UNAUTHORIZED

APARTMENT INVESTING

TRAINING GUIDE

In The Last 48 Months, I've Built My Portfolio To Over $250 Million In Multi-Family Properties...

Hi, my name is **Tim Bratz**.

My journey in real estate investing began much like most single family investors—I did everything from wholesaling to rehabs to rentals and turnkey properties. It was faster money, but I quickly learned that wasn't the way to creating real wealth...there had to be a better way.

I wanted that residual income—that "mailbox money" that shows up month after month, whether you're elbow-deep in a new project or kicking back on a beach somewhere. That's what I always wanted, but I never knew how to get it.

I always liked the idea of commercial real estate apartment buildings, but I assumed it wasn't a solution for me. I didn't have millions in the bank and I didn't come from generational wealth. I'm just a regular guy from Cleveland, Ohio. My dad's a cop. My mom's a teacher.

There's nothing really special about my background. I never went to an Ivy League school or got some specialized training. In fact, when I got started in real estate, I had zero cash in the bank. The only thing I knew about real estate is that my parents owned their home and, I assumed, I'd probably own one someday. But beyond that, I knew nothing about this business.

I just always knew from a young age that I wanted to make a lot of money, blaze my own trail and make a real difference in the world. But even so, I kept coming back to real estate. I knew it was the path—but I just needed to find my path.

So, I moved to New York City, got my real estate license and started working as a commercial real estate agent. The experience was eye-opening. I was helping clients make millions—but I was totally relegated to the sidelines. These investors had serious wealth to invest. I had an income that barely covered the rent on my shoebox apartment.

You know what? I realized I was on the wrong side of the coin. I needed to stop brokering in real estate...I needed to start owning real estate!

So, after lots of hustle and with a crumbled balance transfer check and a little unearned bravado, I closed my first deal. I flipped my first house, made $13,000 in the process and was completely hooked. I started with single family properties, low-end flips, high-end flips, turnkey rentals, duplexes and fell into an eight-unit apartment building. Then it all just skyrocketed from there.

Now, I've built up my multi-family portfolio to over $250 million in the last 4 years without any of my own money.

Over the last 15 years, I refined my skills and, more importantly, unpacked some of the myths and mystery surrounding real estate investing—the things most people believe that keep us out of the game. Because believe it or not, multi-family investing is an easier, safer, and way more profitable investing vehicle than flipping or holding single-family houses.

As I shifted my focus to commercial properties and the more I invested, the more I realized you don't need cash, you don't need to roll up your sleeves or swing a hammer or even screen buyers and tenants. Because this process takes away the guesswork—and the heavy lifting—helping new and experienced real estate investors generate cash flow and achieve true legacy wealth.

