REIN PRESENTS:

Multi-Family Investing Bootcamp

How to Invest in Properties with 5+ Units

BOOK 1

REIN
REAL ESTATE INVESTMENT NETWORK

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Multi-Family Investing Bootcamp Manual

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REIN REAL ESTATE INVESTMENT NETWORK

Multi-Family Investing Bootcamp—West Agenda

Saturday, May 31, 2014

Hard Rock Theatre
2080 United Blvd,
Coquitlam, BC

9:00 AM

Welcome Address

Patrick Francey—CEO REIN

Session 1

Why Invest in Multi-Family Properties?

Don R. Campbell—REIN Founding Partner & Senior Analyst

Multi-Family investing is a whole new ballgame; a game that, once figured out, is easy to win. Learn what defines these properties and what makes them such great investments. Veteran investors have consistently used Multi-Family properties to weather economic storms and come out ahead in the process.

Session 2

Sources and Availability of Buildings

Don R. Campbell—REIN Founding Partner & Senior Analyst

"But there is nothing to buy!" is a phrase often heard by those wanting to invest in Multi-Family properties. Don will show you where to find buildings across Canada, and in all market conditions.

Session 3

Choosing Properties—Part 1

Don R. Campbell—REIN Founding Partner & Senior Analyst

There is no rule of thumb for choosing a great property. However, there is a step-by-step system that will weed out the poor deals leaving you with only the gems. Discover the system that works in any market condition. You will be pitched a lot of buildings as an investor, and we will show you how to cut down the confusion while saving time and money.
Discover how to rank a property in terms of price, size, perceived value and condition—buildings aren't always as they appear.

Networking Break

Session 4

Building Valuations

Thomas Beyer—President, Prestigious Properties

This Veteran Multi-Family investor will show you how he analyzes the current and future value of buildings. Often, he finds hidden long-term value where others (including finance companies) fail to look. Learn the secrets of building a multi-million dollar portfolio.

Session 5

Choosing Properties—Part 2

Don R. Campbell—REIN Founding Partner & Senior Analyst

Once a property is located, it is necessary to analyze its feasibility and fit in your portfolio. What are the operating expense ratios? Learn how to calculate the annual effective gross income of a property and the operating expense percentage. What is cash-on-cash plus? Learn the difference of closing costs for Multi-Families compared to Single-Families. Learn about capitalization rates and why they are only rules of thumbs—if the numbers don't work, they don't work!

Awards

12:30—1:45 PM **Power Networking Lunch** (Members)

Power Networking Lunch. The meal is secondary; start creating your team and your contacts during this lunch break. Go with someone you don't know.

12:30—1:45 PM **Lunch and Learn** (for Guests)

For those interested in learning more about the benefits of REIN Membership, a special lunch-time presentation will be held by Patrick Francey and the REIN Team. **Learn how NOT being a Member costs you money!**

Expert Panel

Sourcing, Buying & Negotiating

Moderated by **Melanie Reuter**

Domenic Mandato—President, Invest Plus Properties

Pierre-Paul Turgeon—Owner, Matterhorn Real Estate Investments Ltd.

Amit Grover —Multi-Family Specialist, Colliers International

Randy Dyck — Realtor, Eximus Real Estate Team

Session 6

Creating Offers

Mark Warkentin — Real Estate Lawyer, Linley Welwood
Don R. Campbell—REIN Founding Partner & Senior Analyst

There are many ways to purchase Multi-Family properties. Structuring these offers are very different than Single-Family offers. Learn how to leverage this knowledge to your advantage. Discover which unique schedules, forms, and conditions to use to reduce your risks and increase your chances of closing the deal.

Session 7

Tax Implications and Offer Structure

Navaz Murji —Murji & Associates

How will structuring the offer properly provide your accountant more leniency for future planning? Consider options such as dividing the offer into two parts to take advantage of the fact that land is not depreciable, but the building is, and to put more value on the building than the land.

Session 8

Post Offer Actions

Don R. Campbell—REIN Founding Partner & Senior Analyst

An accepted offer is just the beginning. Inspections for Multi-Family properties are very different than Single-Family homes. AACI Appraisals, Environmental Reports, and building condition reports—OH MY! What you should watch for, what strategies you should have in place when speaking to the report writer and how you should review the documents in advance of submission.

Networking Break

Session 9

CMHC Financing for Multi-Family Properties

Abby McQuire—Senior Manager, First National

Which type of mortgage will you consider: assuming another's mortgage, a conventional mortgage, or an insured mortgage? How do lenders analyze debt servicing? Plan carefully, especially if your goal is to hold the property for less than 5 years; don't saddle your potential buyer with unwanted financing. Find the answers to the 7 most popular questions mortgage brokers are asked.

Session 10

Additional Financing Insights

Don R. Campbell-REIN Founding Partner & Senior Analyst

Lenders require you and all of your share-holders to personally guarantee all of the mortgages with a Multi-Family investment. What are they and what are the implications of them? Learn how mortgage rates differ and are not based on prime or bank rate. How will you finance your property: a private lender; a traditional lender or a pension fund?

Session 11

Financing Options and Strategies

Pierre-Paul Turgeon—President, Matterhorn Properties

Hear directly from the source. Pierre-Paul Turgeon worked as a Multi-Family mortgage underwriter with Canada |Mortgage and Housing Corporation (CMHC) for 8 years. Leverage his knowledge and real life experience as a Multi-Family investor and owner, and find out what |financing looks like in current market conditions and how to increase your chances of having your deal approved.

Networking Break

Session 12

Buying Strategies

Don R. Campbell—REIN Founding Partner & Senior Analyst

Domenic Mandato—President, Invest Plus Properties

The seller is the key when it comes to buying Multi-Family properties. Determine the seller's motivation and know how to position your deal. Decide if you will you use new or assumable financing; Vendor-take-backs or purchase with an agreement for sale.

