 4 through 7 are an orientation to the critical decisions involved in designing your personal investment strategy. This is where we match the experience, talents and capital identified in the first module, with specific investment choices. *How* a property will be managed; *where* you will invest; and what *type* of property will be acquired are decisions that should be made *before* specific deals can be considered.

There is no issue in real estate investment with more impact on profitability and lifestyle as that of how an investment will be managed. We will discuss all of the alternatives, and supply a guide for the selection of the method best suited for your situation.

Making a “good deal” in a bad market can be ruinous to your peace of mind, not to mention fatal to your finances. The role of market research and how to apply the information to specific investments is essential to our success. Equally important is the role of government. Land use regulations, i.e. zoning and subdivision ordinances, are the rules of the game. If you do not know what they are and how they affect your investments, you might as well sit down at a poker game blindfolded and trust the other players to tell you what cards to play and how much to bet.

Next we will examine property types in detail, with pointers about their attributes and idiosyncrasies. Only by understanding the demands and requirements of different property types can we make the decisions that form the picture of where you end up. Alignment of the property type with your own strengths and weaknesses provides a quantum leap in the probability of your success.

Then we consider the cornerstone of a strategic plan, the “who”, meaning you, and how to develop an investment criteria to guide your efforts. This is your strategy defined. Perhaps the single most common mistake in the real estate business is an investor who attempts to fit their personal attributes to the deal, rather than fitting the deal to the person. With detailed investment criteria you won’t have to learn that lesson.

It is my belief that preparation is just as important as actually doing of the task, and these first two modules are designed to thoroughly prepare you for action.

### **Module 3: Decisions- Taking Careful Aim**

Chapters 8 through 12 are likely what you came to hear; finding and evaluating commercial properties. You will learn how to decide what deals to chase and which to ignore. Part art and part science, I’ll pass along some shortcuts to the process of quickly identifying a deal among properties for sale. You’ll also learn the concept of saying, “Next!”, and doing so rapidly, without wasting valuable time on deals that do not fit your criteria.

As no deal in real estate is done without reams and reams of paper, Chapter 10 takes a look at common contract provisions and how to negotiate the finer points of a deal. The decisions made in this phase of an investment will have consequences far beyond the closing table. Once you own it, it’s yours, and there is no do-over. So much of dealmaking depends on getting the right words in the right order on the right

document, and every year brings new permutations of how to do it. My hope is that once you've read this chapter you'll never again leave easy pickings on the table.

The heart of real estate evaluation is thorough property due diligence, and in Chapter 11 we examine the subject in excruciating detail. You will learn just how many ways one question can be asked. I have a reputation as being a hard taskmaster in due diligence, and more than one counterparty has decided it was easier to give me what I asked for rather than answer, or avoid, yet another phone call. At the end of due diligence we reach a turning point, the "go" or "no-go" decision. We'll examine what is important and what is less so, and make the decision with confidence.

The quintessential question in real estate is, "What is it worth?" The answer is found in the difference between Market Value and Intrinsic Value, and learning to accurately value a property is not as hard as some would make it sound. You may be surprised to find that you've been asking the wrong question. In fact, you have more to say about what a property is worth to you than anyone else. This was the hardest chapter to write in the book, and the most important.

#### **Module 4: Action- Controlling the Outcome**

The goal of this module is total control of the game. In Chapters 13 through 16, we focus on deal structure and strategy, financing, preparation of the business/investment plan; and conclude with chapter on taxation and entity selection.

The discussion of deal structure and strategies is designed to arm you with a wide variety of tactics to get deals done. This is truly the creative side of the business, and this section was the most fun to write. Be prepared to expand your thinking as we break real estate into dozens of pieces and learn to put it back together in new and more profitable forms. Your mind may never return to its former dimensions.

The ever-changing world of real estate finance is an industry unto itself. Many loan products in use today didn't even exist ten years ago, and are available to everyone, from small investors to the heaviest hitters on Wall Street. We'll wend our way through the maze of sources and products, and learn how to match the loan, the lender and the deal to achieve our personal goals.

Business plans and loan proposals are the bane of investors everywhere. We are by nature entrepreneurial creatures, and there is something about having to write down our ideas for the approval of some higher authority that just rubs the wrong way. I won't say this chapter makes it any more enjoyable, but you will have a template for a plan that covers all the bases, and no need to hire a copywriter.

