

P R O S P E R I T A S

EUGEN KLEIN REAL ESTATE BROKERAGE & MARKETING SYSTEMS

APRIL 2004

■ Pre-market Listings! ■ Top Story: Exploring The Cap Rate ■ Inside: Investment Opportunities

Editorial



When I was looking over the last few issues of Prosperitas, I noticed that I had been remiss in keeping you

informed of some of the exciting new developments here at G & S. Perhaps the most significant is that G & S is now an affiliate of NAI, the fourth largest real estate firm in the world!

NAI was founded some 20 years ago by a prominent American developer who perceived that the fragmented nature of commercial investment brokerage prevented it from adequately serving the needs of major national and multi-national corporations. He decided to assemble a network of the best independent brokerages throughout the US and all over the world, so that the local knowledge and expertise of each group would be available to serve the clients of all.

We consider it a great compliment that G & S has been invited to join this exclusive international team. Already, we are seeing fruits of the relationship; I have been asked to assist a major American non-profit organization to find sites for their congregation centres throughout BC.

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

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Probably the single most useful and simultaneously ill-used tool to determine the price of an investment is the capitalization rate (or "cap rate"). The term is often used to cover a range of price estimation techniques which seek to link value to an income stream by estimating the amount of capital an investor would be willing to part with to purchase that income stream.

One important consideration to keep in mind when you are being quoted or quoting a cap rate is that it is market driven. In order for it to be calculated correctly, it is more important to use relevant data for the market area than the data for the property itself. This does not simply mean the obvious: that comparable sales should be used to determine cap rate. It is just as important to make sure that standard techniques and market rates are used to evaluate the net income. Some questions to ask:

1. When calculating net income, was market vacancy rate used?
2. Was economic vacancy considered? Economic vacancy is the effective vacancy after such things as signing bonuses and incentives are accounted for. For example, if the standard

Income Analysis

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

market practice is to offer new tenants two months free rent, and you expect full tenant turnover every five years, you will be losing 2 out of every 60 months' rent - in a simple example with uniform lease rate per square foot, this corresponds to an additional 3.3% vacancy.

3. Was the net income effectively normalized? Was management salary and costs included? For a building, expect that a management firm may charge between 5% and 8% of the gross revenues as a management fee; for a business it is standard to deduct \$40,000 to \$80,000 for manager's salary from the net income, if such provision has not already been made.

4. What comparables were used to generate the cap data? How indicative are these comparables of general market trends? Some types of business or real estate are so unique that it may be impossible to find comparable data on which to base your risk estimates.

Once the correct market information, where available, has been used in a proper manner, different methods

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

"I have encountered few people with the focus and dedication to his clients and to the industry that Eugen displays. ...he is also our representative to the National Commercial Council which directs the affairs of commercial realtors at a national level... Obviously my assessment of his abilities is shared by realtors throughout the province."

Bruce Sheldon
Vice-Chair, Commercial Division, Fraser Valley Real Estate Board

"I have known Eugen Klein for approximately fifteen years. I am impressed by his commitment to life and all its opportunities and challenges. By my experience he is hard working, honest, intelligent, sincere and courteous."

John Windsor, R.I.(B.C.), F.R.I.C.S.,
President,
North American Property Corporation

"Eugen Klein is without a doubt the hardest working and most dependable real estate broker we have ever come across. Since our first meeting over a year ago he has continually impressed us by always anticipating our needs and exceeding our expectations."

Dr. A. Ignaszewski, M.D., FRCPC, FACC
Cardiologist Heart Transplant Program,
Medical Director Healthy Heart and
Heart Function Program

"Eugen is very well qualified ... Eugen is a conscientious hardworking member of our profession and I have every confidence in [him]"

John R. D'Eathe, LL.B., R.I.(B.C.),
Chairman Penreal Capital Management

Please visit us on the world wide web at www.eugen-klein.com

Goddard & Smith
International Realty Inc.

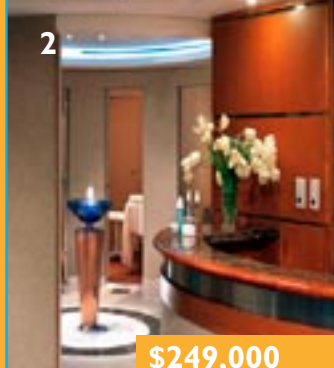


REVELSTOKE RESORT

- 18.73 acres
- Restaurant & Pub
- 3.2 Acre lots
- 26 Suites
- Private Chalets
- Canada Select 4 Star



\$4,250,000



\$249,000



\$108K-\$360K



\$10,500,000



\$13,000,000



\$99,500



Coming Soon



\$2,490,000



\$110,000



\$650,000

2. SPA & RETREAT FRASER VALLEY

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

3. REGAL RIDGE REC. PROPERTY

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

4. 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.