Session 13

Normalization & Ownership Tips

Don R. Campbell—REIN Founding Partner & Senior Analyst

Now you own the building. What are the first steps you must take to ensure you create a winning investment. Discover how normalization of tenants, revenues, expenses and operations is the absolute key.

7:00 PM—8:00 PM **Social**

No-Host Networking Social

Key Presenters:

Don R. Campbell

Don R. Campbell is a Canadian-based real estate investor, researcher, author, educator and philanthropist. He is a founding partner and Senior Analyst at the Real Estate Investment Net-work. Don can speak in detail on any mar-ket in the country and is not afraid to tell the truth about where the market is head-ed. Don is a multi-family investor, owning more than 200 doors.

Patrick Francey

Patrick Francey is a veteran Canadian-based real estate investor, educator and business owner and is the CEO of the Real Estate Investment Network. By the age of 25 Patrick was part of a team developing and implementing systems and procedures for a large oil tool manufacturing company and in 1984 Patrick stepped into the world of business owner, which still includes owning a specialty retail business in Edmonton.

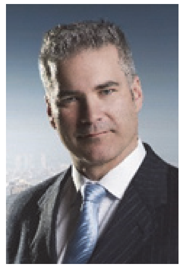
Thomas Beyer

Thomas Beyer was a computer scientist with a strong interest in business principles. He immigrated to Canada and finished his MBA at the University of Alberta. Thomas bought his first revenue property, a rental pooled condo, in 1997 followed by a second condo in Edmonton a year later with no money down. He then bought his first apartment building, using his own cash and a loan from his dad, for $37k/door in 2000. Thomas founded Prestigious Properties in 2000, specializing in multi-family apartment buildings and currently manages over $85 million of positive cash-flow real estate.

Navaz Murji

Formed in 1983, Navaz Murji's accounting practice, Murji & Associates, started in Edmonton and moved to Burnaby, B.C. It has grown to be an organization that helps real estate investors, business owners and professionals across Canada. In addition to the accounting practice, his real estate portfolio has grown from single-family homes to include multi-family buildings.

Domenic Mandato



Domenic is the Founder and President of Invest-Plus Properties Canada Ltd. Alberta based and opportunity focused, Domenic has been actively investing in Canadian real estate since 1999. InvestPlus Properties only invests where real estate has been proven to return positive cash flow and significant profits to investors. Currently active in Alberta, InvestPlus and its investors have already realized significant growth in their real-estate portfolios. With proven real-estate investing strategies, experience and knowledge of booming markets, the InvestPlus team of financial, administrative and property management experts manages over 400 suites of secure profitable real estate valued at $50 million dollars.

Pierre-Paul Turgeon

Pierre-Paul Turgeon was a multi-family mortgage underwriter with Canada Mortgage and Housing Corporation (CMHC) in the Prairie business center in Calgary for 8 years before leaving to become a full time Single- and Multi-Family investor. Prior to that, he was Principal of CMHC's Default Management and Real Estate department and also worked as a residential underwriter. Pierre-Paul is a lawyer and a member of the Law Society of Upper Canada (Ontario). From 1996 to 2002, he worked as Project Manager at CMHC's head office in Ottawa on various international projects.

Amit Grover

Amit Grover has been the Edmonton multifamily specialist with Colliers International since 2005 and is Vice President of the multi-family division. Since 2005, Amit has sold nearly 2,300 apartment units and various multi-family land sites totalling nearly a quarter billion dollars in asset value.

Mark Warkentin

Mark Warkentin is a partner at the law firm, Linley Welwood, in Abbotsford, BC. His areas of practice include real estate transactions, real estate development, business transactions, financing, corporate and commercial law. He is a real estate investor himself, and has handled, literally, thousands of transactions and negotiations.

Melanie Reuter

Melanie is the Director of Research at the Real Estate Investment Network and has been providing REIN members with up to date research since joining the REIN Team in 2006. Melanie is a real estate investor who owns both single family and multi-family rental properties in Edmonton and Chilliwack.

Abby McQuire

As Senior Manager of Commercial Mortgage Lending, Abby specializes in high ratio CMHC and conventional mortgages with an emphasis on a cost effective approach and quick turn around-time. In today's ever changing real estate environment, Abby's attention to superior customer service allows her to meet her clients' individual mortgage financing needs.

Randy Dyck

Randy Dyck has been a top producing realtor in the Fraser Valley since 1992. He and the Eximus Real Estate Team have sold over 3000 properties in the past twenty years. Randy and the six agents of the Eximus team serve investors in Chilliwack, Abbotsford, Mission, Maple Ridge, Langley, and Surrey. Randy personally invests in Multifamily, Commercial, and Development properties.

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TABLE OF CONTENTS

Book 1

INTRODUCTION ... 1

FIND AND BUY THE RIGHT PROPERTY USING STRATEGIC MATH ... 8

FIND THE FIGURES: ANALYSIS TOOLS AND KEY NUMBERS ... 9
Where to Invest: The Key Questions ... 9
Your Personal Representative: Your Realtor ... 12
The Listing Sheet: Standard Formats ... 15
Listing Sheet Sample ... 17
ANALYZING THE PROPERTY'S FIGURES ... 20
The Big Filters ... 20
OPERATING EXPENSE RATIO ... 23
CAPITALIZATION RATE ... 25
Cap Rate Exercise ... 26
Cap Rate Survey Sample ... 28
NET INCOME MULTIPLIER: THE QUICK RULE OF THUMB CALCULATION ... 30
CASH-ON-CASH PLUS: REALISTIC VIEW OF WHAT YOUR INVESTMENT CREATES ... 31
Cash-on-Cash PLUS Exercise ... 32
CLOSING COSTS: BE PREPARED TO WRITE THE CHEQUES! ... 33
REIN MULTI-FAMILY PROPERTY ANALYZER FORM ... 34
REIN MULTI-FAMILY QUICK ANALYZER ... 35
THOMAS BEYER PRESENTATION: BUILDING VALUATIONS ... 37
CREATING YOUR OFFER ... 42
Writing Offers on Multi-Family: The 15/30/60 Method ... 43
Contract of Purchase and Sale Sample ... 44
The 15/30/60 Method ... 49
Structuring Your Offer: An Accountant's View ... 50
Real Estate Inspection Sample ... 55
Multi-Family Buying Strategies: The Seller is Key ... 58
Purchasing and Offer Overviews ... 60
Financing Schedule and Statement of Disclosure Sample ... 64
Senior Level Multiple Offer Strategy ... 65

