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“Savvy owners use common—and sometimes uncommon—strategies that can elevate a good apartment property transaction into a great one.”

For apartment owners selling in today's economy, getting the highest price when selling a property can be as challenging as any time in recent memory. Reaching that goal, however, is not impossible. Savvy owners know that preparing and implementing a plan in advance of the sale is the key to success. The following observations are offered to help further educate owners on the common—and sometimes uncommon—strategies that can elevate a good apartment property transaction into a great one.

PREPARING YOUR PROPERTY FOR MARKET

From “curb appeal” to an owner's ability to show an attractive return-on-investment (or at least the potential for profitability), the way to earn top dollar for any apartment listing is to first prepare diligently for the sale.

NUMBERS TALK

One of the most common pitfalls of apartment owners is that they don't run their

properties like a business. Their books are often unorganized, which does little to impress a potential buyer. In lieu of presenting your listing as a “Here's a property, come buy it,” opportunity, consider taking things to the next level. Put records in a spreadsheet covering the past two years' financials. Use an accountant or software application to create reports. Save receipts, warranties and guarantees, and record all capital improvements.

As you become more serious about your sale, make sure your residents are happy so that you can avoid vacancies and show a stable tenant profile. Then gather this positive information into a summary that includes dates of residency and deposits, applications, rental rates and increase notices. Finally, prepare a simple operations manual to show that your complex follows sound property management policies. Include items such as vendor information, maintenance logs, floor plans and an itemized list of repaired or replaced components.

the

box.

—Michael Shields

This process does not need to be daunting. Block out a few days to collect information, then put yourself in the buyer's shoes. As a buyer, what would you like to see? What might tip the scales and convince you to pay a premium price? Consider organizing information into a three-ring binder with tabbed sections. Much of the binder will relay data that buyers and banks normally want to see anyway. Now, however, it will be structured in a way that improves your property's marketability. Whether your building is immaculately maintained or not, organizing your records into an attractive presentation communicates that you are an owner who is on top of things.

A VIEW FROM THE STREET

You only have one chance to make a first impression, and that chance occurs the minute buyers arrive at your complex. While they might have had a chance to previously review your books and records, they know little more. At this point, they're taking the investment simply at face value. Your job as an owner is to determine how to give your listing the prettiest face possible. Achieving this means being aware of what is happening in your local multifamily market, and then responding accordingly.

In depressed areas, properties with 5 to 30 units can become the star on the street with a few thousand dollars dedicated to property cleanup and a fresh coat of paint. In the San José market, C-class properties such as these are common. Many were built 30 to 40 years ago. Some have never been renovated. Others have been renovated, but perhaps as long as 15 to 20 years ago.

I recall negotiating on a building of the latter type that was listed hundreds of thousands of dollars below market simply because it was in poor condition, and the owner did not wish to strategically improve the building prior to selling. At the same time, I see many properties in Santa Clara County selling for very solid prices because their owners have spent as little as \$10,000 on cosmetic improvements such as painting, power washing the exterior, putting flowers in empty flower boxes and repair-

ing eyesores such as torn window screens and damaged woodwork.

The key is to determine the improvements that will offer the greatest impact while avoiding the urge to over improve. Redoing hidden items such as plumbing, for example, may be wasted dollars for items that can be disclosed rather than fixed. Furthermore, while major renovations to kitchens and bathrooms may double the return on the money invested, the process can be timely and should not be carried out without completing a cost analysis

to determine if the improvements are worthwhile. For this type of analysis, look to an experienced broker specializing in multifamily properties. This is no small request, but if you develop a relationship with a broker experienced in running these types of numbers, he or she will usually work with you in anticipation of selling your property. If your broker won't commit to invest time in a cost analysis, you might be better off finding a new broker.

Outside the Box ...continued on page 30

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MARKETING YOUR PROPERTY

Talk of brokers brings us to our next key consideration: choosing the right real-estate representation. First, finding a broker with extensive knowledge of the local commercial apartment market will help you understand where your property fits in the mix of recently sold and currently listed apartment properties. A good broker will also take into consideration loan amounts and rates in light of your property's cash flow. Today more than ever, financing will play a huge role in determining value, since loan-to-value ratios have experienced a significant shift in this more conservative environment.

