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About Chairmen's RoundTable

The Chairmen's RoundTable is a non-profit volunteer organization comprised of current and former CEOs with extensive Board of Director experience and diverse industry backgrounds. They provide businesses in San Diego County with priceless business advice and mentorship, free of charge, as a way of giving back to the community. CRT's well-defined mentoring program is ideal for companies at a strategic crossroads that are looking to gain an outside perspective on key business issues.

QUESTIONS & ANSWERS

Question: Should I invest in real estate?

Answer: Investing in real estate can be tempting to many business owners who are hoping to cash in on increasing real estate values and to achieve the peace of mind that comes with being your own landlord. Banks make borrowing money for real estate easier than many other loan types – further enhancing the attractiveness of real estate investments.

But when should you invest in real estate? First, remember that cash flow is the lifeblood of your company. Before diverting cash to real estate, you need to be sure your company will not need the cash for its growth or as a reserve in case of a business downturn.

Typically, it really makes sense to invest in real estate when you are the owner of a company that is unlikely to have a high value to anyone else – for example, a job shop machining or injection molding company, a dentist or a stand-alone restaurant. Much of the business value is based on the owner and may not be easily transferred. A hard asset, like a building, has value that is easily transferred. It makes sense to take money out of businesses like these to invest elsewhere, and real estate is an excellent investment option.

For many businesses, however, shifting capital into real estate will impair their ability to grow. You should be able to make a higher return on money invested in your company than elsewhere. If you can make a higher return on real estate, perhaps you should consider real estate ownership and operation as your full-time occupation.

The bottom line is cash flow. If you have a strong cash flow and diverting funds to real estate will not hold back your business, then real estate may make perfect sense. Do your homework.