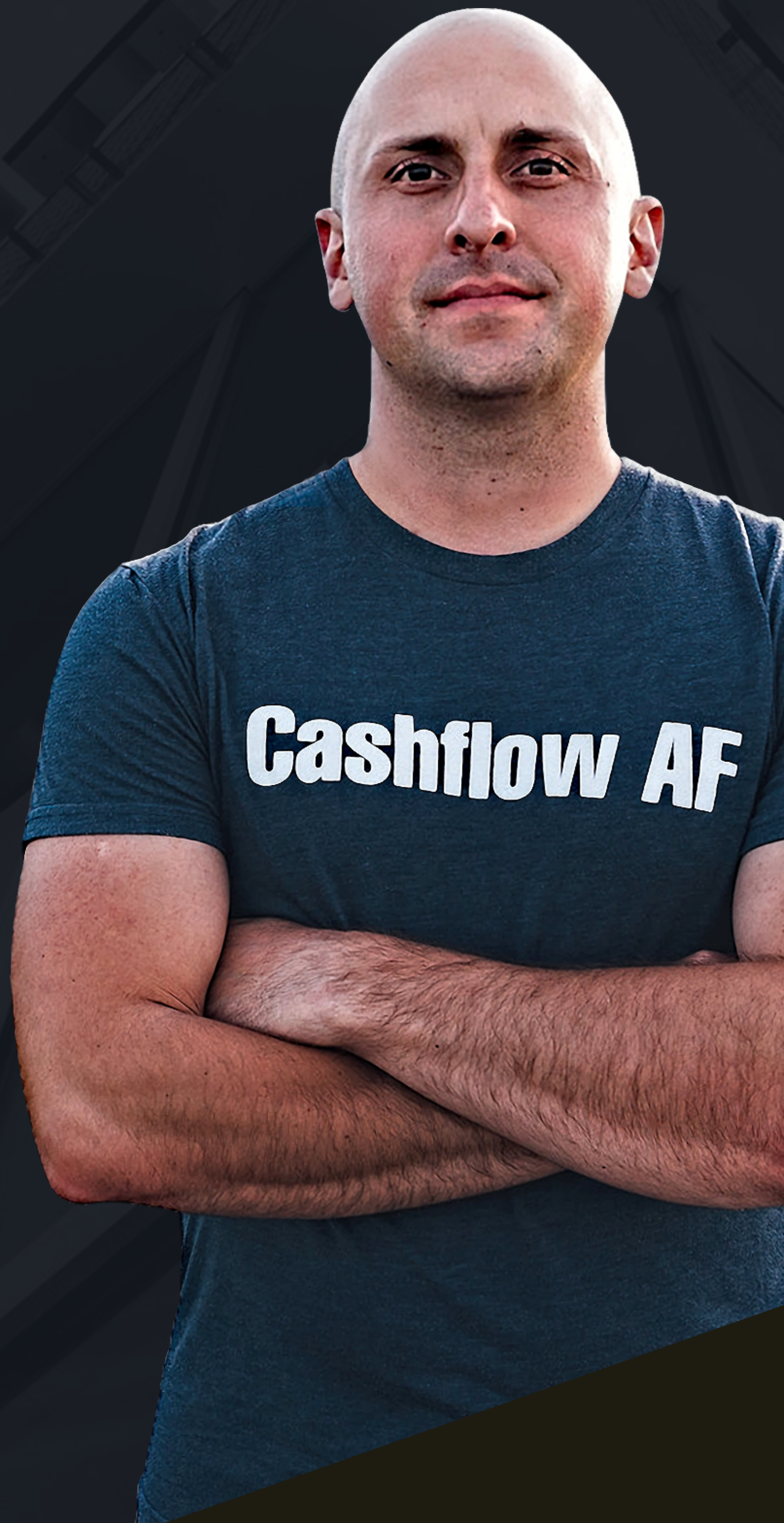
This training guide is an overview of my process, and how I'm able to buy multi-family properties using none of my own money and joint venture with active operators and passive lenders. From those deals, I get instant cash flow and "big chunks" of tax-free money upfront. Then I go in and add value and stabilize the investments… increasing rent rolls and forcing appreciation to build long-term wealth.

As complicated as apartment and commercial investing may seem, it's actually quite simple. Follow my lead, and you'll quickly see it doesn't take much more effort to get those really big checks, monthly cash flow, and huge bumps to your net worth—than if you were flipping houses. These deals have HUGE spreads in them.

I'm telling you...just a SINGLE deal can change your life.

Now it's time to go out and find it.

Tim Bratz



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STEP 1: FOUNDATION

The residential real estate investing space, getting in on profitable, high-value deals is simple—it takes six simple steps that you can repeat over and over again. These are the foundations of real estate investing. To get in the market and make some serious cash flow, you need to follow these steps:

FOUNDATION → FIND IT → FIGURE IT → FUND IT → FIX & FILL IT → FLIP IT

TYPES OF COMMERCIAL PROPERTY

- Apartment Buildings / Multi-Family / Mobile Home Parks
- Office / Medical
- Retail / Hospitality
- Industrial / Warehouse / Self-Storage

RESIDENTIAL VS. COMMERCIAL = BIGGER $$$

Single-Family Property	Commercial Property
▪ Single tenant ▪ Single rental income ▪ Simple profit-and-loss/ income statement	▪ Multiple tenants ▪ Multiple sources of income (Rent, laundry, parking, application fees, cellphone towers) ▪ Multiple Expenses (maintenance, utilities, amenity upkeep)

20 Unit Apartment Building vs. 20 Single Family Homes

Compare buying a 20-unit apartment building with buying 20 single-family homes:

- 1 seller negotiation instead of 20
- 1 loan instead of 20
- 1 inspection instead of 20

FOUR CLASSES: LOCATION & NEIGHBORHOOD

Choosing Your Market

When choosing your market, here's what you need to consider:

- "A" and "B" Class Areas - neighborhoods where you would desire or be willing to live
- Population
- Safety
- Schools
- Walkability
- Economic Anchors (big business, higher education, military, government, healthcare, etc.)

Location Rating

- **Class A:** A+ areas most people desire to live in
  - Great schools
  - Best neighborhoods
  - Nicest homes
  - Great values
  - Well-manicured and taken care of
- **Class B:** Clean and safe places you WOULD live
  - Decent conditions/"normal" suburban area, not wealthy
  - Minimally, they are clean and safe
  - Good schools
- **Class C:** Wouldn't want to live here
  - Don't feel UNSAFE
  - Wouldn't want to live here
  - Beat up, raggedy
  - Properties not taken care of
  - Some crime
- **Class D:** Wouldn't want to go here, not even during the day. STAY AWAY!

