




HOW TO LIST AND SELL SMALL AND MEDIUM MULTI-FAMILY UNITS

***“BUILDING YOUR WEALTH THROUGH
PROVEN COMMERCIAL BROKERAGE
STRATEGIES”***



Questions we hope to answer:

- Types of residential income properties
- How much money can I make?
- Market outlook
- Why invest in residential income?
- Where do I start?
- What if I do not have any experience?

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- **What are the tools I need?**
 - **Am I ready?**
 - **How to leverage your existing client base to turbo charge your success?**
 - **What do I need to know.**



INTRODUCTION

Curtis Gabhart

- Principal ACI COMMERCIAL
- President San Diego Commercial Realtors Association
- Commercial Policy Advisory Board – University of San Diego Burnham-Moores Center for Real Estate
- Board of Directors San Diego CCIM Chapter
- Commercial Broker for San Diego Flip This House



About ACI

- **Since 1982, ACI has been helping investors build wealth through innovative & proven apartment investing strategies**
- **In the last two decades, ACI has closed more San Diego County income property escrows than any other firm**
- **Consistent focus on Small to Medium Sized Apartments**



HOW I GOT STARTED?



How much money can I make?

- **A lot!!!!!!!**
- **Average sales price is \$**
- **Largest commission 08 \$**
- **Average commission in '08 \$**



MARKET OUTLOOK

- Vacancies
 - Rents
- Interest Rates
- Capital Environment
 - Job Market
- Property Values



Is Commercial Real Estate Right for me?

- Start-Up Capital
- Do you have telephobia?
- Commitment: Willing to put in 3-5 years of hard work to set you up for the next 20
- Willing to learn and listen?



Typical Day

- **4-6 hours of prospecting**
- **1-2 hours of transaction management**
- **1-2 hours of appointments and meetings**
- **1 hour of lead follow up**



**What if I do not have any experience
in Commercial Real Estate?**

LEARN!!!



What if I do not have any experience in Commercial Real Estate?

- **Learn the basics.**
 - Numbers
 - GRM
 - CAP Rate
 - Cash on Cash return
 - Price per square foot
 - Price per unit
 - Gross scheduled income
 - Net operating income
 - Etc.



The Numbers & What they mean

- ❑ Calculating the Comparable Benchmarks
 - ❑ Price per Unit
 - ❑ CAP
 - ❑ GRM
 - ❑ CPU
 - ❑ Price per Square Foot
 - ❑ Cash on Cash Return



Calculating the Comparable Benchmarks

- Following are the details you will need in order to calculate and compare these price performance characteristics:
 - Cost per Unit
 - Cost per Square Foot
 - Capitalization Rate (CAP)
 - Gross Rent Multiplier (GRM)
 - Calculate the Total Returns (Cash on Cash etc.)



Price Per Unit, cont'd

- Look at differences between the subject property and the comparables to adjust each comparable price per unit.
 - For example, if your subject property has two-bedroom units and the only two comparables available have one-bedrooms and three-bedrooms, respectively, you would have to adjust the price per unit of the buildings accordingly.

_____ has a value of \$_____ and has _____ units.
Therefore our price per unit is \$_____ divided by _____,
or \$_____.



Price Per Unit

- Price per Unit is a simple market benchmark, derived by dividing the price by the number of units. Conversely, you derive the price by multiplying the number of units in a building by the current market price per unit.



Price Per Square Foot

- The price per square foot is derived by dividing the price of the property by the square footage.
 - You can multiply the square footage of the subject property by the market price per square foot to get a price estimate.
 - It is important to know whether the price per square foot is based on the gross building area or the net rentable area.



Gross Rent Multiplier

- Another method of valuing an income stream is known as the gross rent multiplier (GRM).
- This method simply compares the value or sale price of a property to its gross rental income.
- The gross income that is used will always be gross income, but it may be figured on an annual or a monthly basis.
- In most cases, the monthly gross rents will be used in small residential properties almost exclusively.



