

# Rich Ideas

Commercial and Investment Real Estate



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***That one is JUST RIGHT....***

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One of the pleasures of this career is that I get to speak to investors from all over the country. On occasion, from all over the world. I was fortunate to speak with an out of town investor last week looking for a property in Rochester.

When I received a call, I did not recognize the area code. I answered it anyway.

Hello, this is Mark, How can I help you? From the other side, I hear "Hello, This is Goldilocks....I am in the market for an apartment building and I was referred to you by a good friend of mine." I did not ask who. I do not have many clients that are fictional characters. Winnie the Pooh has a decent sized portfolio here in Rochester that I helped him accumulate. Perhaps it was him.

So, we met for breakfast to discuss her needs. She ordered the porridge. I just had a plain bagel. And we discussed various property options available to her.

I was not sure what her important characteristics of a potential investment were. So we discussed what was most important: Cash flow? Condition? or Location?

Well, she said, I would like to make as much as possible. So I showed her the highest cash flowing property in Rochester.

We discussed its high return as well as its location which was below average. Its condition was "adequate" at best. Generally the highest cash flow properties will have sub par condition and/or location.

"The location of that one is too COLD (I think she meant below average) I will have to pass on that one"...

No problem, so cash flow is important but so is location? Right? And she nodded as she devoured that porridge.

Ok, so here is another. It still has excellent cash flow. Not as much as the first one of course, but still very good. And the location is an improvement over the

first one. However, this one needs a new roof and the perhaps may need all new furnaces too.

The condition of that one is too HOT she said (Needs way too much work). I do not want to, nor do I have the ability to do all that work to make the property up to the condition I would want as an owner.

Ok, so high cash flow is important. So is the location. But it has to be in good condition as well?

Yes, that would be correct as she finished up that porridge.....

So we discussed a property in the Park Avenue area. Perhaps the nicest and most sought after neighborhood in the area. With excellent location and excellent condition, cash flow is going to be lower.

So we discussed the investment. It was turnkey. All the mechanicals have been replaced recently. It had a few roof. The tenants were excellent. It was in one of Rochester's most desired neighborhoods. And it made 8% after all expenses.

Ahhhhh, this property is "just right". My return is way more than that of what my bank is paying me in interest. I will not have to worry about furnace breakdowns or replacing the roof any time soon. And I am in a great location. Thank you so much for finding me a property. I am getting quite tired now though so please draft the offer and call me later. I think I may need a nap!





## *We have a deal!*

“We have a deal!” Great words to hear. Especially after a long and drawn out negotiation process. Not too long ago, “We have a deal” always meant that we actually HAD a deal. Two people gave their word after negotiations and said, leave the rest to the lawyers to prepare a contract.

But now, “We have a deal” no longer means we have a deal. Sellers continue to market properties and in rare cases, accept a second perhaps better offer than yours AFTER the seller told you we have a deal. “It is not approved by attorneys” will be the seller response. Perhaps a true statement, but what really happened is the seller went against his/her word. They continued to solicit offers and even negotiate offers AFTER you told the first buyer that we have a deal.

And why might a seller do that? Because a buyer makes several offers on many properties (perhaps). The buyer may negotiate a long attorney approval process. Or perhaps a long due diligence or mortgage process. The seller has been burned before by a buyer canceling a deal on the 29th day of a 30 day due diligence period. Not because the due diligence did not check out. But because the buyer found a different deal.

So both sides are potentially at fault. It would be nice to get back to a time when “We have a deal” really meant we have a deal. Not “unless something better comes along.... or until I determine if I want another property. Your word should mean something, don't you think?”

## *Where am I in Rochester?*



Answer: At my Alma Mater, Nazareth College. 150 acres. 23 Buildings. 11 residence halls. 30,000 alumni in all 50 states and 43 countries. And 3 million people entertained since the opening of the Nazareth College Arts Center in 1967.

## *Did You Know??*

*June is often considered a "summer month", whereas September is not. This is despite the fact that September has twice as many summer days as June.*

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