Qualifying Areas

- Zillow, Area Vibes, Crime Maps, Family Watch Dog, GreatSchools.org
- We want good schools & safe neighborhoods
- Google Street View
- Great tool for checking out neighboring properties
- Property Management Companies
- Call & ask questions. How easy is it to lease in this area?
- Drive the Area
- Check it out yourself, ask a friend/associate if out of state

Property Rating

- **Class A:** Properties built within the last 10 years, or older than 10 years that have been substantially renovated
- **Class B:** Properties built within the last 20 years, yet substantially renovated but the exterior/interior amenities are limited than higher-end properties
- **Class C:** Properties over 40 years old, as evidenced by limited, minimal (if any) and dated exterior/interior amenities. Very dated and noticeable deferred maintenance
- **Class D:** Properties are over 40 years old. Worn, functionally not stable, with many health and safety violations

Stabilized Properties

Considered the "best of the best", these properties are ready to go but selling at steep prices.

- Fully leased/leased to market occupancy
- Rents are at market rate
- Tenant turnover is low
- No deferred maintenance
- Little to no capital improvements needed
- More difficult to find deals on these, but it's possible
- Major life event, i.e. death, disease, divorce, etc.
- Inherited properties

Value Add Properties

Value add properties are properties that aren't performing and are in need of better management or physical renovations. Characteristics can include:

- Higher vacancy than is typical in the market
- Often neglected by management
- Needs work (capital and/or physical improvements)
- Possible capital constraints
- VERY opportunistic – moderate risk/high return

BUYING VALUE ADDED DEALS

- Make sure there's enough spread
- Be "all in" for less than 75% of the Stabilized (After Repair) Value

WHAT TO LOOK FOR IN VALUE ADD PROPERTIES

- Physically neglected/distressed
- Management isn't present
- Managed by someone who doesn't "get it," doesn't know what they're doing, is too busy to commit

Establish Your Investment Criteria

When we look for properties, we're looking for:

- A or B neighborhoods
- Need to feel safe and comfortable in the neighborhood
- B, C, D value-add properties
- You can make any class building an A class building. Don't worry about what the buildings look like – just look for good neighborhoods.
- Big economic anchor to stabilize the economy:
- School, mall, hospital, industrial plant, military base, big business (Volvo plant, Boeing plant, Kelloggs plant, etc)

STEP 2: FIND IT

RULES OF THE ROAD

Rule #1: Always Buy "Wholesale"

A or B Class areas = WHOLESALE BUYERS

This doesn't necessarily mean you are a wholesaler or buying deals from wholesalers—that is reserved for residential real estate investing and for those interested in "quick-hit" income. Remember, our primary goal is to ***create a steady stream of passive income***!

Rule #2: Have a "Sorting" Mentality

Smoking deals are out there, in every single market. It's your job to find them. You may have to look at bad deals for multiple hours a day, for weeks on end. Great deals are available, but are you willing to put in the work to find them and sort them out?

Rule #3: Always Try to Go Direct to the Seller

You're going to make your best deals when you go direct to the seller. On deals like these, paying a wholesaler, broker, agent, etc. could cost hundreds of thousands of dollars. By going direct to seller, you aren't paying extra/unnecessary people and leaving yourself more profit potential right out of the gate.

Rule #4: Focus on the Right Locations

Remember, you want to buy in Class A-B areas

Rule #5: Focus on the Right Deal Criteria

- A-B Class Areas
- B-C-D Value-Add Properties
- Size: 50+ Units
- Price: $2M - $20M
- Occupancy: 50-80%
- Cap Rate: Min 10% after stabilization

Create Consistent Off-Market Deal Flow

You'll need to look at a lot of deals to find ONE that makes sense for your business, and that you can carry through to close. So be prepared.

Try not to go through a Broker initially. Always go direct to seller whenever you can!

Exceptions:

- The deal has been on the market for a LONG time
- Open deals that come back on the market

Buying From Banks

- Set up relationships with local bankers and let them marinate over time. Once you're off to a good start, cultivate the relationship by going to meet them
- Invite them to lunch
- Make sure you dress well and show them you're respectable and trustworthy

Multiple Listing Service (MLS)

- Look for expired and withdrawn listings
- Follow up with Agents/Brokers
  - It never hurts to make an offer—the agent doesn't have the listing anymore and will likely submit any offer (even a low one) on the listing.

