Stephen Roulac, PhD – Author of the *Property Knowledge System* and Producer of *The Silicon Valley Disrupts Real Estate Conference*; August 27, 2017 – September 1, 2017. For more information email: sroulac@roulacglobal.com

~~~~~~

Wednesday 15 March 2006 – Breakfast with Sam

Today I meet my friend Sam Freshman and his wife, Ardyth, for breakfast, which is served up with some life philosophy, investing strategy, and market insights. Sam, who has traveled north from his home in Beverly Hills for his Stanford Law School reunion, and I go way back, having met in the early 1970s through our common interest in real estate syndication. At that time, he headed a law firm and also was involved in real estate investing business through his Standard Management Company.

Some years ago, Sam phased out his legal practice and concentrated his primary energies on his entrepreneurial business involvements. When I spoke to Sam a while ago, he mentioned that he had completed a new edition of his *Principles of Real Estate Syndication* book, which today he gives me an autographed copy of. He said that one of his daughters told him that the earlier versions of the book were selling for as much as $150 on eBay, which market intelligence motivated him to prepare a new edition of his book. At the time he brought out his first edition, I too published my first book, *Real Estate Syndication Digest: Principles and Applications*, which Sam remembers as a "very good book." He tells me I should revise that book and I inform him that this happens to be one of the items on a long list of to do's.

In addition to our common background of having built and led professional services firms, and then being involved in investment management, as well as each of us authoring books on real estate syndication, Sam and I share an involvement of working as expert witnesses in litigation. Sam tells me that he likes to take on two or three assignments a year, for the intellectual challenge and interest, which objectives parallel my own motivations.

Over breakfast, Sam tells me that one of the activities he's enjoyed is providing a couple of hours mentoring presentations to graduates of law schools and entrepreneurial programs. He said one of the things he touches on in these sessions is the importance of ethics in your business involvements…particularly having a decision rule to deal with situations that might pose ethical conundrums. Sharing his philosophy concerning ethics, Sam tells me, "When I was completing graduate school and getting ready to go into business, my father, with whom I had a close relationship, just as you had with your father, gave me some advice. He said if you face a question about whether or not you wish to do something, you should ask yourself, 'Do you want to see that action on the front page of the newspaper?' If the answer is that you would not mind, then you should have no problem proceeding. But if you would mind, then that tells you that probably you don't want to do it.'"

Sam says another important piece of advice is to understand the real cost of something. If you're in business, what you pay is deductible. But, if you buy something that does not have a business purpose, and you cannot deduct it, you should add on the taxes you would have to pay to get the real price. Thus, if you buy something for $100, you should recognize that the real cost is $150.

Hearing this, I tell Sam I agree 100 percent with his principle, which I have long employed myself. He and I discuss how extraordinary it is that very few people really understand this fundamental economic reality: The cost of something is not just what you pay, but what you have to earn to be able to afford to pay for the purchase. Basically, this way of thinking involves taking into account all of the costs of the purchase. In addition to considering the taxes you would pay, to the extent you incur costs in making the purchase—such as
~~~~~~

transportation, delivery charges, other costs for shopping, and the value of your time—all that should be taken into account. This type of thinking leads to very different decisions than might be reached, were you not to employ this type of thinking.

Sam also tells me an important lesson he wants to convey to people is the power of compound interest. To illustrate this point, he said he recently made a $100,000 donation to Stanford Law School. Shrewdly, he explains that when he makes a substantial donation, he favors using appreciated stock, which achieves a more advantageous tax outcome. He tells me the donation he made was in the form of stock in a bank, whose shares he happened to purchase 40 years ago. He said he kept the stock for that length of time, even though the results were never particularly spectacular — the gains being 8 to10% a year. Then, he adds the punch line, "Guess how much I paid for that stock?"

Answering his own question, he proclaims, "$100."

As the conversation shifts to investing philosophy, Sam tells me that an investor cannot go wrong investing in California. He then adds that some people wonder why he's still buying property in California, commenting that with housing declining, it is likely commercial property prices will also decline. He relates, "I tell them that if you are a speculator, this is not a good time to buy. But if you are an investor, buying now is no problem. If you plan to hold the property for ten years, you can be sure it will be worth at least twice what you pay for it now — even though in the next couple of years it might be worth 20-30% less."

"If you are an investor, it is much better to buy a property now, even though you think the prices might be going down, than to wait. If you wait, you might be chasing the deal, always looking for a better price. In ten years you may find you never bought anything."

Sam goes on to tell me that he differs with those who are skeptical about California and its real estate. To reinforce his point, he tells me that last year he bought a 26-unit apartment building in Beverly Hills for $12 million, even though the capitalization rate (inverse of income multiplier) was only three percent, meaning he paid 33 times cash flow for the property. A year later, he tells me he can sell the building for $14 million.

"Looking back over my investment involvements in California real estate for the last 40 years, the big mistake I made is that for the first 30 years, I sold property. If you own property in California, you should never sell.

"In my first 30 years of investing in California I sold lots of properties. I didn't have to sell, I was just greedy. I got great offers and I was making a lot of money. But, if I had held onto that property—if I hadn't sold it—I would be worth ten times more today. (And, the man making this statement has been extremely successful in his property and business involvements.) You should resist the tendency to sell."

At this point, Ardyth offers her assessment of why California is such a compelling place to invest in property, asking "What's the one thing that separates California from every other place?"

"It's the weather. The weather in California is the best. Even the worst weather in California is better than the weather in any other place."