

Rich Ideas

Commercial and Investment Real Estate



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WHAT was the appraisal?

Much goes into finding a property. Most are so far over priced, that the weeding out process can be very time consuming. Once you do, then the 'fun' begins in negotiating a deal. You need to see rent rolls, expenses, schedule an inspection, and then review all the data to make an offer. Unless it is cash, your analysis should be in line with what a bank will appraise it for otherwise, you will be wasting a lot of your valuable time.

First of all, it is very rare to get a full expense listing. The owner may give you taxes, insurance and utilities. Perhaps the owner is advertising this property as a 15 cap! (15% return if you pay all cash). But upon further review, it is nowhere CLOSE to a 15 cap. He missed vacancy, management, repairs and maintenance just to name a few.

Lets assume you have a 12 unit building. Rents are \$79,000 annually and the building is full. All two bed units, separate utilities, brick building. So far, so good, right? Net operating income is projected at \$60,000 and since the asking price is \$390,000, you think you have a cash cow! 15% if you pay cash and much higher cash on cash return if you get a loan. But your return is NOT 15% and a bank will most likely NOT appraise this building for \$390,000.

Adjustments will include subtracting a 5% vacancy factor, even though it may be full, a bank is going to do this no matter what. In some cases, it may be 10%.

You may manage the building yourself which is fine, but for appraisal purposes, a bank is going to adjust 10% in most cases from gross income to adjust the previous net operating income amount. And if you have no experience managing properties, a bank may not even approve the loan in the

first place.

Next will be a repair and maintenance assumption. The building has a C of O that expires in a year. It is in 'so so' condition but there is much deferred maintenance. The mechanicals are good but have not much more life to them. Roof is 15 years old and windows are all original. You may have \$50,000 in deferred maintenance and the owner is looking at the building down the street that just sold for \$40,000 per unit and telling you "THAT building just sold for.....". Problem is it has all new mechanicals, new windows and a new roof! A common assumption is 5% but for this building given its condition, you probably want to use 10% of gross income as a deduction.

So after adjustments, what do you have? From \$60,000 down to \$38,000. As a 'sanity check' this is 50% of gross income and within an acceptable range. What is the going cap rate for the area? Lets assume 11, so that values the property at \$345,000, far below asking price which is fine if you actually SHOW the owner that it is not worth what he is asking. Just throwing offers out there at way below asking is a common practice of many buyers. Set yourself apart and actually show the seller WHY you are making the offer you are making and WHY his price just will not appraise anyway. This will not always work, but even so, if he will not accept your offer, you will be saving a lot of time and money on the bank process knowing full well, that a \$390,000 appraisal is not going to happen. And you may even get the property at the price you desire! Good luck!!



IS A GOOD PROPERTY MANAGER WORTH IT?

Property managers generally charge 10% of collected rent for managing your property. Are they worth it? The simple answer is a good one is worth MORE! But I am not suggesting you pay them 15% either.

Most properties are on the market for a variety of reasons. Chief among them is the seller is not making the money they desired and that is generally due to bad management. Deferred maintenance has been neglected. Rents have been lazily renewed and are way below market. And in some cases, a manager is just plain not good!

What can a good manager bring to your property? First and perhaps most important, they are your 'eyes' on the property if you are an out of town investor.

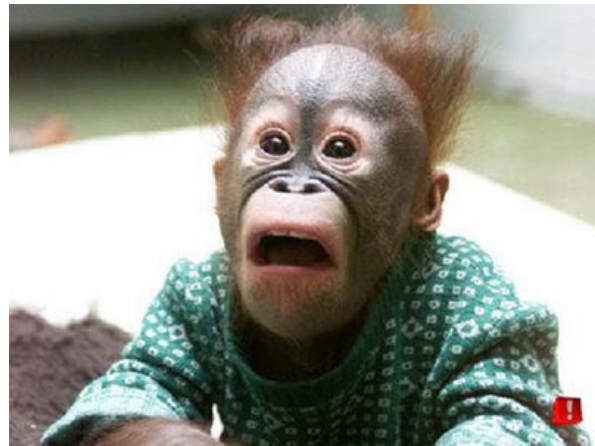
Longer term, what is their experience in rentals and how aggressive are they in rental amounts. Many times, a property is being sold but the rents are so low that there may be some upside simply by raising rents and nothing else!

When you DO select a manager, you may want to talk to their other investor clients to get a clear understanding of monthly reporting, perhaps repair expense history, how you get money into YOUR hands among a few questions to check out.

From hundreds of miles away (sometimes thousands!), a good manager is KEY to your buying a property in Rochester, there are several excellent managers to choose from with different strengths so your choices are plentiful. Just do NOT try to manage your property from afar, otherwise, you may be asking me to sell it again in 12 months!

Rich Ideas.

Rich Results.



They offered HOW Much?

Of all of the listings that Rich Realty has taken on in the last 12 months, 85% of the properties went to contract meaning we get our properties sold. And of those, the average sales price is 91% of asking price, so our properties are also priced right!

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