Book 2

FINANCE WITH SOPHISTICATION 66

MORTGAGE FINANCING FOR MULTI-FAMILY PROPERTIES 67
Conventional Mortgages 71
CMHC Insured Mortgages 73
HOW LENDERS ANALYZE DEBT SERVICING 77
MORTGAGE BROKER ANALYSIS SPREADSHEET SAMPLE 80
INFORMATION REQUIRED FOR A SPEEDY APPROVAL 82
LETTER OF INTEREST SAMPLE 85
MULTI-FAMILY SOPHISTICATED INVESTOR CHECKLIST 89
Personalized Cover Letter Sample 91
ESTIMATED FINANCIAL CALCULATIONS 92
FINAL THOUGHTS ON FINANCING 94

FIX THE FIGURES AND BUILDING: NORMALIZATION 95

FIX 1A: SETTING MARKET RENT 99
FIX 1B: MAXIMIZING RENTS 102
Rental Discount Program Sample 104
"Just Say No" by Mary Gwyn 105
FIX 1C: CREATIVE OR NICHE ADVERTISING 109
FIX 1D: SUPER SUITES 110
Super Suites PLUS Equipment Checklist 113
Super Suites PLUS Ad Sample 117
FIX 2: EXPENSES 119
FIX 3: MAJOR RENOVATIONS 125
The Rule of 150 125
'NEW OWNER' LETTER TO TENANT SAMPLE 128

FARM OUT AND MOVE ON 131

ON-SITE MANAGER INCENTIVE PROGRAM SAMPLE BY THOMAS BEYER 134
PROFESSIONAL PROPERTY MANAGEMENT BY BRENT DAVIES 136
LONG-TERM SUBSTANTIAL WEALTH 142

Why Strategic Investors Add Multi-Family Properties to Their Portfolios

Multi-family investing, if done correctly, can provide you the best of both worlds… positive cash flow and equity appreciation; the key term in this sentence being, 'if done correctly.' Multi-family investing is fraught with land mines, land mines that are larger and more dangerous than with single-family investing. However, on the positive side, multi-family investing allows investors to leverage their funds and concentrate their management efforts 'under one roof.'

This being said, there are some very important items to consider before you take the plunge into multi-family investing.

Single family investing is where the majority of investors will create their fortune. We provide a very clear step-by-step action plan for single family homes in the REIN ACRE Program. Many of the analysis strategies described there, including the **Property Gold Mine Scorecard**, the **Due Diligence Checklists**, Economic Analysis, as well as the **Landlording Strategies,** will be very useful to you as you invest in multi-family properties.

I recommend that if you haven't listen to the **REIN ACRE Program** in the last 6 months that you do so right away before you take your next step. It is the foundation from which all the rest of these strategies are built. Your understanding of the economic fundamentals is crucial. Even more so for multi-family as the properties are not as liquid and, therefore, choosing your location is MUCH more important than choosing your price-range. Sadly, many beginners who enter the world of multi-family investing approach it the other way around which can lead to financial strain or even disaster.

Do Not ATTEMPT Multi-Family Investing!

There is a huge difference between 'attempting' to invest in multi-family properties and 'actually' investing in multi-family properties. **Multi Family Investing Success Begins and Ends with Reputation.**

In the single-family home market, there are so many players and so many properties that it is easy to make a few mistakes, maybe even leave some promises unfulfilled, and still continue to operate. However, when you enter the realm of multi-family investing the market is much smaller, the number of players is smaller and most know each other.

This can be a real advantage if you become known in the industry as someone who fulfills their commitments, can get deals accepted and has the financial resources to close. However, if you build a reputation of not living up to that standard, your name will quickly move through the industry like wild-fire and suddenly you will find it much more difficult to learn of good properties or arrange good financing. Not a great place to be.

The Importance of an Experienced Realtor

You will soon discover, especially when first starting out, that there are a number of multi-family properties that change hands in your target city that you didn't even know were available. These transactions occur usually with a select few realtors/brokers who have developed a quality reputation in their industry. They have their proven buyer's list, often segmented between A Clients, B Clients and Others and therefore get contacted directly by sellers who wish to move their properties quickly and quietly.

Your job as a multi-family investor is to get to know who these realtors are in your target area and then prove to them that you are a ready buyer. It sounds quite odd; however, it is the reality in 90% of the markets across the country. You, in essence, are trying to sell yourself to someone who makes money selling you something. Bizarre, but true.

As you speak with these realtors, ask them what it takes to move up to their A Client (or first look) list. Each will have their own stipulations. Then, as your relationship grows and you begin to trust each other, a great multi-family realtor will ask you what you are looking for in a multi (size, location, age, condition) and will actively pursue properties that fit those criteria. And that is where the hidden gold is found.

Before you consider a realtor, you should familiarize yourself with some key differences between single-family and multi-family investing.

Difference #1 – Trial & Error Won't Cut It

You can 'attempt' to invest in single family homes and if you make mistakes they are, in most cases, not very costly. In fact, 'attempting' to invest in single family properties is how you learn the process. You follow the ACRE System, you enter transactions with integrity, and you use trial and error as your teacher and this will not hurt your chances of success.

