



## **Present clear financial picture selling investment properties**

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Investment property in today's economic climate is being evaluated with greater scrutiny than ever before. With interest rates rising, higher utility costs and operating expenses inching upward, investors are looking very carefully at the income and expense before making their decision.

Too often, properties are presented with a minimum of financial information. Typically listings show the gross income, taxes, total operating expenses, net operating income and cap rate. Though sufficient to draw an investor's attention to a particular listing, there certainly is not enough information to make a decision to purchase. When the listing agent is asked for additional information, the answer usually is "I'll have to call the owner and get it." Herein lies the problem. Investors want to receive information as soon as possible on any property that tweaks their curiosity. Unfortunately, the thinking is that all questions will be answered during due diligence. Due diligence is necessary to verify financial information, examine leases, perform a thorough examination of the property and have the property inspected, not to see what the numbers reveal.

Relying on due diligence to answer an investor's initial questions about the financial condition of a particular property is a waste of their time and their agent's time. Sooner or later the true financial picture surfaces. Good or bad, it's best to give your client a complete financial package that will allow him or her to make an informed decision. Certainly a confidentiality agreement would be in order; however, that too should be immediately available so that financial information can be shared quickly. Granted, some sellers want to protect all financial information until the property is under contract, but in reality this takes time and can be expensive for both parties.

To effectively market investment property, get the numbers! Asking for balance sheets, income statements, tax returns, rent roll and a list of improvements should be the standard, not the exception. Once this information is in hand, then the agent can complete a comprehensive financial summary. The financial summary should include the net operating income, cap rate, dividend equity return, cash break even, debt coverage ratio, operating expense ratio and a detailed income and expense breakdown. In addition, for more sophisticated transactions a net present value (NPV) analysis should be presented. The NPV calculates the net present value of an investment by using a discount rate and a series of future payments (negative values) and income (positive values), therefore, making the decision to purchase a particular property much easier.

As real estate professionals, we owe it to our clients to help make their decision-making process easier. Giving them a complete financial snapshot of any property will not only make your job easier, but also demonstrate your commitment to improving your client's investment portfolio.

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