

# P R O S P E R I T A S

EUGEN KLEIN REAL ESTATE BROKERAGE & MARKETING SYSTEMS

MAY 2004

■ Pre-market Listings! ■ Top Story: Real Returns ■ Inside: Investment Opportunities

## Editorial



The past three months have been a whirlwind of change. Some of the most important changes:

The first bit of news is on a sad note. Dina Jabsheh, my long time partner and associate in real estate has chosen to pursue her business career internationally. Dina was the first person to join my team three and a half years ago and her contribution has been inestimable. A person of her intelligence and drive will be a success in any firm that chooses to employ her. We wish her the best with her new direction which has taken her to Dubai - she will be helping with the formation of a property development and management firm there.

I am now teaming up with Bruce Sheldon of Royal LePage Wolsencroft Realty. I have known Bruce now for several years through our work on the Commercial Divisions of our respective Boards. He brings a wealth of experience and intimate knowledge of the Fraser Valley which are a perfect complement to the investment and marketing services I provide.

Contact me with any of your questions or concerns regarding the disposition of your commercial investments or business.

Eugen L. Klein  
B.Comm (UREC), CRES, ARM®, RI, FRI  
eugenklein@shawcable.com  
Tel. 604.818.5888  
Tel. 1.800.818.8599 ■



Now that we have explored different approaches to evaluation of income streams, we tackle the key question: what are effective tools to use to evaluate simply and quickly whether a business is good enough to go through a long due diligence? In other words, does the price justify a closer look? One of the most frequent questions we entertain in our investment presentations regarding the evaluation of any investment regards what factors to look for right at the beginning of the investment process that can save both time and money.

There are certain basic ideas that can be used in both the "evaluation to buy" and "pricing to sell" for a business or investment property. Of course, be warned, these are gross simplifications and should only provide a guide to an appropriate price range for a particular investment. Have a hired professional conduct the due diligence with you prior to any commitments.

For most buyers an earnings multiplier makes the most sense to estimate value. This method identifies the buyer's motive to earn a return on the investment. A multiplier of four on the

## Real Returns

By Eugen Klein, B.Comm(UREC), CRES, ARM®, RI, FRI  
Real Estate Broker

net income translates to a 25% return likewise a multiplier of three translates into a 33% return and so on. Avoid using sales multiples because if they cannot be translated into earnings, the number is meaningless. If a property was producing one million in revenue but required one million in expenses to service the revenue its worth as an investment vehicle is zero. Note that the multiplier is dependant entirely on the buyer - as a buyer you can choose whatever return you expect on your investment. The key is to be able to select the multiplier which is most favourable, yet realistic for the current market.

The notion of using multipliers is

different across various investment vehicles: investment real estate, stocks, or purchasing a small business. Investment real estate is often valued eight to ten times its net operating income. Stock prices are typically as much or even more than twenty times their earnings. Small businesses do not compare in the same way because the risk of owning a small, closely-held, privately owned business

*(continued on page 4)*

## T E S T I M O N I A L S

"We always look for industry professionals that can deliver their material in a timely and well researched fashion... Eugen Klein presented his detailed commercial overview as well as secrets of the marketing of businesses and trailer parks. His presentations were without exception well received"

Ozzie Jurock,  
President, Jurock's Real Estate Insider  
President, Featureweb

"The time and energy that you have taken from your personal life and put into your elected post is a direct benefit to me and my companies and all other realtors and brokers. I just wanted to let you know that your dedication is much appreciated. Thank you for your hard work."

Bob Rennie  
Rennie Marketing Systems

"I take this opportunity to express my sincere appreciation to you for continuing to send me your 'Prosperitas' newsletters. Your writings are always a great read ... concise and yet very informative. Your articles in the Real Estate Magazine (REM) have also not gone unnoticed..."

Wayne Yu, CCIM, FRI, CLO, CRES, RI  
President, Real Estate Institute of  
Canada, Greater Vancouver Chapter

"You're one dynamic business person! Not only do you have vision, leadership and integrity, you're open mindedness and thirst for learning makes you one step ahead of the game. I really appreciate your honesty, good advice and 'do whatever it takes' attitude."

Alice Zhou  
Event Coordinator

Please visit us on the world wide web at [www.eugen-klein.com](http://www.eugen-klein.com)

Goddard & Smith  
International Realty Inc.



