

Getting the Maximum Value for Your Apartment Building

(Buying Low & Selling High)

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Agenda

- Preparing your property for market
- Marketing your property
- Successfully closing escrow

Preparing Your Property for Market

Maintain Books & Records

- Use an accountant or software for reports
- Operational vs. Capital Expenditures
- Record all capital improvements
- Save receipts, warranties, guarantees
- Prior two years financials
- Don't rely on tax returns

“Give buyers the warm and fuzzies”

Develop an Operations Manual

- All Pertinent Property Information
 - Emergency & vendor contact numbers
 - Property site plan & Unit floor plans
 - Property inventory & master parts list
 - Workplace Safety Plan & Material Safety Data Sheets
- Maintenance Plan & Log
- Replacement Log
- Tenant Roster & Records

“Throw the book at ‘em!”

Stabilize Tenancy

- Avoid Vacancies
- Fill with quality tenants without discriminating
- Keep tenants happy before & during escrow
- Rents at (or just below) market rates
- Hire and train a good residential manager

“Good Tenants + High Rents = \$\$\$\$\$”

Make Capital Improvements

- Focus on cosmetics
- Be aware of hidden elephants
- Bid out jobs for best value
- Do not over-improve
 - Choose appropriate materials
 - Be aware of area values

“A little can go a long way”

Worthy Exterior Improvements

- Paint building & trim
- Pressure wash non-paintable areas
- Seal & stripe asphalt driveway
- Improve landscaping
- Flowers in planter boxes
- Repair eyesores, woodwork, broken items
- Clean area - discard appliances & debris

“Give it curb appeal”

Worthy Interior Improvements

- Kitchens
- Bathrooms
- Paint
- Carpets & floors
- Fixtures (lighting & plumbing)
- HVAC & ceiling fans

“Good for rentals and resale”

General Improvements

- Install double pane windows (extrusion retrofits)
- Repair roof, if cost effective, get leak free certificate
- Properly strap water heater
- Pros & Cons of pulling reports
 - Must disclose material items that could affect value
 - Avoid last minute surprises

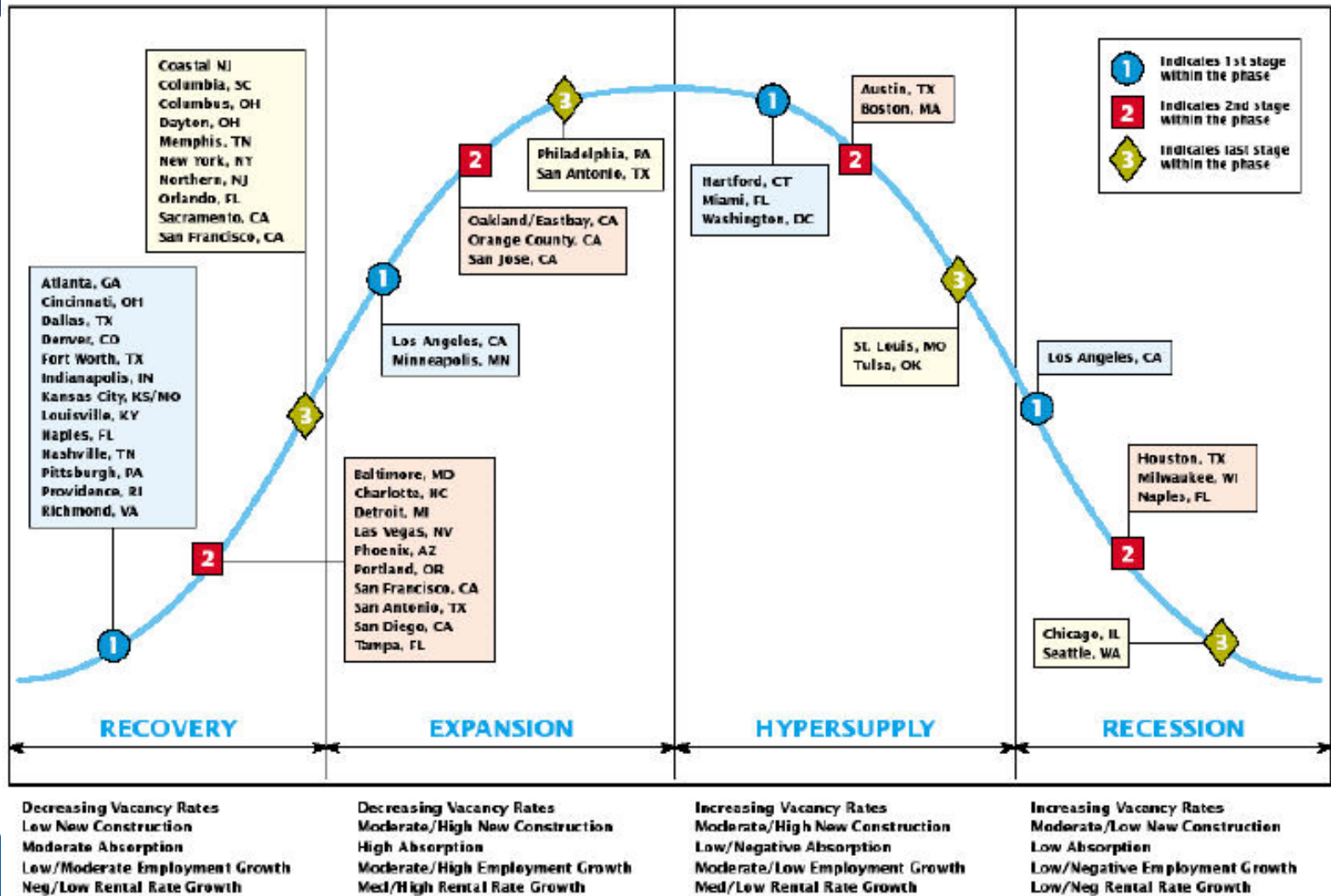
“Don’t spend your profits”

