



An introduction to Purchasing Apartment Buildings
By James Kilpatrick, Managing Broker of Kilpatrick & Company

I wrote recently about the new generation of Buyers that are purchasing real estate. Whether you are that new generation or an experienced real estate investor, you know that investment real estate's rewards can be tremendous and its pitfalls quite deep. The "experts" are having a hard time agreeing exactly where this real estate market will go. In uncertain times it becomes all the more important to mitigate and quantify the risks that you CAN understand. Whether the boom returns tomorrow or in 5 years, there are certain aspects of owning real estate that will always help you make an intelligent buying decision. I will visit some of the basics of what people tend to look at to evaluate these multi-family investment real estate opportunities.

Like any investment, if any one measure is truly lacking it can be enough to sour the whole investment, but there is almost always some give and take between the different measures. Some essential considerations include location, curb appeal, architectural appeal, historical significance, tenants, demographics, unit mix and other quite relevant factors that can be harder to quantify. I will examine the financials, some aspects of the physical condition, and likely members of your investment real estate acquisitions team.

Return (financials) is generally measured by certain standards that I will get into in a future article. One of the very important tasks that many overlook is verifying each and every number in the financials. One of the downsides of a frothy real estate market is the fact that certain agents, Sellers and even appraisers may have a periodic slip of their ethics, or even make a very honest mistake and understate your expenses significantly. You can guess that that type of unpleasant surprise is much less pleasant a month after close of escrow than it would have been if you discovered it during your due diligence period. Can you really verify all financials? Yes! Estoppels to verify the rent prices and to attempt (it's still not 100%) to make sure that there are no undisclosed promised rents or services. You should then go line by line through the expenses. Call every utility provider and find out what reasonable utilities might be. If something seems out of line request the actual bill from the owner. You can look up the actual new taxes, and of course you should be getting insurance quotes early regardless.

Evaluating the physical building and units is essential. Any plans, permits, correspondence with the city, etc. you can get your hands on will help, but physically looking at every part of the building is essential as well. Do not take the Seller or agent's word that a unit is in good condition. If you are a Seller, do not allow a Buyer to buy your building without seeing all

areas. Fully evaluate all inspection reports at your disposal and be careful about moving forward in a rush before you have been able to adequately consider all the items of potential concern. One way of getting past termite reports is through the pest control board. All termite reports are a matter of public record and are stored at the pest control board for an extended time (I believe 10 years as of this writing). While your real estate agent is not the correct person to rely on for opinion regarding property condition, she should be able to direct you to competent reputable professionals who will help in understanding the physical challenges and benefits of the asset you are purchasing. Many buyers purchase without any inspection report, but in general at least a termite inspector is called for. A more conservative investor may have many professionals: A termite inspector who covers termite and other pest infestations and damage, dry-rot, water damage, etc; A general inspector who looks more at issues such as electrical, plumbing, deferred maintenance, code compliance issues, appliances, leaks, cracks, construction issues; An attorney to review aspects such as any irregularities with leases, history of the property, and any disputes; A competent title office to explain any unusual exceptions to title on the Title Report and Title Insurance Policy; A structural engineer to uncover any structural concerns and give an opinion of the overall soundness of the buildings; A property manager to give warning of any unique challenges to smooth, profitable operation of the building, but also to help put in place a plan for efficient management of the investment after close. Of course the real estate agent is an integral part of this equation and can often be a great sounding board and 2nd opinion regarding all of the other reports you may encounter. Real estate agents are often the wildcard that picks up miscellaneous but very important issues that fall through the cracks. They also should keep the transaction on schedule and hold the entire transaction together by doing simple things like bugging a party to perform requirements of the contract on time.

If you are contemplating buying or selling an apartment building, do your research, consult appropriate professionals and don't skimp on the time, energy, and money you put into this often life-changing decision and the process it requires.

Please keep in mind that my area of expertise is Real Estate Brokerage. The tax consequences, exchange validity, accounting rules and legality of various strategies are best discussed with the appropriate professional. I have several that I will be happy to recommend. If you missed last month's installment, you may contact me for a copy of the last issue.

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