With multi-family properties, the 'universe' is not very large. This means that there are substantially less 'players' in the game (realtors, bankers, vendors, investors). There are also not anywhere near as many properties. What this means is that you will earn a reputation in your target market very quickly and this reputation (right or wrong) will precede you as you attempt to enter into transactions. So, you will need to be prepared and knowledgeable about your market BEFORE you make your first offer.

You will be forced to be a better investor by adding multi-family properties to your portfolio.

Whether buying single-family or multi-family properties, following a system and having a business mindset makes your portfolio perform better in upswings in the market as well as downturns. Systems, especially those that are step-by-step and proven, will make you a better and more successful investor… that's the bottom line.

We know it, but so do the financing companies, quality property management companies, and government regulators. In multi-family investing they all hold expectations of performance much higher than in single-family and you must meet them. They want to ensure that you are approaching this business with a proven system because when you are successful, so are they.

These outside agencies force the investor to put checks and balances in place which include regular reporting, maintenance upkeep and professional management. There are market 'norms' that are monitored and measured, providing the investor benchmarks against which to measure their performance. And some of these outside agencies will want to know that you will be meeting or beating those benchmarks.

All of these controls, in place before ownership as well as after, force even the least detail-oriented investor to monitor their portfolios, and if they also own single-family along with their multi-family properties, these systems and the underlying analysis is transferred over to them, which makes the whole portfolio perform more like a business.

This approach proved to be critical during the most recent economic downturn. Those with a business approach that included risk management strategies survived; those who didn't have a plan were forced out of the market at the exact wrong time.

That is why, when adding multi-family properties to your life, it may feel like your hands are more tied with rules and regulations but, over the long haul, you will discover that your results improve. And part of your plan must include…

the financial ability to close on the property!

This leads us to difference #2:

Difference #2 - Money

Money is a very important subject that must be broached before we get into the details of the **Gold Mine Program**. With 99% of cases of multi-family investing you will require a substantial amount of liquid investment capital and a strong net worth statement. This can come from a combination of you and a joint venture partner or just from yourself. That is why having your financials figured out in advance is so critical, as you will discover throughout this program.

With single family home investing it is quite easy to find the money AFTER you have found the deal. In fact, some of these transactions require little or no money to complete. In addition, when investing in a single family condo or house, the down payment and closing costs are quite low.

This is very different from the multi-family investing world. Due to the tighter time lines of due diligence and the approval process, it is extremely difficult to start hunting for a financial partner after you have found a building. In many cases, in a hot market, it will take upwards of six-to-eight weeks to get approval of all the necessary reports and the financing. In a hot market, you will find vendors are not inclined to give you much more than that length of time. What this means is, in order to keep your reputation and to ensure that you are getting the best deals possible, you will need to have all of your partners and finances arranged up front.

You (and your partner, if there is one) must have your **Sophisticated Investor Binder** ready and reviewed by your mortgage broker. You must know, long in advance, your financing ability, and you must know that you actually do have the capital to close on the property on time. If you do not, and you end up not closing on a couple of properties because you really didn't have the financial ability, you will be hard pressed to ever see another good deal come across your desk.

Now, some good news:

Difference #3 – No Real Limit

Often, when investing in single family properties, an investor will hit the 'financing wall.' This artificial wall is created by lending institutions and is put there to limit their 'risk' with each investor. It is a basic financial calculation that tells them when they believe you are at your limit for borrowing and it doesn't matter how good the property is that you are bringing them.

The good news is that when investing in multi-family properties, that wall is not in place. The lenders look mostly at the financial performance and potential of the building, with the lender being secondary to the equation. As long as the property fits their system and your net worth is at least 25% of the requested loan amount, you can get approval. There isn't any artificial wall; it is completely a financial transaction. This leads to…

Difference #4 – Business Transaction between Vendor and Purchaser

With single family homes you are often dealing directly with someone who lives in the property and has an emotional attachment. The sale of the property is often one of the largest financial transactions they will ever undertake, and most don't have very much experience in the 'business side' of real estate. With many single family home transactions you will discover that the sales discussions will not follow a typical business pattern and, therefore, can get delayed (and sometimes completely stopped) because of matters that are inconsequential.

When dealing with the majority of multi-family vendors, and using more experienced realtors, you will find that the discussions follow a more business-like pattern. Numbers are the key elements in the transaction and your ability to justify your offer and your terms will all boil down to business and the discussion of what is reasonable and what the banks will finance. It becomes a much more fact based discussion and, thus, can come to a conclusion (whether good or bad, much more quickly).

Conclusion

These are just four of the many key differences between investing in single family homes/condos and multi-family properties. Each style has its pros and cons; each has its risks and rewards. It is often stated that an investor should really complete between seven and ten single family transactions before they even attempt multi-family investing. This will give the investor the foundation of knowledge, confidence and relationships from which to build a successful multi-family portfolio.

However, this is a misnomer. There is no reason to follow that path. The key is to find ways to make your money work harder than you.

Strategic investors are always looking for ways to increase the stability of their portfolios while at the same time maximizing their ROI and cash flow. Over the last 22+ years we have been working with investors across the country. We have seen economic ups and downs, interest rate gyrations and real estate market swings. That means we have been blessed to discover what strategies work best in economic good times as well as in downturns. Access to real life data, such as that created through our Members' $4.2 Billion portfolio, reveals some very interesting facts.

One, especially, you can use right now.

In a study we completed after the most recent economic downturn (that many called the Great Recession) we discovered just how important having multi-family properties in your portfolio is. Sure, there is the obvious management and financing benefits, but there also turns out to be a positive unintended consequence of holding some multi-family buildings.

The reality is, in times of turmoil, confusing market signals and economic downturn, those who had a combination of single-family and multi-family properties in their portfolio had better results than those who had only single family properties. Holding a combination proved to be the most effective route as it created a more stable portfolio. That is why this is something every investor should consider, so you can build a stable portfolio prepared to weather any economic storms and ride the positive winds whenever they are in your favor.