5. MIXED-USE REDEVELOPMENT

Shopping mall for redevelopment as 15+ storey com/res tower. Exceptional view of Vancouver & Puget Sound \$13,000,000.

6. DOWNTOWN STRATA OFFICE

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

7. CLOTHING MANUFACTURING

Manufacturing business, growing revenues, business sale - Vancouver.

8. GOLF COURSE - FRASER VALEY

9 holes w/training facility, pro shop, driving range, clubhouse, practice greens, 18 hole putting course.

9. HASTINGS-BBY RETAIL STRATA

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

10. MIXED COMMERCIAL

Aldergrove: two level; commercial lease space downstairs and residential space upstairs. Fully leased/owner occupied.

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.

BARFLY

Mr. Jesse Bannister
New Westminster (604) 519-0333

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

12. ENGLISH TRAINING COLLEGE

Central Location in downtown Vancouver.
\$1,300,000 revenue, 3rd consecutive year increase. Expenses down 30%. Net income over \$250,000 with manager in place.

13. MOBILE HOME PARK LAND

BC interior, location overlooking city, considerable redevelopment potential

14. PENDER HARBOUR WATERFRONT

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

15. WHISTLER RETAIL LEASE SPACE

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

16. GRANVILLE STRIP RESTAURANT

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

17. NIGHT CLUB - FRASER VALLEY

Established club with loyal clientele. Minutes from downtown Surrey. Excellent lease 5,000 sq.ft.; Completed full renovations.

18. DEVELOPMENT LAND GVRD

Parcels for mixed use commercial/residential - inquire today

19. TACO TIME

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

20 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.

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.



TOWING COMPANY

Serving all major southern BC highways from central location

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

\$1,950,000



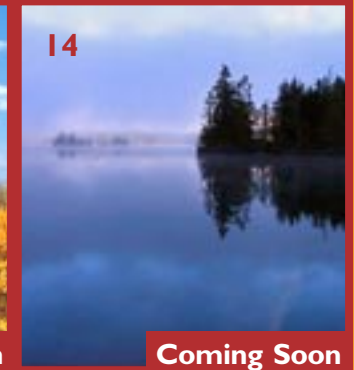
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\$625,000



13

Coming Soon



14

Coming Soon



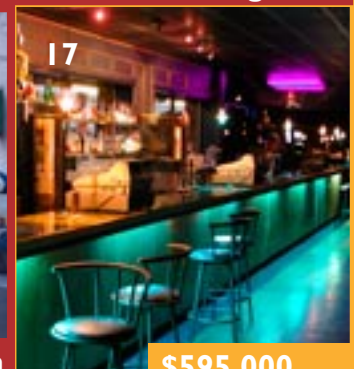
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Coming Soon



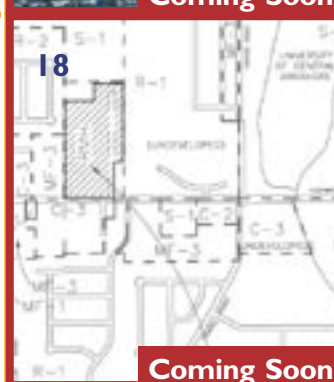
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Coming Soon



17

\$595,000



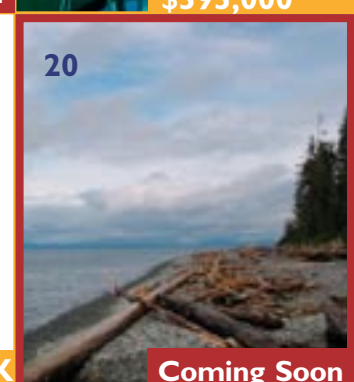
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Coming Soon



