

Bob Bracken



CASE STUDY

What most Missed, One Buyer Saw

By Bob Bracken



The following Case Study illustrates, again, the principle that there are always gems and opportunities in the Market. These are usually found by looking past the superficial elements of a property to realize its potential for value upside. Sometimes (often) it takes a bit of time for the right buyer to come together with the Seller to work this out as a Win-Win for both. For this Seller, we agreed that it was essential to take all steps to get the highest price possible for the property. That started with a more aggressive price than the market would respond to, and they decided to make adjustments after a bit of time on the market. There were a couple false starts and collapsed offers resulting from what was a lack of confidence on the part of those Buyers' rather than anything seriously wrong with the property. Ultimately we were able to find a perceptive and confident Buyer, and negotiate a price that was a bit of a stretch for both them and the Seller. The value of the investment property was never in doubt for the Seller, and the Buyer could see that the income potential could be quickly realized to add value immediately make the deal work.

The Property: Big 4 Level Multifamily Building, built in 1912 Legal for 5 suites, but converted to 4 self-contained. In a great location in the popular Commercial Drive

area, it sits on a 30' X 124' RT-5 lot with lane. Building is in good condition (if a bit plain inside) with updated gas, electrical, plumbing and appliances, and had a newer metal roof, character features, high ceilings, stained glass, wood floors, shared (non-coin) laundry and lots of storage. There are balconies or decks on Main & Up levels, and nice views from 2nd and Top floors.

The Suite Mix: 1 Bdrm Top, 2 plus den 2nd, 2 Bdrm Main, 2 Bdrm Ground, was strong, but since the 2 largest suites (Main and 2nd) were held vacant, the total rental income available was not apparent.

The Revenue: Prior to sale, the Top floor was generating \$1,775/mo but the 2nd floor was vacant, and the Main was Owner occupied, while the 2 bdrm Ground suite was rented as a 1 bdrm suite at \$1,050/mo - well below potential rent. The Buyer was able to immediately rent the vacant 2nd floor for \$2350/mo, and the former Owner's suite for \$2,200/mo. The Ground suite would move to \$1,550/mo (as a 2 bdrm suite) upon expiration of the existing lease, and the conversion of the Laundry to coin operated machines adds an add'l \$100/mo to income. With total monthly rent now increasing to \$7,795 (\$95,700/yr) and expenses of approximately \$14,000/yr the result is Net Income = \$81,700/yr or \$6,808/mo.

The Sale: The Property was listed for \$2,028,000 and sold for \$2,000,000 after approx. 30 days on the market at this price. With the changes and enhancements made to rental income, the Buyer **created** a Cap Rate of 4.1% and the investment was shaping up to make a great deal of sense. The final piece was the financing terms gained by the Buyer.

The Analysis: The Buyer was able to achieve, through a local Credit Union, a 1st mortgage of \$1,375,000 (68.75% loan-to-value) at an interest rate of 2.89% with a 35 year Amortization, and a monthly payment of \$5,200, giving a positive net cash flow of \$1,608/mo or \$19,296/yr. Assuming an average annual net income increase of 3%, the 1st, 5 year-end holding period should give the Buyer's financial position as: Mortgage Balance=\$1,250,000 Net Income=\$7,873/mo or \$94,713/yr, Net Cash Flow of \$2,693/mo or \$32,313/yr.

The Summary: This Buyer, with a bit of vision, imagination, and enquiry took action to acquire a great investment property with positive cash flow in a great Vancouver location in the midst of what is considered to be a prohibitively priced market. Many "experts" (including in the Media) would consider this an unlikely scenario, but any qualified Buyer could have done it.

Basic Real Estate Tips and Principles worth repeating:

- Buy Something Sooner Than Later.
- Getting an acceptable deal is more likely to create wealth than waiting for the "perfect deal".
- Great deals, in a strong market, are usually "made", rather than "found" - or delivered.
- If you want inflation and amortization schedules to work for you, you have to give them something to work with and time to work.

Is there anything you want to know regarding real estate, please contact Bob Bracken at 604-220-2035 cell 604-263-2823 office bob@bobbracken.com email.