Key considerations:

1. **Your reputation in the multi-family marketplace is critical for you to access the best properties and best prices.**
2. You MUST be prepared financially (have the money and the net worth) to close on a property BEFORE you enter into the purchase discussion.
3. **You will be signing personal guarantees on all of these large loans, be prepared for this.**
4. You MUST know your market norms and market conditions before you can justify your offer price. Decisions will be made on business, not emotions.

The REIN Multi-Family Gold Mine Program

Tried, Tested & True

The **Gold Mine Program** will focus on providing you with the tools necessary to purchase a complete multi-family building.

Multi-family buildings come in many shapes and sizes, from six units (some banks say five units) to 600+units. However, no matter what the size, they fall under one of two separate legal descriptions.

The first one is 'single title;' this is where the complete building is registered under one title at the land registry office. With this type of building you often pay lower property taxes (except in Ontario) than with the second style of property: the condominiumized/stratified building.

'Condominiumized building' is the second legal description. These buildings are sometimes called stratified buildings. They have separate titles for each of the apartment units in the building. Condominimized buildings provide the investor with more exit strategy options but these options come at a premium of higher property taxes (lower in Ontario) and often a slightly higher purchase cost.

Simple or complex – your choice

Simplicity is the theme of every "real world" system. Simple does not mean simplistic or incomplete; it means easy to follow, step by step and logical. This REIN Multi-family Program is no exception.

There is genius in taking action, and throughout the **Gold Mine Program** you will see how simple and deliberate steps before, during and after your property purchase will take you to your ultimate goal.

We have noticed that multi-family investing has the ability to generate investor analysis paralysis which, of course, is detrimental to the growth of your portfolio. We have found that many have the desire to take the step to "multis" (pronounced multees) but either have fear that it is 'above their head' or believe that "it must be more complicated than this!"

And it is true, you can make it more complicated than it needs to be. But, if you do you make it too complex you will miss out on the best deals and start to live a frustrating investment existence. The key factor in the **Gold Mine Program** is its ability to take complex subjects and provide you with the key steps. After you have completed this Program, you may well still say "it must be more complicated than that!" when, in reality, it is not.

There are 4 key sections in the **Gold Mine Program Manual:**

Section 1: Find & Buy The Right Property Using Strategic Math

This is the section designed to give you templates, analysis formulas and specific questions to ask as you search for properties in your target market. We'll discuss potential conventional and unconventional sources for properties and you will discover how veteran investors look at properties to see hidden value. Make sure you follow the ACRE economic fundamentals to find the best economic areas in which to invest, then add these special multi-family formulas to your due diligence. In this section you'll also find key clauses for your offers, analysis templates, formats and analysis tools.

Section 2: Finance With Sophistication

In section two you'll discover the reality of multi-family financing. Whatever you know about single-family financing you can throw out the window as this is a whole new game. There are different hoops through which you will be jumping, there are different formulas (yes, math again) you will be subject to, and there will be some amazing tips that will make the difference between a winning property and an average property. In this section you'll find all the ratios that the banks review (so you'll know in advance) as well as a detailed listing of the documentation you will need to get financing with the least amount of hassle. Study this section extra closely before you make your first offer, so you know it like the back of your hand.

Section 3: Fix The Cashflow & The Building: Normalization

Section three is to be used after you've purchased the property and want to **'Financially & Physically Fix'** what the previous owner missed. Whether you're increasing the rents, lowering operating costs or any number of other things you can do to increase the cash flows, they all add bottom line value to your property. You'll find many veteran investors' strategies in this section. The great news with multi-family investing is that a small and seemingly insignificant adjustment can literally add tens of thousands into your pocket annually due to economies of scale.

Section 4: Farm Out And Move On

Section 4 is the key to adding many multi-family properties to your portfolio. By 'Farming Out' the property management to a quality management company you will free your time to focus on the keys – Maximizing Cash Flows From Your Current Properties while Adding New Properties To Your Portfolio. You then become a manager of managers.

Within each of these four sections you will only find strategies and examples that we have proven in our marketplace… **no empty theories!** Each one of the steps is designed with one thing in mind: assisting you in finding the hidden gems across the country.

You will be taking notes, you will be using a calculator (a lot), you will be interacting, you will be tapping into the collective experience of veteran investors from across the country. So please be prepared to dive right in and get your questions answered so at the end of the Program you know exactly what your next steps need to be.

Notes

FIND & BUY THE RIGHT PROPERTY

USING STRATEGIC MATH

Find the Figures

Analysis Tools and Key Numbers

Fundamental #1 of the **Gold Mine Program** is a multi-stage section. It begins with a larger view of the economics of the property and region, then it shows you how to use key analysis tools and formulas that will assist you in determining the viability of the property.

But before you dive into the numbers for a specific property it is important that you analyze geographic areas. This is even more important with multi-family than single-family. Your goal is to determine what town or city has the long term economic fundamentals in place to drive the demand for rental apartments and to drive values upward.

