

# Get Top Dollar

## When You Sell Your Apartment Property

Five strategies to make sure you get the best possible return for your investment of time, money, and hard work.

### Strategy #1: Maximize Net Operating Income

Net Operating Income (NOI) is the most important figure in establishing the value of your property. Net Operating Income divided by the Cap Rate (the prevailing Cap Rate for that area and property type) is the valuation method that investors – as well as lenders and appraisers – put the most stock in.

$$\frac{\text{Net Operating Income}}{\text{Cap Rate}} = \text{Price (Value)}$$

Even properties that are condo conversion candidates (yes, there is still a market for converted condos) need to keep NOI in mind. Many lenders will consider this income approach method of valuation since they might have to take the property back and operate it or sell it as a rental.

The magical thing about NOI is that it is multiplied by a factor of 10 or more when it's used to establish the price. The formula is: Net Operating Income / Cap Rate = Price. So, if you increase revenue (or lower an expense) by even \$10 a month (\$120 a year), and the prevailing Cap Rate is 8%, that will add \$1,500 to the value. ( $\$120 / 0.08 = \$1,500$ ). Shopping around for a new dumpster service to save \$10 a month might not seem worthwhile, but an additional \$1,500 in value puts it in a different perspective.

The most weight will be placed on your income and expenses in the last year of ownership. If possible, take these steps prior to the last year before you sell. If not, even the last 3 months operating data can often be used to influence

valuation of the property. In fact, if there is no stabilized operating history, the last 3 months may be all you have.

So, how do you get your net income to the highest level? Simple – increase your income and reduce your expenses. OK, here are some specific ideas. Use as many of them as you can.

#### a) Make capital improvements before you sell, if possible before the final year.

Not only does the property show better, it can keep "Maintenance Reserves" expense under control, and can serve to reduce actual maintenance expenses. Update the property as much as possible, especially the carpeting and common areas. There are two reasons for this. i) The last year of ownership should show lower Maintenance Expenses since less repair and maintenance will be needed, ii) an appraiser will be likely (or can be convinced) to indicate a lower level of Maintenance Reserves. Both of these are expenses<sup>1)</sup> and come right out of the NOI.

<sup>1)</sup> Note: We have seen operating statements that calculate NOI without Maintenance Reserves, showing it as a separate item after NOI; however, the practice in Georgia is almost universally to include Maintenance Reserves as an expense item.

If the property looks like there is a lot of deferred maintenance and it will require a lot of work, the appraiser will be inclined to include a higher number for Maintenance Reserves. In fact, if it appears that the property is in really

bad shape, the appraiser may well bump up the Maintenance Expense item as well.

### **b) Make a thorough check of utility expenses.**

Go through all units and check to see if the faucets are dripping, have your water heater checked to make sure it is running optimally, use energy saving florescent lights for the common areas, caulk and seal the office and common areas to make sure you are not losing energy. Just shaving \$100 a month off utility expense (\$1,200 a year) could increase the value of the property by \$15,000 if the Cap Rate is 8% (\$20,000 if the prevailing Cap Rate is 6%!).

### **c) Appeal Your Property Taxes and Get Them Lowered.**

If you think you have a good case, appeal the assessment and get the taxes lowered. To make a good case you need to identify similar properties in your tax area that were valued relatively lower than yours. Most people do not think of appealing taxes, but once again \$1,000 less taxes can mean up to \$12,500 more value when you sell (at an 8% Cap Rate).

Do this only if you have reason to think your case is good, otherwise you will be wasting your time and the assessor might even raise your taxes in the process.

### **d) Get rents up to market levels.**

Remember "Talk is cheap" on this one. Don't just say you can get \$20 more per month, prove it. It's ideal if you can start over a year in advance to get your rents up to market levels, the goal being to get that last full year's income up to snuff. Even if you don't get all the units up to market, getting some of them up increases revenues and demonstrates that market rent is what you claim.

### **e) If you do not have a water charge, start including one with new tenants and renewals.**

Especially in the City of Atlanta, where water costs have increased significantly, most tenants will understand and accept this.

### **f) Raise laundry charges.**

If you operate a coin laundry, take a look at the charges. If there is room to raise prices without driving tenants to an off-site laundry, raise the prices 25 cents.

### **g) Cut your trash expense.**

Shop around for a good waste hauler. You would be surprised at the differences in pricing. Just a \$10 per month difference can add money to the bottom line. The same goes for lawn, landscaping and even pest control services.