GO COMMERCIAL

If you're selling a property of five units or more, you're in the commercial world, and will be best served by a commercial broker specializing in multifamily properties. Many apartment owners make the mistake of listing with a residential real-estate agent who is unfamiliar with the commercial multifamily market. Even worse, some owners fall prey to unsolicited offers. While both these tactics may get your property sold, they probably won't deliver the highest price. So before you move to sell your property, have a thorough understanding of the market before accepting unsolicited offers.

As you evaluate broker candidates, look for an individual who understands not only such details as capitalization rates, gross rent multipliers and price per unit for specific property types, but exactly what these are for properties similar to yours in comparable areas. Moreover, choose one who has not just experience, but marketing acumen as well. Marketing commercial properties requires more than just listing on the local residential Multiple Listing Service or phone calls to local investors to get the highest price. A competent broker will be able to utilize proven strategies and new technologies to market your property to the broadest pool of potential buyers.

For example, be wary of brokers who operate under the premise that commer-

cial real estate is a local endeavor. If so, they might be missing the broader pool of buyers residing in the regional or national markets. And if they are targeting those markets, what exactly will they be doing to get professional, comprehensive and accurate marketing material into the hands of prospective buyers in a timely manner?

THE TWO-TIERED MARKETING APPROACH

Early in the marketing process, many brokers reach out to likely buyers with whom they have existing relationships. This targeted approach can be very effective when local markets are hot, but in today's more constricted times may do little to turn a good sale into a great one. This economy, in contrast, all but demands that brokers reach out beyond the usual suspects and into the regional and national markets.

A typical marketing program for my clients, for example, includes not just hundreds of phone calls but thousands of direct mail pieces in postcard and flyer formats, tens of thousands of emails and a concerted advertising program involving local newspapers as well as key internet sites.

And once interest is generated, prospects receive comprehensive brochures complete with property information including financials, improvements, photographs, rent and sales comps and area demographics. All this information is available in hard copy, email format or readily available for instant viewing on a dedicated property website.

Moreover, this material is made available to brokers in and outside of my firm, with a commitment to fully cooperate with tens of thousands of investment brokers nationwide—an uncommon practice among many commercial brokers. The premise behind cooperating with other brokers is simple: the more brokers, the more buyers; the more buyers, the more offers; the more offers, the higher the price. And with more buyers, it's easier to choose one who is ready, willing and—in today's economy—able to financially perform.

SUCCESSFULLY CLOSING ESCROW

While entering escrow is a significant milestone in the life cycle of any listing, it can also be a time of great anxiety as all escrows have the potential to fail. Oftentimes this happens because a buyer, during the due diligence process, discovers pitfalls in a property that were either unknown or not previously disclosed by the seller. When the buyer presents these items and asks to renegotiate the deal, the parties may find themselves at odds and unable to reach an agreement. This often brings the escrow to a screeching halt.

Another significant "failure factor" involves financing. Before you put your building on the market, your property should be prequalified with a few lending institutions so you have an idea of what will be required to finance the deal. All too often properties are sold for a price and terms that a lender just can't or won't finance because the risk factor is too high. Knowing what lenders will commit to prior to entering into an agreement can work wonders in keeping the deal on track.

Completing the steps noted in this article can help avoid a frustrating outcome. First, you will have prepared your property for market and through organized records you will have fully disclosed all benefits and challenges in your listing. Second, you will have established a relationship with an experienced commercial broker who has helped establish market-appropriate pricing and financing. Finally, you and your broker will have followed a two-tiered marketing approach that has served up a number of qualified buyers from whom to choose. So when you get to the final steps of your transaction, even in this shifting economy, you will be enjoying the reward of your hard work: maximum value for your apartment building.

Michael Shields, CCIM, CCRM, serves as a senior investment broker for Sperry Van Ness, specializing in multifamily properties in Silicon Valley. He has been a featured speaker at the CAA Rental Housing Conference, has conducted Bay Area investment seminars and publishes a quarterly newsletter, Advisor Insights. He can be contacted at michael.shields@svn.com. Copyright © 2008 by Black Point Press. All rights reserved.