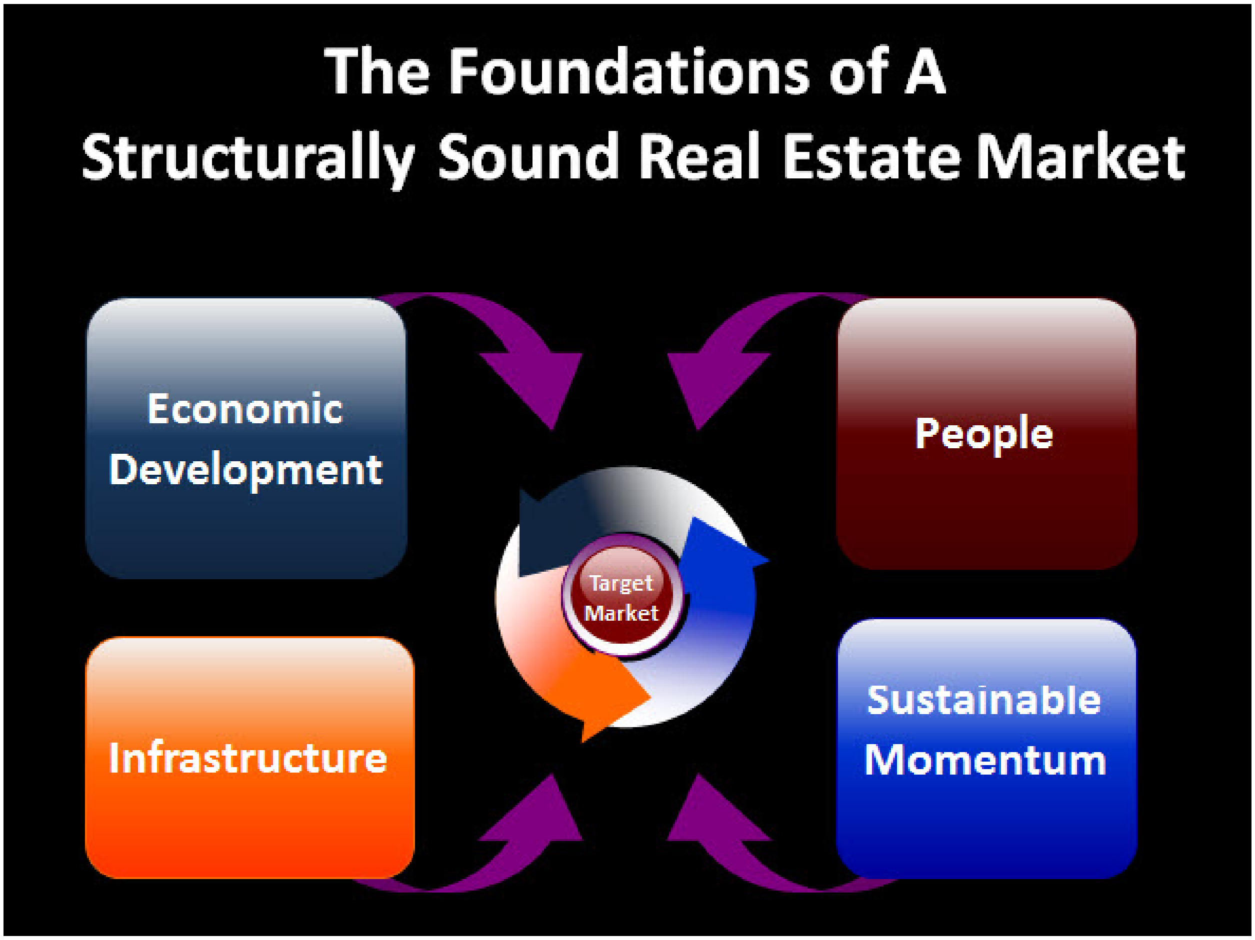
Where to Invest – The Key Questions

The first step is to ask the key questions from your **Property Gold Mine Scorecard**. These simple, yet powerful questions will help you determine which areas are best suited for investing. Here is a quick review of some of the key questions you need to answer:

1. Is there an overall increase in demand for rentals in the area?
2. Is there an increase in labour and materials cost in the area?
3. Is it an area in transition – moving upwards in quality?
4. Is there a transportation improvement occurring nearby?
5. Is there a short term problem occurring that will disappear?
6. Is it in an area that is going to benefit from the Ripple Effect?
7. Is the area in "Real Estate Spring or Summer?"
8. Has the political leadership created a 'growth atmosphere?'
9. Is the area's average income increasing faster than the provincial average?
10. Is it an area that is attractive to the 'Baby Boomers?'
11. Is the migration to the area higher than the 'average?'

Look for areas where the answer is YES in the majority of these questions. This will give you insights into the future of the area, and will assist you in removing emotions from the equation.

We are looking for the ultimate economic sweet spot, where the growth is not only strong today but is sustainable over the long term. This graphic outlines what you are looking for in the perfect target market:



The next big difference in single family investing and multi-family investing is availability of units for sale. Multi-family is a much smaller universe, so even after you uncover a strong economic market, you may find it difficult to find buildings available for sale. For instance, the market size for potential target buildings for major cities appears below.

Number of Potential Target Buildings		
Metropolitan Area	20-49 Suites	50-199 Suites
Edmonton	644	134
Calgary	272	72
London	172	130
Hamilton	136	133
Toronto	757	783

* Source Chris Biasutti

According to the research team at www.canadianapartmentbuildings.com, the Canadian multi-family and apartment market is a land of extremes. The Canadian apartment universe is fractured and, in many cities, too small for institutional investment but just right for smaller investors.

If we define institutional quality buildings as 200+ units, then there are only 691 buildings in the whole country of Canada that match these criteria in the 18 cities we reviewed.

That means that even the big institutional investors must have patience. That is why we are witnessing more institutional money move to smaller buildings of 100+units or even smaller.

This puts demand pressure on these smaller buildings, thus limiting even further the number of appropriate properties at an appropriate price for the smaller investor.

While Toronto and Montreal are the two largest apartment markets in Canada, the two could not be more different. The Montreal apartment market is the largest in the country, containing over 56,000 apartment buildings. However, since most buildings are small in size, there are more non-institutional owners. By comparison, Toronto has just over 7,000 apartment buildings; however, over 330 of these buildings contain more than 200 apartment units. This makes Toronto a much more attractive investment community for institutional apartment investors but less so for the average investor.

It would surprise most investors to realize that Hamilton (Ontario) has more units and larger buildings than Calgary (Alberta). It should be noted that both cities have a similar sized apartment universe, but very different populations—Calgary is 1/3 larger. Although Hamilton has approximately 2,000 more apartment units than Calgary, it has nearly 800 fewer apartment buildings.