Gross Rent Multiplier, cont'd

- Regardless of which type of gross income is used, the calculation is the same.
 - The formula is: **Value = Gross x GRM**
- This factor must be derived from analysis of comparable property sales.
 - For example, in analyzing a small residential investment property with a gross annual income of \$12,500. a search of comparable sales indicates the following data;

Gross Rent Multiplier, cont'd

A search of comparable sales indicates the following data:

	Sale Price	Gross Annual Rent
Sale 1	\$125,000	\$19,600
Sale 2	\$164,000	\$26,100
Sale 3	\$110,000	\$17,100
Sale 4	\$130,000	\$20,000
Sale 5	\$182,000	\$30,000

Gross Rent Multiplier, cont'd

The gross rent multiplier for each property may now be calculated

	Value	Gross Income	GRM
Sale 1	\$125,000	\$19,600	6.38
Sale 2	\$164,000	\$26,100	6.28
Sale 3	\$110,000	\$17,100	6.43
Sale 4	\$130,000	\$20,000	6.5
Sale 5	\$182,000	\$30,000	6.07



Gross Rent Multiplier, cont'd

- The analysis indicates that the property we are analyzing will have a gross rent multiplier of between 6.07 and 6.5.
- Now each comparable property will be analyzed to determine the most appropriate gross rent multiplier.
 - It is important to ascertain the most comparable multiplier rather than to average the various multipliers.
- If the property under analysis has a gross annual income of \$19,000 and the multiplier selected is 6.25, then the property's value would be:
 - Gross Rent Multiplier 6.25 x Gross Income
\$19,000 = Value \$118,750



Capitalization Rate

- The methodology using Capitalization (CAP) rates to derive value is known as Direct Capitalization. Symbolically,

$$\text{CAP} = \text{NOI} / \text{Price}$$

- For example, if within a specific submarket properties have recently traded at a 10% CAP rate and a property has an NOI of \$150,000, you can derive a preliminary value estimate of \$1,500,000 by dividing \$150,000 by 0.10.

CAP -- Market Extrapolation, cont'd

	Type of Property	Sale Price	Net Operating Income
Sale 1:	Residential income	\$125,000	\$13,700
Sale 2:	Residential income	\$164,000	\$18,300
Sale 3:	Residential income	\$110,000	\$12,000
Sale 4:	Residential income	\$130,000	\$14,000
Sale 5:	Residential income	\$182,000	\$21,000

CAP -- Market Extrapolation, cont'd

The next step in the analysis is to determine the overall capitalization rate for each of the comparable sales. We will return to the IRV formula for this purpose and divide the net income from each sale by the sale price to determine the appropriate rate.

	Sale Price	Rate	Net Operating Income
Sale 1:	\$125,000	.11	\$13,700
Sale 2:	\$164,000	.112	\$18,300
Sale 3:	\$110,000	.109	\$12,000
Sale 4:	\$130,000	.108	\$14,000
Sale 5:	\$182,000	.115	\$21,000



CAP

- This also illustrates one of the basic rules in the capitalization approach; value and capitalization rates move in opposite directions.
- As the capitalization rate increases, the value of the property will decrease.



(Cash-on-Cash Return)

- **The CAP rate is a commonly used indicator for comparing properties, but only in the rare instance of an "all-cash" purchase does it represent the cash-on-cash return, or Return on Investment (ROI).**
- **Most investors mortgage their purchases and their initial investment is limited to the down payment.**
- **The Cash-on-Cash return describes the rate of return on their down payment.**



What if I do not have any experience in Commercial Real Estate?

- Where to go to learn
 - SDCRA (San Diego Commercial Realtors Association)
 - CCIM
 - USD Real Estate certificate
 - 1031 Exchange
 - Top Dogs DVD series
 - Mike Lipsey
 - Books



How do I get started?

Leverage your existing client base.

- Use your center of influence.
- People with equity
- Start 2-4 units (reo)
- Build there portfolio

Decide where you want to work. Weigh the pros and cons of each.

- Residential company?
- Commercial company?



How do I get started?

- **Pick niche**
- **Get educated**
- **Contact prospects**
 - **Phone**
 - Kurtz directory
 - **Mail**
 - Title companies
 - **Expired listings**
 - **Advertise for buyers**
 - Craigslist
- **Network, Network, Network**



Typical Sales Cycle

- **Starts with a phone call**
- **Meet and Greet**
- **Needs Analysis**
- **Proposal**
- **Listing Package**
- **Marketing Period**
- **Close the Deal**



Phone Call



Meet & Interview



Proposal



List



Sell



Close



What Are the Tools I Need?

- Database
- Presentation materials
- Marketing Materials
 - Flier
 - Real Estate Investment Analysis
- Common questions and objections





Sample flier




Sample Package Pages



How to find the right company to work with?

- **Product Specialization**
- **Type of support offered**
- **How long until you can start prospecting**
- **Type of training provided and who provides it**
- **What has their track record been with new agents**

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- **Company name recognition and credibility**
 - **Market knowledge**
 - **Market share**
 - **Access to Research Information & Ownership Database**
 - **Start up capital**