Marketing Your Property

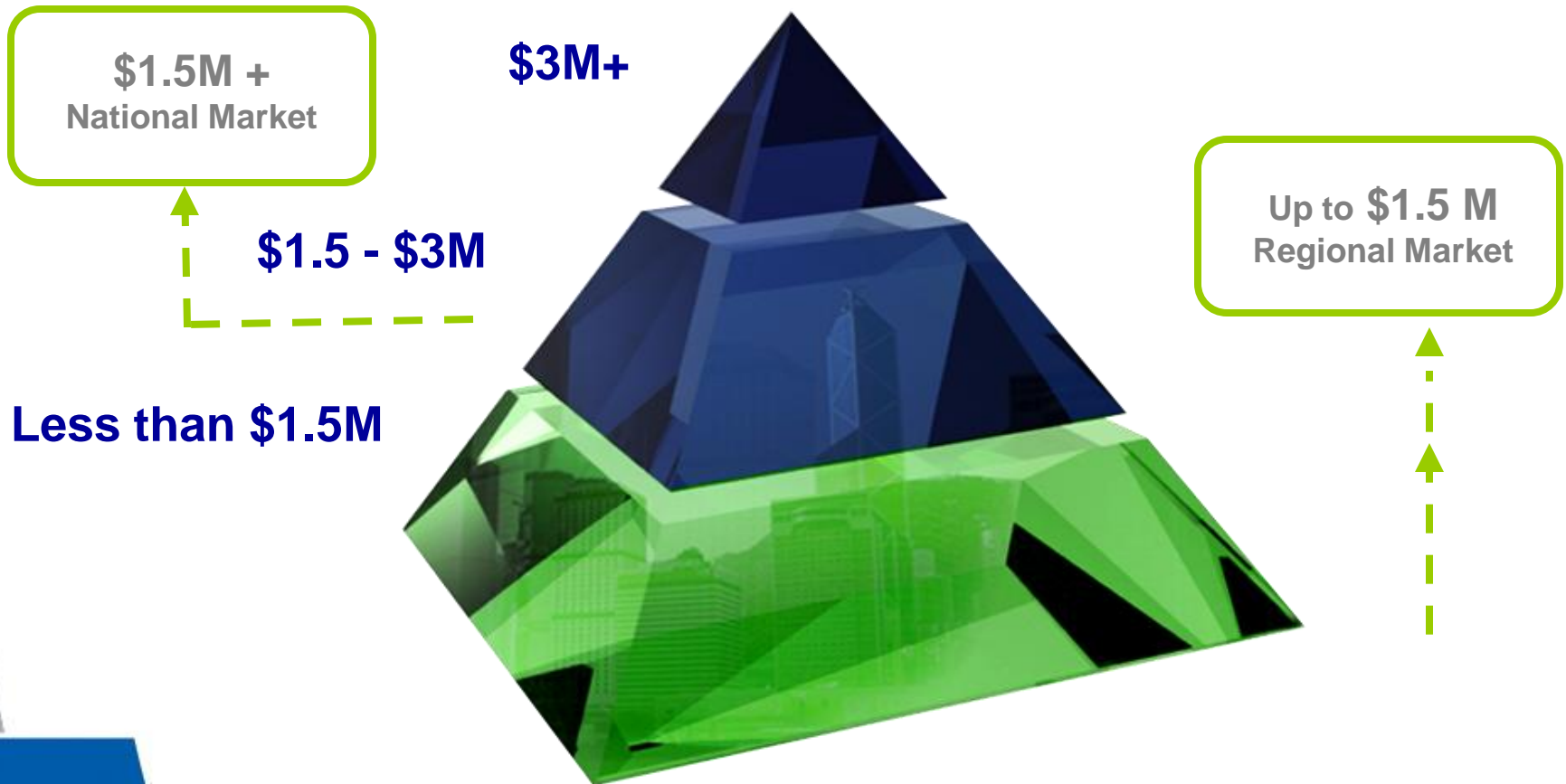
When to Sell

- Attainment of desired objectives
- Sell at or near the height of market expansion
- Look at *Comps* over time, not just *listings*
- Read economic & employment reports
- Review brokerage reports