If you have all of this accomplished about a year before sales time you will be in good shape. Moral? Plan your sale ahead as much as possible.

## **Strategy #2: Work with Realistic Income and Expense Figures**

Save yourself time and ultimately money by working with realistic figures. Trying to sell the property based on the rent you think you could get and with lower expenses that you think a new manager could get just won't cut it. Be realistic – buyers will be more aggressive (and less suspicious) when the figures are actual, not projected.

Pro forma numbers may help a buyer "pull the trigger" – make the decision to buy – but the effect on valuation of the property is negligible.

You need to remember that lenders and appraisers will always factor in:

- Vacancy and Collection Allowances – Even if you are at 100% occupancy with perfect collections,
- Management Fee – Even if you manage the property yourself,
- Maintenance/Replacement Reserves – To replace worn out items over time.

The rates used by the lenders and appraisers will be whatever rates are currently prevalent in the marketplace at that time. As noted above,

the overall condition of the property can influence the amount used for Maintenance Reserves.

Keep in mind that the lenders will already have an idea where the percentage of expenses compared to the gross income (or a dollar amount per unit) should fall based on the market and other appraisals they have completed. So, if similar properties have between 42% and 47% of the gross income going for operating expenses, you will need solid supporting evidence if you are substantially below that benchmark. In Georgia, many appraisers use a dollar figure per unit (for example, \$3,500 per unit) which will vary depending on the type of property (and hence, tenant), level of management oversight necessary, level of amenities, etc.

Numbers that are out of sync with industry norms can send up a red flag and make a lender suspicious of the entire deal. You're better off making efforts to get the numbers low, but believable – and verifiable.

### **Strategy #3: Inspect all units prior to putting the property up for sale.**

You are familiar with most of your units but what about the ones that you haven't seen in over a year? Be sure that prior to listing you go through ALL the units to make sure that you (and the buyers) will not have any surprise repairs, pets or guests. One bad unit could cost you thousands at the negotiating table.

Some owners are adamant about not bothering their "favorite tenants" and don't even check the condition prior to putting the property on the market. Most buyers, however, will want to inspect, or at least look at, all the units. It's a safe bet that you can put a unit into good condition for less than a buyer will claim it will cost him.

Make sure you know every foot of your building and what you are selling. If you don't, it can cost you money in the end.

### **Strategy #4: Know why you're selling – and keep it to yourself.**

Your reasons and motivation will help you determine how to price, position, and market your property. If your goal is to get absolute top dollar, you probably can't be in a big hurry (although some of the best offers may come in during the first couple of weeks, if there is a major marketing blitz to kick things off.) Whatever your reasons, you have nothing to gain by disclosing them to a buyer. Buyers, however, will almost always ask. You can have a non-committal response ready such as, "My investments needs have changed," "I've just decided it's time to move on (to another property)," or, you can add a comment to the effect "The property is performing well, so I'm ready to sell, but I'm not under any pressure to sell."

## Strategy #5:

### Call Atlanta Apartment Brokers for a no-obligation consultation

Experience counts, and Vaughan Simmons, founder of Atlanta Apartment Brokers, has a proven track record of helping sellers get top dollar for their properties. AAB can provide helpful input all along the way, including:

- ◆ Optimal pricing,
- ◆ Preparing the property for sale,
- ◆ Giving the property full market exposure,
- ◆ Identifying lenders who have good programs for that type of property,
- ◆ Screening buyers to avoid “tire kickers,”
- ◆ Presenting the full potential of the property while maintaining credibility in the financial presentation,
- ◆ Negotiating a contract that gives the best price and also protects the seller from potential hazards during, or even after, the sale,
- ◆ Assisting the appraiser with market sold comps and rent comps,
- ◆ Providing a layer of insulation between the buyer and seller and avoiding potential friction during the potentially contentious negotiating and due diligence processes,
- ◆ Knowing when to call in a specialist,
- ◆ Helping find a replacement property,
- ◆ Helping celebrate after a successful closing.

Please give us a call to discuss your situation.



Vaughan P. Simmons  
Cell/Direct: 404-569-3465  
Vaughan@AtlAptBrokers.com  
Atlanta Apartment Brokers  
1955 Cliff Valley Way, Suite 200  
Atlanta, GA 30329