## BROADWAY MIXED USE INVESTMENT

- 10,000 sq. ft.
- \$220,000 net income
- 6.1% Cap Rate
- 1000 additional sq. ft. available
- Opportunity to increase Revenues



**\$3,585,000**



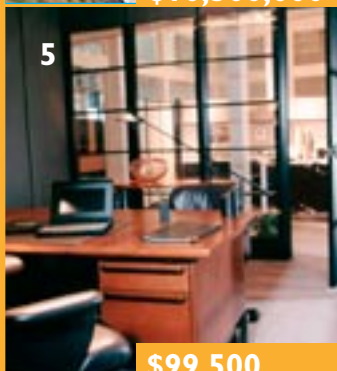
**\$10,500,000**



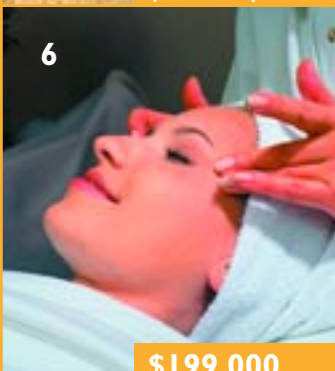
**\$108k-\$360k**



**\$13,000,000**



**\$99,500**



**\$199,000**



**\$5,000,000**



**\$1,950,000**



**\$110,000**



**\$110,000**

## 2. 46 ACRE DEVELOPMENT SITE

Between I-5 & Pacific Hwy; truck stop, manufacturing, duty free potential \$4.50-\$6.50/sq.ft. Border proximity 10 parcels, all serviced.

## 3. REGAL RIDGE REC. PROPERTY

48 new lots, ~3.2 acres ea. Stunning views, Osoyoos BC. Priority sign up; More sites coming! Already 75% SOLD

## 4. MIXED-USE REDEVELOPMENT

Shopping mall for redevelopment into com/res tower, 15+ storeys. Exceptional view of Vancouver & Puget Sound.

## 5. DOWNTOWN STRATA OFFICE

Howe Street, Vancouver. Supreme Court. Perfect for independent professional. Parking space included. Excellent amenities.

## 6. SPA & RETREAT FRASER VALLEY

Loyal clientele; solid contracts and affiliations with local hotels, convention centres, churches & community groups.

## 7. MOBILE HOME PARK - SURREY

100+ pads, solid revenues, below market rents - opportunity to increase revenues, Nearby vacant land; op to expand.

## 8. MANUFACTURING WITH LAND

45,000 sq. ft. building with 3 acre parcel, fenced. Crane installed, turn key operation. Sable contracts in place.

## 9. REVELSTOKE RESORT HOTEL

18.73 acres, 26 suites, private chalets. Major skiing development pending.

## 10. HASTINGS-BBY RETAIL STRATA

267 sq. ft. Retail strata unit, good street visibility and walk-up traffic. Perfect for electronics/communications sales & service.

## WANTED

20,000 - 30,000 sq. ft. retail location in close proximity to downtown: lease or buy

## WANTED

Mobile home parks, 30-60 units; waiting list of buyers!

This communication is not intended to induce a breach of already listed properties or businesses. All information must be verified by the purchaser. Images are representative only.

# COMMUNITY

My 'Community' section is dedicated to the extraordinary people who have contributed to my life with exceptional service. I would like to share my good fortune of knowing them with you. Please feel free to convey my recommendation.

**BANK OF MONTREAL**  
Mr. Joe Corrado & Mr. Mark Tower  
Vancouver (604) 665-2682

**CAPITAL WEST MORTGAGE**  
Mr. Daymon Eng  
Vancouver (604) 899-3799

**CHARTERED ACCOUNTANT**  
Mr. Grant Gilmour  
Langley (604) 888-4200

**CIBC RESIDENTIAL FINANCE**  
Mr. Adam Beaudin-Ball  
West Vancouver (604) 981-2549

**CIBC RESIDENTIAL FINANCE**  
Mr. Derek Christiansen  
Vancouver (604) 220-6161

**COMFORT INN**  
Mrs. Valerie Orr  
Vancouver (604) 605-4339

**COMMERCIAL MORTGAGES**  
Mr. Gary Khangura  
Vancouver (604) 879-0235

**CYPRESS INSPECTIONS LTD.**  
Mr. Noel Murphy  
West Vancouver (604) 312-8606

**DIGITAL PRINTING**  
Mr. Jason Romo  
Vancouver (604) 420-3400

**12. NEW BUSINESS OPPORTUNITY**

High tech non-slip safety system requiring installation and maintenance. Mandated by insurance companies, customer base includes major public buildings, institutions.

**13. WHISTLER RETAIL LEASE SPACE**

2,000 sq. ft. to 10,000 sq. ft. available - Excellent exposure; excellent foot traffic, esp in peak seasons.