- Don't wait for rents to start falling, so will value

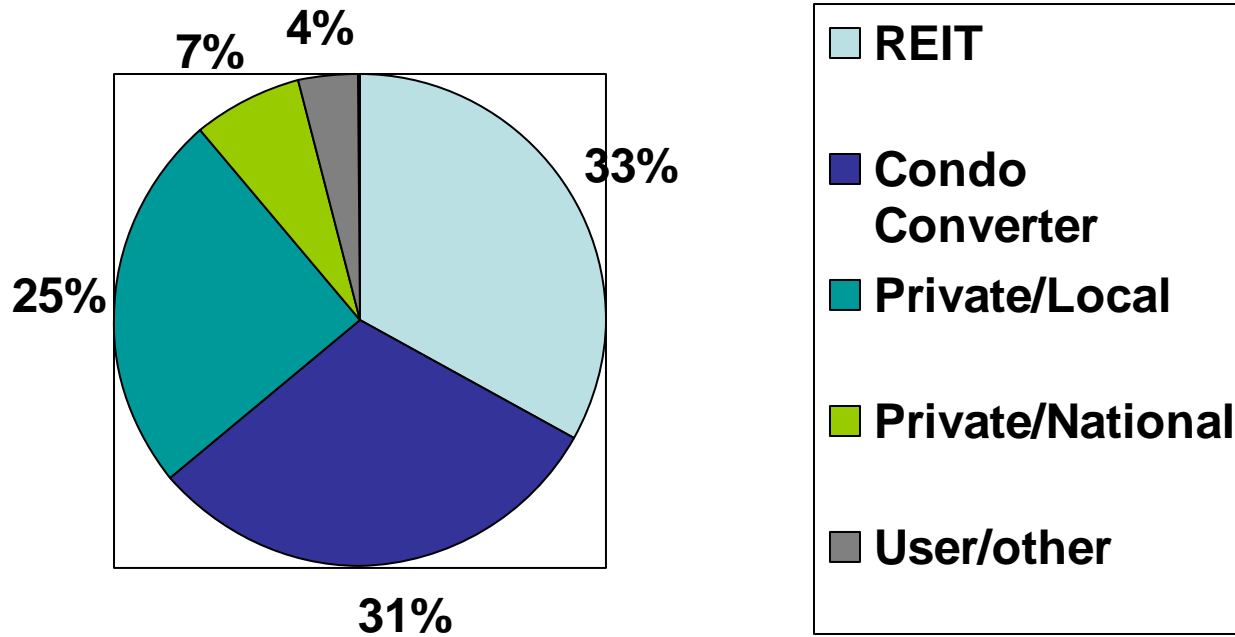
Market Life-Cycle



CRE: A National Market



San Jose Investor Composition



Source: Real Capital Analytics

For properties greater than \$5M in value.

