Turning Underperforming Multifamily Properties into Highly Profitable, Cash-Flowing Assets.

3 STEPS FOR SUCCESS

1. Buy Right:

- Value Add - Key questions when considering a property:
    - Who owns it?
    - How long have they owned it?
    - Why are they selling it?
- What to look for:

    A. Poor management - typically by individual owners, families, or out of state management.

    B. Under market rents - rates significantly below comparable prices in the area.

    C. Deferred maintenance - this can be a sign of a motivated or "burned-out" seller. Light exterior and interior upgrades, e.g., paint, landscaping, carpet replacement, fixture and appliance upgrades, will have a significant impact.

    D. High vacancy - often due to poor marketing.

    E. Motivated sellers - allows for negotiation a lower price. Common motivators include divorce, bankruptcy, retirement, inherited properties, new investment opportunity, burnout, etc.

    F. Owner paid utilities - allows for significant upside in income through implementing Ratio Utility Business System (RUBS).

    By tackling these issues, we will successfully reposition the property, which will significantly increase the income. As a result, **the value of the property** will also increase.

- Property Class - B and C class properties in A and B neighborhoods - Prefer 1980's or newer.
    - These properties tend to house blue collar workers; don't compete with new(er) construction; and don't share the same challenges as C and D properties in C and D neighborhoods, which can encounter issues with crime, major disrepair, and increased vulnerability to economic downturns.
- Market Analysis - Target emerging markets with population and job growth; low to median cost of housing which allows rent growth (e.g., Columbus, Oklahoma, Atlanta, Dallas, Phoenix); median income of ~$35k/yr; and landlord and business friendly rules and regulations (e.g., Ohio, Texas, Florida, Oklahoma, Colorado).

- Scale - 60+ units to support effective, third-party professional management. Additionally, targeting 60+ units will increase the likelihood of stability by creating a buffer against tenant turnover and other unplanned expenses.
- Cash flow - The property must generate cash flow from day one, before value add strategies are deployed.
- Buy on **actual numbers** instead of on pro forma analysis, which project or estimate financial return

2. Finance Right:

- Longterm debt - with long terms and amortization periods.
- Non-recourse if possible. e.g., Fannie Mae, Freddie Mac, CMBS. There is an extremely low foreclosure rate for Fannie and Freddie underwritten properties (1%-2%).
- No prepayment penalty.
- No due on sale clause.

3. Manage Right:

- Third-Party Management with experience in this specific class of multifamily real estate.
  - Sizable but not too large that our property gets lost.
  - Only in property management, not acquisition or development so that there is no conflict of interest.
- Use of Sole Purpose Entity Structures, e.g., LLC's for asset protection.
- Optimization through use of systems.
- Tenant satisfaction - Ensure great customer service to the tenant, e.g., 24 hour response to maintenance requests, cleanliness, and security. Happy tenants who feel heard and cared for, don't leave, which limits tenant turnover, and lowers expenses.
- Increase the "curb appeal" - Freshened exterior with modern paint schemes, landscaping, and new signage. Rebranding with a name change, webpage, etc.

5 STRATEGIES FOR INCREASING INCOME

1. Fill vacant units at market rate

- After light renovation (< $1,000 per unit) - modern, two-tone paint schemes (white trim, taupe/light grey walls); vinyl wood plank flooring to replace carpet; cleaning of existing carpet.

2. Employ RUBS, where applicable

- Pre-calculated formula for billing back a tenant's utilities.

- Water, sewer, trash, gas/electric.

3. **Gradually raise existing tenants to market rate AFTER adding value**
   - Improve the exterior "curb appeal" - power washing, landscaping, painting. Inexpensive and effective.
4. **Fees - Pet fees; deposits; late fees (without exception); move-in fees**
5. **Laundry machines**
6. **Lower expenses through renegotiation of contracts**

5 WAYS TO PROFIT

1. **Monthly Cash Flow - From day one. Conservative estimation of 9% or higher cash on cash return.**
2. **Equity through principal pay down - As the tenants pay down the mortgage, your equity continues to increase and creates true wealth.**
3. **Reduced or even elimination of taxes through depreciation by doing cost segregation.**
4. **Cash out refinancing - into non-recourse debt (if not already); return of original capital plus additional monies that can be used towards reinvestment into the asset and future assets.**
5. **Forced Appreciation - by repositioning the asset through the methods previously discussed. Potential to double the original investment at the time of sale, which could occur in 5-7 years or sooner depending on the market.**

About me

Keristen Brantley is a real estate investor and physician with a passion for identifying and fixing problems through innovative and creative solutions. Her transition into commercial real estate is merely an extension of that passion. It is her professional experience in a demanding and competitive field, along with her tenacity and discipline for doing things effectively and efficiently, which instills confidence in her success as a CRE investor.