Loopnet

- Many listings are overpriced and have been there a long time
- Many agents list properties on Loopnet when they can't sell them
- IF you use Loopnet, look for deals that have been sitting for six months and keep peppering them with offers

Other Real Estate/Listing Websites

- City Feet (cityfeet.com)
- NAI Global (naiglobal.com)
- The Commercial Investment Multiple Listing Service (cimls.com)

Broker sites that have a high volume of properties:

- Marcus & Millichap (marcusmillichap.com)
- CBRE (cbre.us)
- Cushman and Wakefield (cushmanwakefield.com)
- Coldwell Banker Commercial (cbcworldwide.com)

Building Department Violations

- Find out which properties have violations on them

REIAs and Landlord Associations

- Check out websites like Meetup or Google commercial investing events in your market

Get on Other People's Email Lists

- Broker's lists
- Agents' lists
- Buyer lists

Drive for Dollars

- Look for "For Sale By Owner" or "For Rent By Owner" signs
- Look for clear signs of distress:
  - Boarded up windows
  - Poor landscaping
  - Dirty with signs of vacancy
  - No cars or cars that have been parked a long time

Google Reviews

- Look for poor ratings & reviews on buildings

Craigslist

Few people use Craigslist anymore, but there are still many good deals to be had

- Call on properties listed in the "For Sale" section
- Call landlords who list units "For Rent" and ask if they would consider selling
- Post ads saying you buy multifamily real estate in that area

Social Media

Search Facebook, LinkedIn and Meetup for virtual and live groups. These are great for exchanging ideas, networking, shoring up joint venture partners, meeting lenders, and building a buyers list.

- Join groups and introduce yourself
- Look for email addresses in those threads and compile them to add to your list
- Reach out through email:

> *"I've got $XXX and I'm looking to invest in apartment buildings in the (city/neighborhood) area."*

Direct Mail

Pros	Cons
▪ Very predictable ▪ Easy to manage and measure ▪ Can be very targeted and low-cost	▪ CAN get costly depending on audience/what you're sending ▪ Sometimes has lower ROI than other methods ▪ Upfront investment

Implementing Direct Mail

STEP #1: Pull A List Of All Commercial Properties

Buy Your List

- First American: www.firstam.com
- Dunhill International List Co: www.dunhills.com
- Experian: www.experian.com
- List Source: www.listsource.com
- DM Database: www.dmdatabases.com
- US Lead List: www.usleadlist.com

Build Your List

- Search Netronline.com where you'll see every county assessor's website
- Search Costar.com (commercial aggregate of data)
- Get emails for those who have apartment buildings in each county

STEP #2: Create Your Mail Piece

STEP #3: Hire A Designer Or Mail House To Design/Send

STEP #4: Resend Every 3 Months

STEP #5: Split Test

Test all kinds of aspects of your mailings. Try some different examples:

- Different headlines
- With or without a picture
- Different colors of fonts or paper
- Different envelope colors or sizes
- Postcard or letter with envelope

Word of Mouth

Get out in the market and tell people what you're doing—share your goals and what you're looking to achieve.

Your Existing Network

Tap into your existing network and inner circle:

- Title Companies
  - They want to help because they want you to close your next deal with them
- Commercial Mortgage Brokers
  - See if they have deals that have fallen through due to financing issues
- Management Companies
  - Quick Google search will turn up many results
  - Reach out and explain you're an investor and that you have cash to deploy. See what they're managing in the area
- Appliance or Maintenance people
  - These people could have the inside scoop on a building
- Commercial Insurance Agents
- Real Estate Attorneys
  - Ask if they know of deals that have recently fallen through or if any of their clients are considering unloading some properties
- Eviction Courts
  - Their records are public. Search and see where the motivated sellers/landlords are
- CPAs & Bookkeepers
  - Ask them about their clients
- Probate Attorneys
  - They'll know about deals in probate, abandoned properties, properties people don't want to take over/going to the county or state, etc.

IMPORTANT TIPS:

- It's important to stay top of mind with people—share your story, what's new and what your goals are
- Let people know you're looking for multi-family opportunities…you never know where your next great deal will come from!
- Once you build up a reputation for being someone who buys deals, people will come to you.

Email Marketing

- Send TWO emails to your entire list per week
  - Tell them what you're up to and what you're looking for
- Let everyone know you have cash and you're looking for deals
- Change out the subject lines—test what works, be conversational and engaging

Submit a verbal offer on a property EVERY SINGLE DAY, at least five days per week. It can take a lot of searching/vetting to find deals. In every situation, FOLLOW UP IS KEY—with buyers, with people you meet at networking events, with your list.

STEP 3: FIGURE IT

You've got the foundation for building your commercial investing business and you know how to find deals—at this stage, let's say, you've got at least a few on the hook.

They check your initial boxes—A/B class neighborhoods, value add properties, good cap rates, etc. But are they the RIGHT deals for you and your business?

We need to figure out if these are good deals by digging in and evaluating every aspect of the deal.

REMEMBER!

