



A check list for preparing a multifamily investment property for sale - by Russell Gullo

March 03, 2020 - Upstate New York

So, you are thinking about selling your multifamily investment property. The value of your asset will be determined by the income stream that it produces, what is called, its Net Operating Income (NOI).

There is a direct relationship between the income stream (NOI) and the value of an income-producing property such as a multifamily investment property. This concept of converting an income stream (NOI) into value is referred to as the process of capitalization, which is also the “income approach” to value that an appraiser, lender and investor refers to.

The following is a check list of things that you as an owner of a multifamily investment property need to consider before disposing.

1. Find A Multifamily Investment Property Specialist

The marketing of a multifamily investment property is totally different than marketing a single-family home. You need to work with someone who specializes in income-producing assets. You would not hire a plumber to do eye surgery, so why would you hire someone that is not educated and who does not specialize in this part of the real estate investment arena. There is specialty education that individuals can procure such as the Certified Commercial Investment Member (CCIM), among other things to stand out from others in the industry.

2. Organize Your Records

Once you have hired a multifamily investment property specialist to handle your property you will need to provide him or her with your records that establish your property’s NOI. A buyer and buyer’s lender will be looking for the last three years of the property’s “Schedule E” from your tax return (this only pertains to your property and not the rest of your income or expenses.) In addition, they will need the last three months of your rent roll from your property.

You need to have your books in order. You will be asked to verify and provide documentation of your income and expenses by both the buyer and the buyer’s lender. The better your recordkeeping is, the easier it will be for you to sell.

3. Stage Your Property

Buyers will find your property more appealing if it's clean and well-maintained. If any lights are broken, replace them. If trash is scattered around your parking lot, pick it up. First impressions count. You want to make sure weeds are pulled and there are no junk cars on the property. You must do the simple things that you can do inexpensively to present the property in its best light.

4. Consider Making Improvements

While you should be cautious about investing time and money in a property that you plan to sell in the short-term, in many cases upgrades can add to your market value. Your multifamily investment property specialist, can help you decide whether spending money on upgrades makes economic sense as part of your game plan in disposing of your asset.

5. Set A Reasonable Price

It's very important to set a realistic price for your multifamily investment property. Take stock of your asset from a buyer's perspective, looking at all the pros and cons. Don't over price your property. It is difficult to get people to take a second look at a property if they think it is grossly overpriced or unrealistic. Remember that a property's value will be determined by the income stream (NOI) that it produces.

6. Tax Planning

Prior to marketing your property for sale, you will need to discuss the best form of disposition that will meet your objectives. For example a normal, cash-out "sale" which you pay all of your taxes based on your whole gain in the year of sale, versus a 1031 exchange (the opportunity to pay no tax when disposing of an incoming producing asset, investment held property or even a secondary residence.) This concept will allow you to keep 100% of your equity, rather than in many cases, losing as much as a third of your selling price to Uncle Sam in the form of taxation. Even though this best kept secret in real estate has been around since the 1900s, when the first exchange laws were enacted, you will need a professional "qualified intermediary" to structure your transaction as a 1031 exchange.

Although, your multifamily investment property specialist does not replace the need for your CPA, these types of tax planning ideas need to be discussed before a successful meeting of the minds between a buyer and seller are met.

A well-qualified multifamily investment property specialist can make the sale of a multifamily investment property a very smooth and successful transaction for you.

Russell Gullo, CCIM, CEA, is founder and CEO of the R. J. Gullo Cos.: Real Estate Investment Services, Buffalo, NY.

