

FIRST WORD

Indispensable Advice for Fledgling Investors

Florida investor Kenneth Rosen has never plowed a single penny into the stock market, which he likens to legalized gambling. Instead, income-producing properties have provided the path to prosperity for the 75-year-old Rosen. Over the past 30 years, he has bought and sold \$300 million in investment real estate, including apartment complexes, small office buildings, retail centers and small-bay warehouses.

"If I'm going to be successful, I want to control my own money and not turn it over to someone else and go home and pray. That's why I never bought a stock in my entire career," says the founder and president of Kendar Realty Inc. based in Coral Gables, Fla.

As a commercial real estate owner, Rosen firmly believes that he can control his own destiny. "I can do things to improve the value. I can increase or lower rents. I can refinance. That is my building. I can see it, touch it, feel it and smell it."

A pioneer of condo conversions in the Sunshine State and the past president of the Realtor Association of Greater Miami, Rosen is busy hosting book signings these days. "Investing In Income Properties: The Big Six Formula for Achieving Wealth in Real Estate" is a recently released how-to guide for fledgling investors. The focus is on properties ranging in value from \$500,000 to \$5 million.

Rosen's advice comes from the trenches. He currently owns 113,000 sq. ft. of office space valued at \$28 million. His equity stake in the office portfolio is \$17 million. That leaves \$11 million in debt on the portfolio that Rosen is paying off at attractive interest rates.

Why did Rosen write the book? "I wanted to show how income-producing real estate is far superior to any other investment in the world, provided of course you find the right property," says the Boston University graduate and father of seven. "I wanted to give them my personal experiences, the experiences of other successful investors, and to let them know the pitfalls."

Published by John Wiley & Sons, the book took 18 months for Rosen to complete. Approximately 2,200 copies sold over the past nine months and a second printing is in the works. The book also is being translated into Arabic to accommodate a request from a large publisher in Egypt.

The author's big takeaway is that six core principles — The Big Six — make or break each real estate deal, starting with location. Quality of construction is next, followed by the tenant profile, the property's upside potential, financing, and price.

"The amazing thing is that each step has to be done in exact order because each builds on elements of the previous component," says Rosen. "You can stop after the first step — location — if the building is worth \$5 million and the owner insists on getting \$10 million. You take a walk."

One pitfall investors should avoid, urges Rosen, is the temptation to buy hybrid forms of real estate that are not income properties. That's a lesson Rosen learned the hard way. In the early 1980s, Rosen was flush with cash after a series of successful condo conversions. He teamed up with a major capital partner to acquire a country club located in the southern portion of Miami-Dade County on highly desirable land.

The problem was that the country club operation began losing \$1 million annually, and plans to rezone the land to allow for the construction of condo and apartment units had become bogged down. The partnership ultimately was forced to sell to a big developer at a huge loss. Rosen lost more than \$2 million of his \$3 million investment. Looking back, his ego got the better of him. "I stepped into a hornet's

nest, but it taught me a lesson because I never went into another deal other than real estate."

Fast forward to today where Rosen is peppered with questions from beginning investors about how much capital it takes to get in the game. Their first step should be to determine their net worth, taking into account everything from home equity to CDs and IRA accounts. Still, it's possible to acquire a five-unit apartment building with \$10,000 cash and first mortgage at 80% loan-to-value and a second mortgage, says Rosen. That's certainly not the case in every market, "but you can get started with a lot less money than you think."

It sure beats waiting for REIT share prices to rise.

Contact Editor Matt Valley at matt.valley@penton.com.