During your evaluation and research, keep an eye out for:

- High vacancy
- High turnover
- Poor management
- Tired landlords
- Below market rents
- Higher than normal expenses
- Lots of owner paid utilities
- Deferred maintenance, needs repairs

Prequalifying Deals

Prequalifying the deal involves underwriting the deal. This is a critical step in determining whether or not a deal makes sense for you—remember, you're in the driver's seat.

You'll need to find out this information:

Property Specific

- Age of the property
- Overall property condition
- Occupancy
- Expense ratio (Is it greater than 50%? Why?)
- Recent sales prices of similar properties

Location Specific

- Area/location/neighborhood
- Crime rate
- Condition of nearby similar properties
- Is the property the best or worst in the area?
- Employment rates in the area
- Vacancy rate for the area (How does it compare to the subject property?)
- Market rate for rents in the area

Underwriting the Deal

STEP 1: RUN THE PRELIMINARY NUMBERS

Once you have that average, begin running some preliminary numbers. To do this, you'll need to know these four things:

1. **UNIT MIX:** Are they all one-bedroom units? Are 50% three-bedroom units? You need to know the unit mix to calculate monthly rental income

2. **MARKET RENTS:** Look at existing rents and average market rents
   - Determine the gross ***average*** rents (not high, not low, AVERAGE)
   - Use Rentometer.com

3. **ASSUMED EXPENSES:** What does it cost to keep this building up and running to your standards? Expenses include items such as vacancy, taxes, insurance, utilities, maintenance, and management (usually 35%-50%)

4. **CAP RATE:** Always stick to a 10% stabilized cap rate or better

QUICK SNAPSHOT ANALYSIS

Use this Quick Value Equation to help you run the numbers and get to your maximum allowable offer:

Unit Mix x Market Rental Rate = Gross Potential Rent Gross

Potential Rent x .5 (Expense Ratio) = Quick NOI

Quick NOI / .1 (Cap Rate) = Maximum Cost Basis

Max Cost Basis - Renovations = Maximum Allowable Offer

STEP 2: COMPLETE THOROUGH ANALYSIS (PRELIMINARY PROFORMA)

Next, look at the sellers' actuals—do your actual "proforma." This is *how a property can perform vs. how it's currently performing. It's a calculated projection.*

PRELIMINARY PROFORMA CALCULATION

Gross Potential Rent + Other Income = Gross Potential Income

Gross Potential Income x Vacancy Rate (8%) = Gross Collected Income Gross

Collected Income – Expenses = NOI Operating Income

NOI / .1 (10% Cap Rate) = All In Price

All In Price – Repairs = Maximum Allowable Offer / Purchase Price

Look For Ways To Increase Value & Decrease Expenses

- Operating Expenses should be between 35 to 50%. Can you lower the expense ratio?
- Increase Income
  - Bump rents to market rate
  - Is there additional land on the property to build more units?
  - Could you add covered parking? Storage lockers? Laundry room or vending? Cellphone towers, signage, fitness center, or any other features?
- Decrease Expenses
  - Offer the nicest units in town (reduce turnover/vacancy)
  - Can taxes be appealed and lowered?
  - Shop insurance quotes
  - Install low-flow toilets, LED light fixtures, energy efficient mechanicals
  - Bring in in-house management
  - Harden the properties to reduce long-term maintenance & unit turn time

Make the Offer

- Submit Letter of Intent (LOI)
  - Non-binding, but gets the seller’s commitment
  - Gives you additional time to put the formal contract together
  - Once LOI is accepted, go to contract in 5-10 days

The Due Diligence Process

There are two stages of due diligence: soft and hard due diligence. The complete process typically lasts 20-30 days.

STAGE 1: "LIGHT" DUE DILIGENCE

- Obtain Property Financials
  - 3 years of tax returns
  - 3-year profit & loss statements
  - Rent roll
  - Copies of all lease agreements; cross reference these with rent roll
  - Vendor contracts: laundry, cleaning, trash, management company, onsite staff, leasing agent
  - Utility bills for 12-24 months (gas, electric, water, sewer)
  - Insurance
- Walk through all vacants, common areas and mechanicals and TAKE LOTS OF PICTURES AND NOTES
- Once complete, send property financials and rehab estimates to your mortgage broker

Execute Purchase Agreement

- Purchase agreement will be drafted up by your attorney
- Include all typical exit clauses—inspection, financing, reps and warranties
- Earnest money is deposited at the end of the due diligence period (20-30 days, usually)

STAGE 2: “HEAVY” DUE DILIGENCE

Complete Full Inspection

- Walk EVERY unit
- Review everything from the soft due diligence phase
- Fill out “Condition Report” for every unit
  - Take LOTS of pictures
- Bring specialists in to determine all major improvements needed
  - General Contractor, Roofer, Electrician, Plumber
- Prepare Scope of Work
- Obtain “Not to Exceed” Bids
- During walkthrough, confirm vacancies, talk to tenants directly, etc.