**14. PENDER HARBOUR WATERFRONT**

20 lots, exceptional views, rare sunshine coast waterfront opportunity!

**15. GULF ISLAND WATERFRONT**

2 properties available on island in Georgia Strait. Waterfront, well shielded by Vancouver Island; beach front, sheltered cove, close to Desolation Sound.

**16. MOBILE HOME PARK LAND**

BC interior, prime location overlooking city, adjacent shopping centre development

**17. RETIREMENT CARE FACILITY**

Exclusive care facility for elderly retirees. 6000 sq. ft. leased premises, net over \$240,000 annually.

**18. DEVELOPMENT LAND GVRD**

Parcels for mixed use commercial/ residential, institutional uses. Land assembly in progress.

**19. GRANVILLE STRIP RESTAURANT**

Located in the bustling heart of downtown Vancouver. Exceptional reputation. Call to register for package!

**20 TACO TIME**

Three locations in Greater Vancouver, Managers in place in all stores, owners retiring, franchises offered below market

**KITSILANO RESTAURANT & BUILDING**

Large and busy, recognized name & location. Profitable spring and summer ahead

**WANTED**

Vancouver residences for land assembly

**WANTED**

Industrial building; south side of Fraser River, 1.5 acre lot with building preferred.



**\$1,950,000**

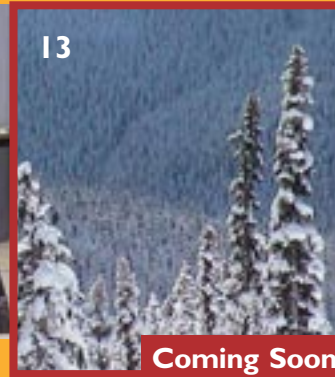
**TRUCKING COMPANY**

Serving all major southern BC highways from central location

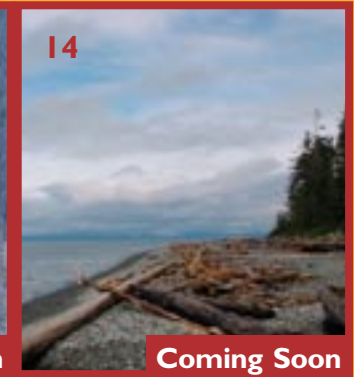
- 17 years growth
- 13 trucks
- Major contracts
- Awesome cash flow!