19

\$130K-\$225K



20

Coming Soon

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C O M M U N I T Y

DIGITAL PRINTING

Mr. Jason Romo
Vancouver (604) 420-3400

FLOWFORM DESIGN GROUP

Mr. George Verdolaga
Vancouver (604) 321-8008

GRAPHIC DESIGN & ART WORK

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

MAHOVLICH MARBLE & GRANITE

Mr. Frank Mahovlich
Vancouver (604) 293-0093

MCKITRICK CLARK MCLEOD

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

NATIONAL HOME REVIEWS

Mr. Dean Kazoleas
Vancouver (604) 681-2108

PINK LIME SALON & SPA

Mr. Youssef Jawhari
Vancouver (604) 683-7444

POPCORN CREATIVE

Mr. Simon Dabbs
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RENOVATIONS & APPRAISALS

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North Vancouver (604) 562-5799

SCOTIA MCLEOD

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

VANCITY CREDIT UNION

Mr. Joe Chan
Vancouver (604) 877-8296

VANCITY VENTURE CAPITAL

Mr. Axel Christiansen
Vancouver (604) 877-6582

More Carb Myths

MYTH #2: Carbohydrates make you fat



Carbohydrates do indeed stimulate insulin release from the pancreas, but insulin is a very important hormone. Insulin unlocks the key to access cells so fuel can enter the muscles. As an anabolic hormone, it also helps facilitate the entry of amino acids into muscles so they can be built, maintained or repaired.

While insulin, which is stimulated by both carbohydrates and protein, does facilitate the storage of excess calories into fat cells, it does not promote weight gain. And, insulin will not convert carbohydrate into fat when the carbohydrate is needed for fuel or as an energy reserve in muscle.

Excess calories, whether from carbohydrate, protein or fat, cause weight gain.

by Ali J. Chernoff
Registered Dietician & Nutrition Consultant
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Office Update:

Over the past few years the market in Vancouver for offices, especially smaller offices, has been largely inactive. An economic climate unfriendly to business and small business in particular that lasted through the 90's, compounded by the dot-com market correction which took place in 2001 has created what has, for the past two years been decidedly a buyer's market. Many suites have remained empty.

"There was a huge glut of small to medium office sizes," says Cole Maedel, a leasing specialist with

Goddard & Smith. "Not only the smaller companies going under, but larger companies closing overflow or satellite branches, and reducing floor space with significant staffing cuts."

For example, a property in Yaletown purchased in 2000 for over \$100,000 couldn't be sold two years later for over \$70,000. Even now in 2004, Yaletown gross leases are being negotiated at under \$20 psf (per square foot), where in 2000 they were a bargain at \$35.

It has indeed been a few lean



years, but things appear to be turning around. Office leases and purchases are up in number for the first part of 2004, although prices remain comparatively quite low, with the exception of Howe Street and Hastings. The consensus - the office market is just turning the corner; now would be the optimal time to move or renegotiate your lease. ■

Valuation Methodology

(continued from page 1)

exist by which rates may be used to calculate the value of the real estate. There are three methods which are commonly used:

(1) Straight Cap Rate: the normalized net income is divided by the annual fractional rate of return that the market data indicates investors will pay, on average, for that size of income stream and risk. In business sales, a "cap multiplier" (inverse of the cap rate) may be used. This method is the standard used for most sales of income producing property where revenues are expected to remain stable over the near to mid future - a good example would be mobile home parks or commercial buildings in the prominent business corridors.

(2) Discounted Cash Flow: In a situation where revenues may be expected to fluctuate in the near to mid future, a strict cap rate based on current revenues and market data will not give an accurate estimate of value. The DCF method requires first a reasonable estimate of future income; the income is then

"...expect to see vacancy rates, already a 30 year high, continue to increase..."



discounted and averaged before a cap rate is applied. Because 3000+ pre-sold suites will be built over the next two years, Vancouver Multi-Family owners can expect to see the vacancy rates, already at 30 year highs, continue to increase. By estimating the effect of these suites on the tenant pool as they are completed, such investments may be more accurately valued.

(3) Excess Earnings Method: Among the investment classes we transact, businesses show the greatest diversity of characteristics. Often it is useful

to be able to separate the revenue streams produced by a business into regular and excess earnings. Regular earnings is that portion of the income which may reasonably be said to be the derived normal return on the net assets. The balance of the income would be used to derive the value of "goodwill" and other non-typical assets of the business. A typical rate for the regular portion of the income would fall in the 6% to 9% range; rates for the excess earnings tend to be much higher; a reflection of the increased risk. ■

INVESTMENT ■ BUSINESS BROKERAGE ■ SITE SELECTION ■ ASSEMBLY



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it is my pleasure to serve your real estate needs.

Goddard & Smith
International Realty Inc.