Review and Cross-Check All Financials

- Verify leases—make sure they didn’t load up with bad tenants/agreements right before trying to sell

Confirm Occupancy Rate & Collections

Check Every Box on Due Diligence Checklist Renegotiate price, if needed

Deposit Earnest Money

- Usually 1% to 2% of the purchase price is sufficient, but earnest money is negotiable
- Your sponsor can put up the earnest money (another perk to having a sponsor!)
- Deposit EMD upon completion of full due diligence process whenever possible

STEP 4: FUND IT

Financing Team

Sponsor

Bring a sponsor in for their experience, network, CAPITAL. They will:

- Provide the down payment and/or fund a bigger piece of the project
- Likely have strong relationships with commercial lenders/mortgage brokers and can sign/co-sign on your loan

A sponsor must have:

- Net worth equal to or greater than the loan amount
- Liquidity equal to or greater than 10% of the loan amount
- Experience owning or managing that size of a project

Commercial Mortgage Broker

- Typically a 1% fee, but it's well worth it
- Can assist with:
  - Finding a sponsor
  - Posturing with banks
  - Obtaining a construction loan
  - Obtaining agency financing
  - Raising equity, in some cases
- They have a diverse network of lenders and partners
- This extended network can mean more competitive rates and terms for borrowers

Community Banks

- Find investment friendly banks with 3 to 20 branches
- Commercial financing through banks do require personal guarantees
- These loans are based heavier on the asset, but also look at the borrower
- Terms can be very favorable, especially for construction/renovation loans
- Obtain multiple bank proposals and use them to negotiate terms

RECOURSE VS. NON-RECOURSE LOANS

- **Recourse:** Borrower is personally guaranteeing the debt
  - Most bank loans are recourse
  - Limit recourse loans to projects under $1M
- **Non-recourse (agency loans):** No personal guarantees, is based primarily on the asset
  - Agency loans
  - Used for stabilized and performing assets (typically A or B class)
  - Needs to be over $1M loan amount
  - There are "bad boy" carve-outs for fraud, gross negligence, ill intent, and other reasons that can turn the loan into recourse

Debt Funds

- Hard Money for Commercial Real Estate

Line Up Insurance

- Line up insurance early in the process, as receiving quotes can take several weeks
- Do not skimp on insurance, these are multi-million dollar assets
- Obtain Replacement Cost coverage
  - Include coverage for liability, dwelling, contents, and loss of business revenue (rents)
- Consult with a commercial insurance agent, not just any residential agent
- Consider an additional umbrella liability policy over all of your properties
  - Covers any asset that you own 51% or more of
  - One of the best investments you can make for asset protection

Raise Private Money

Build a List of Private Lenders

- Engaging Private Lenders
  - Entrepreneurs
  - Business owners
  - Referrals from CPAs & attorneys
  - High income earners
  - Investor list
  - Sellers/buyers
  - Retirees
  - Self-directed IRAs and 401Ks
  - SFR lenders
  - Social Media
  - Networking events (REIAs, Chamber of Commerce, alumni events)
  - Where do people with money hang out?
    (Golf club, tennis club, cigar bar, charity events, church)
- People lend private money based on three things:
  - Asset
  - Return
  - Character of Borrower
- Develop relationships with lots of lenders
  - Focus on people with a lot of money
  - Do lots of small deals to get little wins
  - Pay well and be glad to do it (abundance mindset)
  - Keep in touch, follow up regularly (especially payday)
  - It’s all about the lender’s timing

Private Lender Process:

1. Lender makes commitment based on due diligence provided
2. Provide term sheet, PPM, operating agreement
3. Fill out subscription agreement and investor questionnaire
4. Wire funds to operating account
5. Monthly or quarterly distributions on their investment with full principal payback in typically 12-36 months, depending on project
6. Refinance and principal payback in 12-36 months, depending on the project
7. Lender maintains equity in project in perpetuity

Share Due Diligence With Private Lender

- Investment Summary (Keep it simple, 2 pages max)
  - Property overview
  - Proforma property financials
  - Investment amount and terms
  - Projected return on investment
  - Call to action / next steps
- Financing Package (obtain from Mortgage Broker)
- Credibility Package
  - Include team bios, past deals, core values, testimonials, etc.