These facts make it even more important for the investor to study not only the economics of a region but also the number and types of buildings that may fit their criteria.

Your Personal Representative – Your Realtor

As mentioned previously, the quality of your realtor(s) relationship(s) is even more important in multi-family than it is in single-family. Given the much smaller number of actual properties in existence, combined with even fewer coming for sale in a year, you have a source problem.

That is one reason why having a couple of key realtors on your side, who know you can close on a property, is so very important. They too have to make a living, they too know that there are few good gems in good markets that come for sale in one year, and they too don't want to waste time grabbing the deal. You are in it together and you must be able to trust each other fully to do what you say you are going to do.

Their job is to know exactly what you are looking for, in which areas, and then to hunt these down and get them into your hands. Sounds simple enough, but in reality it takes a lot of effort to uncover these gems.

It is also important to know that THEIR reputation is on the line, just like yours. If they get known in the industry for not closing on deals, or bringing less than forthright buyers to the table, then they too slowly get cut out of the good deals loop. So, your actions reflect on them, and their actions reflect on you. You are truly a team in the multi-family world.

As with commercial/industrial properties, there really isn't a well-used central database of properties you can leisurely skim through to look for good deals. Sure, there are some online but, in most cases, once they have made it there and are not sold, they have been pretty picked over by trusted buyers already. Not all the time (you do find the odd deal) but you can't rely upon this as a good source.

There are another couple of reasons you need 1 or 2 great realtors on your side. Using multiple realtors, by the way, will get under the skin of some realtors who like to have exclusives with their buyers, but it is always beneficial to be able to tap into more than one source.

1. You can't buy in slow motion; meaning that you and your realtor have to be prepared to move quickly. He/she who brings you the deal first gets to represent you. Sometimes great properties come up and because your realtor is busy with other deals, or hopefully taking a holiday (which most do not take enough) it may slip under the radar. NEVER cheat out your realtor; if they bring you the deal, work with them so they get paid.
2. Pocket Listings are much more prevalent in the multi-family world. This means that a quality professional realtor will tie up a building (speak to the owner and ask for exclusive time) and offer it only to their list of hot buyers. You want to be on that list. Most of these never get released into the world and the first time you may notice it is when a property has already changed hands. Some vendors prefer the privateness and simplicity of these types of transactions.
3. Great multi-family realtors know their target market inside and out. They know which buildings have good reputations and, more importantly, which ones do not. They know which owners are thinking of selling, which buildings fit your profile, and of infrastructure changes that could affect values. They are the true professionals.
4. "Knocking on Doors." Let's be realistic, no one is going to buy multi-family properties by knocking on the door and asking to talk to the owner. But, metaphorically, that is

exactly what professional realtors do on your behalf. They find the target buildings and start the conversation with the current owners to gauge interest in selling. In fact, many of them have the contact info of most of the building owners in their target market and have possibly even approached them previously.

5. As the veteran realtors have been in the market for so long, they also have the tools and knowledge to structure deals in creative ways to solve vendor and buyer concerns. Be it agreements for sale, vendor take back mortgages, delayed closings or any number of ways to get the deal done, they come to the table, on your behalf, with knowledge you may not have.

Don’t get it wrong, you still must be in charge of the process and yes, a professional realtor’s job is to put the deal together. But if you are ever feeling unduly pressured, tell them why you are not comfortable with the deal, and let them try to solve that for you. If they can’t, you must look not just at them, but also in the mirror; you may have incorrect expectations for your target market.

As a multi-family investor you want to make your realtors a lot of money. Why? Because they only get paid when the deal is done and if they are making a lot of money, that means they are completing transactions. And if transactions are being completed, you will be making a lot more than they will be in the long run. So, everyone wins.

Veteran Real Estate Investment Network member Arlen Dahlin has the same attitude towards realtors. Find great ones, and help them fulfill their goals. He has put together a simple checklist on how to create a quality relationship with your realtor:

How to Build a Good Relationship with Your Realtor
By Arlen Dahlin

- **Be Clear on Intention:** Let them know very clearly what you are looking for. For example, tell them the approximate size of property you are looking for (there is a big difference between a 6-plex and a 40 unit apartment building). Tell them price range, general locations you will accept and general condition of building (some like to buy freshly renovated; some like to buy diamonds in the rough).

- **Be Prepared to Close:** If your Realtor finds a property that fits your criteria and the due diligence pans out – BUY IT. If they are going to provide you with first-class service, invest hours and hours of their time inspecting properties, then after weeks of showing their findings to you, they surely deserve the sale. If loyalty is to be earned, it must also be rewarded. If you are not ready to buy, tell them. Remember, this is how they make a living and how they support their family; do not waste their time and they won’t waste yours. This also gets you onto their “A” list for when those hidden gems come across their desk in the future.

- **Be Honest – at All Costs:** Always be fair, honest, and upfront. If you run out of cash to buy more properties, tell them. If you work with another Realtor(s), tell them. Do not misguide them because your ego may get bruised when you have to tell them you are low on cash at the moment. The more open and honest you are with them, the more they can trust you and the more risks they will be willing to take on your behalf.

- **Let Them Make a Living:** Do not ask your Realtor to cut their commission on a deal. I bet you would not like it if your boss asked you to cut your salary in half for a month. There have been times when my Realtors have cut their commissions, on their own volition, to put a deal together that otherwise would not have worked, but THEY chose to (I did not ask). Plus, once they know you as a smooth and no-hassle buyer it makes it easier for them to see the long-term upside. Remember, the more money you make your Realtor, the more loyalty you will earn, and the more motivated they will be to find you the next deal. Do not ruin a relationship over a few thousand dollars – that would be like "stepping over dollars to get to dimes."