For taxation, I surrendered my soapbox to one of the most engaging and talented young professionals I've met in a long time. John Hyre, Esq., CPA and tax lawyer extraordinaire was gracious enough to write an excellent chapter on ownership entities, tax issues, and specific tax strategies for real estate. John is a friend and a colleague, but more importantly he is one of a very rare breed of professionals that actually loves tax law. That's extremely hard to find, especially when you think about the fact that the tax code is a game for which the rules change every time Congress is in session. John covers the material in layman's terms, and you'll find his discussion laced with a biting humor, as well as a generous dose of plain old street smarts. Anyone who can make me laugh while discussing taxes is a uniquely talented individual, and I am grateful for his contribution.

Finally, in Chapter 17 I offer my thoughts on the present conditions in the industry and the likely changes in the future. The real estate industry has grown dramatically in the past decade, and we're in the midst of an evolution. While pundits talk of a real estate bubble and an inevitable crash, deals are being closed and money is made, every day, in every city, county, and town in the country. Every cycle brings winners and losers, and I intend to be in the group that is closing deals rather than wringing their hands. The focus of the discussion is on how to avoid being surprised.

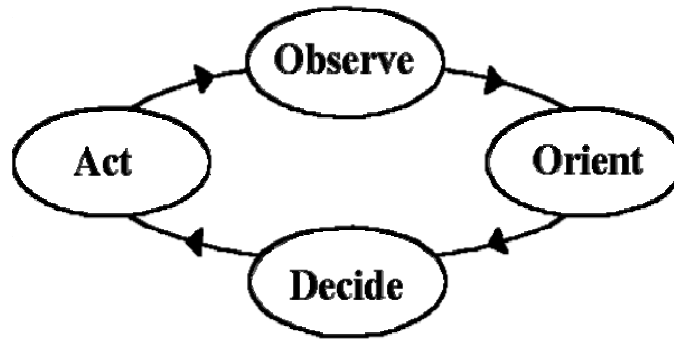
This book is at heart a strategic roadmap to achieving your investment goals. As you apply the ideas presented here to the decisions you face in acquiring or expanding your real estate portfolio, I hope you will find yourself more confident, more relaxed and more purposeful.

### ***Strategy as Tactics***

Students of military strategy will recognize the module headings as borrowed from a man many consider to be one of the greatest strategic thinkers of all time; Col. John R. Boyd (USAF Ret.). Boyd was a fighter pilot, the progenitor of the famous *Top Gun* school for training the best of the best fighter pilots. He was known as "40-second Boyd" for his standing challenge to fighter pilots that he could let them start from a position of advantage and have his jet on their tail in 40 seconds or less, a bet that legend says he never lost. Col. Boyd developed a decision framework for strategic planning that became known as *The OODA Loop*, also referred to as "Boyd's Way".

The essence of Boyd's Way is to think through all possible options prior to entering and during the conflict. The process begins with *Observation* of the environment; then *Orientation* of one's position on the environment and possible actions; a *Decision* to take a particular action; then *Act*, returning at once to the *Observation* of the results of the action and a continuous loop of re-orientation, another decision and new action. His tactics were designed to cycle through the loop faster, to get inside the adversary's decision-making process, thereby disorienting the foe and providing a quick defeat.

## The OODA Loop



Col. Boyd died in 1997, but his ideas have been widely discussed and adapted for application in a wide range of disciplines, including business. (For more about Boyd, see [www.belisarius.com](http://www.belisarius.com) and [www.d-n-i.net](http://www.d-n-i.net)) It should be noted that I do not subscribe to the popular analogy that “business is like war”, but a good strategist develops the ability to mine useful ideas from anywhere. I encourage you to develop the same practice.

### *The OODA Loop and Investment Strategy*

On its face, the *OODA Loop* is a graphic representation of how human beings make tactical decisions. Boyd was also a disciple of the Chinese warrior-strategist, Sun-Tzu, who espoused economy of effort and the conservation of resources by *avoiding* the strength of the enemy and using it against him. Boyd took these principles and added the element of time, specifically being able to cycle through the loop faster than the adversary, thereby depriving him of the input necessary to adapt to the new conditions.

In real estate our adversary is the market itself, with threats arising from all directions. Investors must be prepared to adapt their tactics to meet new opportunities, protect existing positions and defend against new threats. The *OODA Loop* is an excellent framework for developing a strategic plan that is responsive to the world at large and our own changing needs. I cannot in good conscience teach you the basics of the known without also preparing you for the unknown.

The concept of thinking things through is of course not limited to military engagements. As a conceptual framework strategic planners have used the same principles as the basis for entire bodies of organizational knowledge. But as a tactical framework for developing a course of action within a continually evolving environment, few can match the Boyd model of building in a ready made capacity for change and adaptation. Add the elements of time, direction and personal responsibility and the *OODA Loop* is a working guide to success.

*Initiative—taking charge of your own destiny—is required if one is to master circumstances rather than be mastered by them. —Col. John R. Boyd*