Have Securities Documentation Drafted by Attorney

1. Formal Investor Term Sheet – a formal overview of the deal
2. Operating Agreement – defines the companies' financial and functional decisions
3. Private Placement Memorandum (PPM) – a disclosure document of the investment offering
4. * Subscription Agreement – an investors' commitment to participate in the deal
5. * Investor Suitability Questionnaire – qualifies investor to participate in the deal

Direct The Money

- Have a deposit or portion of the funds sent to escrow at time of commitment
- Collect funds a couple weeks prior to closing
- It’s easier to find money than it is to find deals in this market, so start building those relationships in advance

Create Value-Add Game Plan

Look For Ways To Increase Income

- Update the units to provide clean, safe, functional, & aesthetically pleasing housing
  - Can now charge market rate rents
  - Will attract the best tenants in the area
- Add laundry
- Add storage and/or covered parking / garage
- Add additional amenities that attract higher-paying tenants

Look For Ways To Decrease Expenses

- Appeal/Grieve property taxes—see if you can lower them each year
- Shop insurance policies to ensure you're getting the best value
- Install energy-efficient appliances, lighting, low flow toilets, aerated faucets, energy-rated mechanicals, new windows, insulation, etc
- Reduce maintenance expenses
  - Use standard finishes so you can buy supplies in bulk
  - Shop ongoing maintenance and material
- Pay for good management, but ensure they are compensated based on performance of the property

Working With Contractors

- Build database of contractors
  - Ensure they are licensed, bonded, insured
  - Look at building departments, referrals, national construction companies
- Compare apples-to-apples across 3 or more contractors
- Have clear-cut agreements, timelines, schedules, and lien waivers
- Have contingency funds for unforeseen expenses

Get Bank/Lender Financing Commitment

- Create new entity for sole purpose of holding this property
  - Operator, Sponsor, Private Lenders will all hold equity in entity
  - Anyone with 20% or more equity in the LLC will need to sign on the loan
  - Provide private lenders with monthly updates during renovations
- You'll also need appraisal, title policy, survey, Phase I environmental inspection
- Prepare to close the deal

Close the Deal!

- Be sure the private money is sent to you or through escrow a few days prior, if possible
- Save all closing documents & loan documents in hard copies & digital copies

STEP 5: FIX & FILL IT

Now we need to take the next step—we need to FIX UP our commercial property so it's ready to rent out AND we need to FILL that property with high quality, high paying tenants to create long-term cash flow.

Stabilizing The Investment

Eliminate 99% of landlord problems by screening your tenants, and taking care of the property!

Maintaining High Occupancy

- Nicest units
- Market rate rents
- Qualified tenants

"Fix the building first. Fix the tenants second."

Renovate Building Exterior

Once your contractor is locked down, you've figured out pricing and you're set up with all supplies, you can hit the ground running and execute the value add process.

- Complete all exterior improvements and mechanicals
- Do hallways last
- Improve amenities
- Deferred maintenance requests
  - Any tenant maintenance requests should be handled by property management. Do not have your general contractor handle maintenance for occupied units
  - Only safety & functionality items for now

Renovate & Lease All Vacant Units

- Update units to be the nicest in the area and reduce ongoing expenses
  - Have standard finishes across all units/properties, offers economies of scale
  - Clean, safe, functional
- Harden the units
  - Granite countertops, no carpet, no ceiling fans, less parts/pieces are better (i.e. single hung windows, 3-piece shower enclosures)
- Energy Efficient Upgrades
  - Low flow plumbing, LED lights, utility companies
- Lease at market rate
  - Market at lowest rate with "additional rent" for included amenities

Tenant Screening Process

- **Income verification:** Minimum take home income should 3x the monthly rent
- **Eviction check:** No eviction history in the last five years
- **Background check:** No one with violent criminal history or sex offenders in the building
- **Credit report/credit history:** No current delinquencies. You want to make sure they will pay rent consistently and on time. Delinquent car payments, cell phone payments, utility bills are a red flag. Student loans and hospital bills are not as big of an issue

Set Lease Terms & Agreement

- Length of lease
- Auto-renewal or month-to-month
- Rent increases
- Termination terms
- Laws to comply with

GET TO 100% OCCUPANCY ASAP!

Renew Leases with Existing Tenants

- Offer to take care of deferred maintenance and make additional improvements to their units
- MUST take care of health & safety items. Only make cosmetic improvements if they are willing to sign new annual lease at market rate
- Make updates if the rental increase offers a 20% return on the cost to update the unit
  - Sign new annual leases at rental rates within 5% of market rate
  - 20-30% of existing tenants will move out

Renovate & Lease Newly Vacant Units

- Renovate all newly vacant units with same finishes & standards
- Lease all vacant units at market rate to get to full occupancy ASAP
- Take care of all deferred maintenance and updates in units where tenants stayed

Hallway Improvements

- Complete the hallway improvements after all units are renovated

Keep Ongoing Expenses Low!

Renovations

- Low-flow plumbing fixtures, which save water
- Dual-flush toilets which also reduce water & sewer expenses
- Aerated shower heads and faucets
- LED lights in common areas
- SAS Sustainability Solutions
- Energy-efficient mechanicals
- Energy-efficient windows & insulation
  - Contact utility companies to see if there are any grant programs for these improvements
- Standardize all unit renovations, then look for deals by buying in bulk

The Biggest Expense Is Vacancy & Turnover!