“Must reach all potential buyers.”

Which is the better strategy?

BUY LOW	SELL HIGH
BUY with no competing Bids	SELL with competing bids
SUBMIT an unsolicited offer	ATTRACT many offers through marketing and offering 50% of the fee
FIND a seller with limited awareness of the market	ENGAGE a BROKER who has a thorough understanding of the market

Mass Market to Buyers

Listed on local MLS

Promoted on major Commercial websites such as

Loopnet, CCIMnet, PropertyLine, GlobeStreet, et al.

Create a Custom Property website

Custom direct mail campaign with postcards, letters & flyers

Local & national advertising: SJMN & WSJ

Presentations at area brokerage forums

Featured property in seminars & presentations

Comprehensive and readily available marketing material

Personal calls and presentations to local investors

The Brokerage Pie



Sources: GlobeSt.com, CoStar, Real Capital Analytics

All Brokers Have Buyers



Mass Market to Brokers

Email Notification to 65,000+ brokers

Posted on major commercial websites

Announce at in-house broker meetings

Presented at area brokerage forums

Include in nationwide broker forums

Featured property at Realtor seminars & presentations

Readily available, broker friendly marketing material

Full cooperation with ALL brokers

Must have a reputation that fosters cooperation

Create Professional Material

- Provide info necessary to make a decision
- Comprehensive & Accurate
- Using Pro forma vs. actual numbers
- Pictures, financials, description
- Accentuate the positives of the property
- Utilize technology

Pricing Strategies

- Scrutinize Comps
 - Relevant size, location, condition
 - Recently sold and available properties
- Price for the market
- Penalties of overpricing
 - Scare off prospective buyers & brokers
 - Stigma
 - Sits on market, lengthens escrow
 - Lower chance of getting high price

Seller Financing

- Price or terms?
- Leverage for higher price
- Qualify buyer & record promissory note
- Pros
 - Income stream secured by property
 - Defer taxes over time
 - You hold the note
- Cons
 - Limits exchange possibilities
 - Technical: Docs must be correct & must adhere to the law
 - You hold the note (utilize note servicing bureau)

Choosing a Broker

- Specialization in Multi-family
- Extensive brokerage *AND* marketing experience
- Broad Market knowledge
- Comprehensive marketing to local, regional & national buyers
- Proactively market to and cooperate with all brokers
- Check Reputation & references
- Verify license:
http://www.dre.cahwnet.gov/consumers_sub.htm

Successfully Closing Escrow

Qualify Buyer

- Buyers motivation?
- Availability of funds, Lender LOI
- Number of offers outstanding
- Time remaining in an exchange
- Investment / management experience
- Gauge expectations
- Selling Broker experience

Disclosure & Due Diligence

- Preparation of Buyer's Disclosure Package
 - Marketing Material
 - Operations Manual
 - Tenant Roster & Records
 - Books & Records
 - Mandatory disclosures
- Physical Due Diligence
 - Be cooperative
 - Get a copy of all Inspections & reports
 - Allow access, but minimize tenant intrusions

Caveat Emptor – Not Always!

- Residential Disclosure rules 1-4 units
- Commercial Disclosure rules 5+ units
- Avoid the Legal Boomerang:
Disclose items that materially affect the value
- Use qualified legal and financial experts

“Be safe, not sorry”

And Finally...

- Be Ready for Renegotiations
 - Offer concessions, *especially* if you get your price
 - Continue showing property & reviewing offers
- Stay on schedule
- Fulfill your obligations
- Broker follow-up

Questions?

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