**\$10,000**



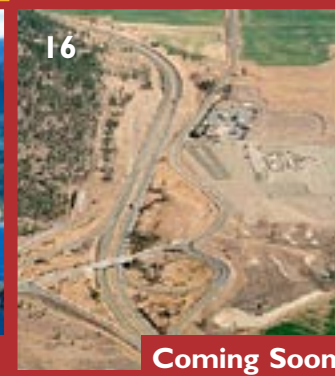
**Coming Soon**



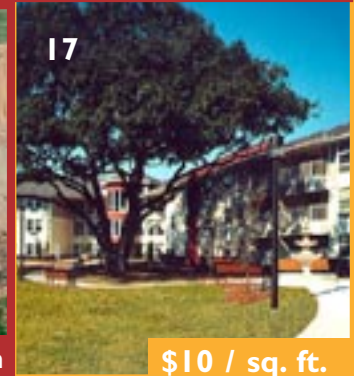
**Coming Soon**



**Coming Soon**



**Coming Soon**



**\$10 / sq. ft.**



**Coming Soon**



**Coming Soon**



**\$150,000**

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**C O M M U N I T Y**

**FLOWFORM DESIGN GROUP**

Mr. George Verdolaga  
Vancouver (604) 321-8008

**MCKITRICK CLARK MCLEOD**

Mr. Bruce J. Preston  
Vancouver (604) 736-6717

**PLAN-IT WITH US TRAVEL**

Mrs. Pam Gosal  
Richmond (604) 916-8044

**SCOTIA MCLEOD**

Mrs. Vanessa Stenner-Campbell  
White Rock (604) 535-4749

**GRAPHIC DESIGN & ART WORK**

Mr. Denis Meyer Jr.  
Burnaby (604) 777-0550

**NATIONAL HOME REVIEWS**

Mr. Dean Kazoleas  
Vancouver (604) 681-2108

**POPCORN CREATIVE**

Mr. Simon Dabbs  
Vancouver (604) 408-7767

**VANCITY CREDIT UNION**

Mr. Joe Chan  
Vancouver (604) 877-8296

**MAHOVLICH MARBLE & GRANITE**

Mr. Frank Mahovlich  
Vancouver (604) 293-0093

**PINK LIME SALON & SPA**

Mr. Youssef Jawhari  
Vancouver (604) 683-7444

**RENOVATIONS & APPRAISALS**

Mr. Chris Lewin  
North Vancouver (604) 562-5799

**VANCITY VENTURE CAPITAL**

Mr. Axel Christiansen  
Vancouver (604) 877-6582

# B.C. Economic Performance

Selected quotes from a recent report released by Scotia Economics



"An upbeat housing sector is expected to lift provincial growth again this year," says Webb. "Starts are forecast to climb by more than 25 per cent to 33,000 units in 2004."

"As housing activity moderates next year with higher borrowing costs, a series of ambitious non-residential construction projects are expected to begin that will underpin the province's growth through the remainder of the decade."

"Provincial government policy adjustments, alongside the economic pickup in the United States and abroad, are expected to lift BC's annual growth to the three-per-cent range this year and next"

"The shift to positive net interprovincial immigration last year, following five years of substantial outflows, testifies to BC's more buoyant outlook."

"With BC's reviving advantage as Canada's gateway to the Pacific Rim, substantial investment in container terminal capacity is planned for the Port of Vancouver, as well as Prince Rupert."

Quotes given by:

Mary Webb,  
Senior Economist,  
Scotia Economics ■

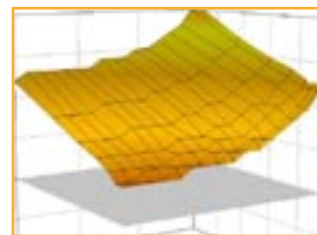
# Home Market Update:

"...Not surprisingly, all of this good cheer has produced serious talk of yet another asset market bubble, this time in home prices. The Economist gets the award for provocative titles, Castles in Hot Air, House of Cards, Bubble Trouble and Betting the House..."

"...For a variety of reasons, Federal officials are now clearly setting the stage to raise interest rates in coming months. And they are fully aware that higher rates will begin to cause some pain in the housing sector. Accordingly, we believe

that the markets are in the process of experiencing an important sea change. Sectors like financials and consumer discretionary spending that were main beneficiaries of the Fed's aggressive reflation efforts are likely to be under some pressure as the Fed begins to take its foot off the gas pedal..."

"...As for home prices, we can only say let the buyer beware. Moreover, let the lender to the buyer beware as well. If there is a silver lining to this for equity investors, it could be this: After the sell-off in equity markets in 2000-2003, many



investors have concluded that real estate is the only surefire investment. That conclusion may have drawn a substantial amount of money away from equity markets. It is now about to be put to the test."

From "Home Sweet Home" by William Sterling, Chairman, Trilogy Advisors LLC New York, (212) 703-3100 ■

# Rules of Thumb

(continued from page 1)

is higher than owning either real estate or publicly held stock. A business has lower liquidity than real estate and stock, and running a small business is also a lot more difficult than managing a shopping centre or a portfolio of stocks.

Here are some questions to ask when determining an appropriate earnings multiplier:

1. What are the current earnings? What are the average earnings per year in the last five years? What are the future projected earnings?

2. Does the earnings include the owner's salary and other benefits? Are all the expenses accounted for (interest, depreciation, taxes, etc.)? Are there any sizeable one-time expenses that should be looked at individually?

3. What is an appropriate level of risk and how can risk be measured?

4. What about the tangible and intangible asset values? Do we include all or some of the real estate, equipment, vehicles, and

**"...Are all the expenses accounted for - interest, depreciation, taxes..."**



inventory? What is the value of a seller's agreement to consult for the new owner after the sale? What about non-competition agreements?

5. What are the values of intellectual properties: patents, franchise agreements, secured contracts and other extraordinary intangible assets? Is "value" defined as fair market value or a specific value for a specific circumstance?

The determination of the earnings multiplier is subjective but does need to be based on market facts

and applicable to each type of investment and business. The steel manufacturing sector will have an inherent risk and return different than that of the fast-food restaurant. It is difficult, in reality, to estimate the market value of a business because the circumstances of buyers and sellers vary greatly. As a result the closing price for small and even medium sized business can be considerably above or below what academics would determine to be the "fair market value." Buyers are paying prices that are unique to the circumstance. ■

INVESTMENT ■ BUSINESS BROKERAGE ■ SITE SELECTION ■ ASSEMBLY



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it is my pleasure to serve your real estate needs.

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International Realty Inc.