Get to 100% occupancy right away! The more we can decrease these expenses going forward, the more money we make long-term. Remember, you can eliminate 99% of landlord problems by taking care of the property and screening your tenants!

STEP 6: FLOW IT

The goal of commercial real estate investing is to create steady, meaningful, long- term cash flow. Your goal should be to:

Hold Forever To Build LEGACY WEALTH!

Refinance Property With Long Term Debt

Now that you've done the value add, you can refinance the property based on the new Stabilized Value (ARV) and likely free up some cash while eliminating short-term debt and paying back your investors.

Cash In By Refinancing the Property

- Must be stabilized above 90% occupancy for 90 days

What Refinancing Looks Like:

- Obtain a non-recourse loan whenever possible (typically $1MM+)
- Lowest fixed interest rate possible (currently around 5%)
- The longest term possible
- The longest amortization rate possible
- Pay off construction loan and private lenders in full

Managing the Property

The property management company should handle:

- Determining of market rents (verify this yourself too)
- Rent renewals & escalations
- Rent collections
- Locating and screening tenants
- Drafting lease agreements
- Evictions and move outs
- Maintenance and repairs
- Payment of bills and expenses
- Financial reports and summaries

Third-Party or In-House Property Management?

Third-Party Management

- Look for a company who will manage based on performance of the asset
- Make sure you set clear expectations for monthly statements, distributions, updates, operations, ensure they are proactive

Interview Property Management Companies

- What systems do they use?
- How do they accept rent payments? Do they accept ACH?
- Do they require the manager and maintenance to live on property?
- What accounting system do they use?

In-House Property Management

- Get software like AppFolio which handles rent payments and maintenance tickets; AppFolio can also screen tenants
- Hire your office staff
  - Bookkeeper
  - Tenant liaison
  - Admin
- Hire your on-site staff
  - Minor maintenance
  - Cleaning
  - Landscaping
  - Showing units

Don't Ignore Your Property

- Automate activities like management distributions, lender payments and mortgage payments
- BUT you should personally handle certain things monthly:
  - Review monthly statements and reports
  - Ask questions. Be interactive. Squeaky wheel gets the grease
- Maintain a quality property
- 99% of landlord issues are eliminated by:
  - Screening tenants
  - Taking care of the property
- Walk property at least once or twice per month

A Reminder Of Recourse & Non-Recourse Loans

Recourse Loans

- Loan that allows lender to take action above and beyond repossessing the property to get mortgage debt
- In other words, your lender has RECOURSE to go after your PERSONAL ASSETS beyond just the commercial property they're taking back
- If money is owed after the bank/lender seizes the property, they can go after your assets

SELL THESE PROPERTIES

Non-Recourse Loans

- The bank/lender can foreclose on the property
- Can also go after anything used as collateral to secure the loan
- STOPS THERE—lender has no claim to other funds/funding sources

KEEP THESE PROPERTIES

When to Wholesale & Flip Apartment Buildings

Rule of Thumb: Keep the good ones. Sell or wholesale the others.

- Keep the good properties
  - A-B class areas
  - Larger buildings / unit count
- Sell or wholesale less-desirable properties
  - C class areas
  - Small properties with recourse loans

Wholesale Considerations

- Does this property fit into your portfolio/business mix?
  - Amount of rehab work needed
  - Size of the building
  - Location of the building
  - Area class (C/D)
  - Financing type (short-term, recourse loans)

Build an Investor Database

- Create and post property ads
  - Facebook
  - Craigslist
  - LinkedIn
  - Other local platforms – REIA, landlord associations, etc.
  - Pull contacts from MLS

**** Landlords are Buyers, Sellers, & Lenders ****

Wholesale Documents Needed

- 1-page Marketing Overview
- Financing Package
  - Provided by Commercial Mortgage Broker
- Condition Report & Renovation Quotes

Be Prepared to "Double Close"

If you're wholesaling property, be prepared to DOUBLE CLOSE. We need to fund the deal for a very short period of time, usually a few hours to a few days.

- We're taking ownership of the property temporarily
- TWO separate deals at close:
  - A to B—SELLER to US
  - B to C—US to the END BUYER/FINAL BUYER
- Higher interest, very short-term though, build this into your profit/budget
- Transactional funding is EASY to find
- Most hard money lenders will fund double closes
- Tim has many resources

Traditional Sale

- List with Broker
  - Typically 2-5% total commission paid
  - Will obtain 15% more on sales price
  - Ensure broker lists immediately
- Provide Financing Package (From Mortgage Broker)
- Consider 1031 Exchange