- **Be Respectful:** Show up on time. Be on time for appointments, viewings, and phone calls. Get any paperwork in before the deadline, not at it. Become known as a professional

- **Be Grateful:** This may sound simplistic but it works, because so many people do not do it. Always say "please" and "thank you." Thank them when they find and negotiate you a great deal. Thank them for their hard work. Thank them with their favorite wine, or with quality referrals to help them surpass their goals. Be a catalyst for their success as they will be for yours.

- **Be Enjoyable to Work With:** We all have people who we dread doing business with. Do you give them the best deals, or that extra effort? Probably not. Well, that goes both ways. Be the client who you would want to do business with. Of course be a serious business person, but also be fun to work with. Laugh, joke around, go out socially together from time to time, get to know each other's families, etc. You will most likely spend a lot of time with your Realtor; it might as well be enjoyable for both of you.

This simple checklist will go a long way to helping you stand out versus other potential buyers in the market. But, no matter how you look at it, the bottom line is still the bottom line. You must be able to close on the deal and to do it in a professional and timely manner. Without that, no checklist will help you.

The Listing Sheet – Standard Formats

Once you have identified your target region, and begun to solidify relationships with key realtors and brokers in the region, it is now time to start reviewing properties that are currently available by reviewing Listing Sheets. In most cases you will be analyzing MANY properties before you find one that fits your system of substantial positive cash flow and a fair market price.

These are the typical property information sheets you will get very used to. They are, in fact, marketing documents designed to give you just enough information to tweak your interest. In most cases, you will be given the key figures you need, but not all the deep detail. That is usually accessed after you provide more of your own details to the listing realtor after which you will be provided access to the full diligence package.

Unlike single family investing, there is no quick rule of thumb. It is true that Capitalization Rates are used by some investors to determine value. However, that is truly only one indicator of potential. Strategic investors understand the need to get good at digging deeper and more quickly. Please note:

The Cash Flow Zone Formula Does Not Apply to Multi-Family Real Estate

In the coming pages, you will see samples of 2 different listing sheets. These are for illustrative purposes only to familiarize you with a typical format. Following those, you will be walked through the mathematic equations you'll be using to analyze the figures to see if the property is worth your time and effort.

However, as you review the listing sheets, you will need to:

1. Watch for the word **'Projected.'** You may see this in context of income, rents, and expenses. You must ensure that you are analyzing the real numbers. Projected numbers are used to show you what the property MAY look like after it has been normalized, and/or cleaned up. Remember, you are buying the property based on today's reality, not one year from now. There is always a cost that someone will have to incur to get to the 'projected' numbers. The financing companies will use current numbers, not projected, and so should you.

2. Watch for **'Financing Assumptions.'** In many cases, the listing sheet will make assumptions on how you may wish to finance this property… then they extrapolate that figure into the Cash-on-Cash returns and ROI%. Make sure you complete your own financing analysis (with your Mortgage Broker) to see if interest rates, down payment and amortization assumptions are accurate. It is easy to make a building's numbers look great with a simple shift in financing assumptions.

3. Watch for **'Estimates'** in the expense listing. This tells you a couple of things; either the real expenses don't provide a great picture of the property's profitability or the vendor does not have good records (which can prove to be a problem further down the buying process). In very few cases, the word 'estimates' can also be an indicator that the property isn't actually listed with the realtor. Sometimes these sheets are created to generate interest then, once interest is generated, the broker contacts the owner.

Owners of multi-family properties are also often put on realtors ‘potential buyers’ lists.’ This means they are sent emails about properties for sale. Don’t be surprised if once you are on these lists that you receive an email pitching you on buying your own building, even though you don’t have it for sale nor was it in your plan. This is the sign of a good and aggressive realtor, sure. But, because you haven’t provided them with any information, all of the numbers on the listing sheet should be indicated as estimates. If not, you should question all details you ever receive from them in the future

It is also a sign that the realtor/broker may not be as detail oriented as you’d like. As an example,

> *I received a telephone call and an email on a property that sounded like a perfect fit for my portfolio. Even though I had never spoken to this broker before, they had completed just enough homework to understand my geographic target market and thus thought this property fit the bill.*
>
> *Well, much to my surprise, when I finally received the proforma on this potential property, it turned out to be one I had already owned for the last 5 years. So, he was trying to sell me my own building at a price I would never sell at. Attention to detail and reputation out the window and now I no longer see him even mentioned in the industry. –Don R Campbell*

Pinewood Manor
123 45 St
Red Deer, Alberta

FOR SALE

26 Unit Apartment Property

STABLE TENANCY & NO VACANCY

LOCATION: Property is located in the Eastwood neighbourhood in north central Red Deer. Almost half of the district's dwellings are rental apartments, the others being single detached homes.

LEGAL: Lots ; Block ; Plan

SITE: +/-25,480 sf • Zoned RA7 (low-rise apartment)

BUILDING:

- A 3 story wood frame structure; built 1979.
- Exterior is vinyl & wood siding and stucco; roof is pitched with asphalt shingles.
- Balconies on all upper floor units except for the 2 small 1-bdm units.
- Walk-out patio and yard enclosed by secured gate for all main floor units.
- Heating is hot water via boiler system; forced air furnace for corridors.
- Manager's office and 4 large storerooms on main floor.
- Property has intercom security system and is master keyed.
- There are 2 laundry rooms and 2 sets washer & dryer; leased from Coinamatic.
- All units have fridge, stove & DISHWASHER.
- Numerous long term tenants; a waiting list for hopeful new tenants.
- Electrical metered separately to each tenant; tenants pay.
- Parking is 28 surface stalls of which 26 are energized; tenants pay power.

RENOVATIONS:

- Suites: Renovated on turnover with new flooring, paint, baseboards, lighting & appliances; 3 units are not upgraded due to long term tenants.
- Common Areas: New boiler (2013); newer hot water tanks; corridors painted.
- Exterior: New roof (2011); new siding (2009); new vinyl deck surfaces (2003).

- There are:

2	Small 1-bdm units	@ approx. 475 sf
24	Large 1-bdm units	@ approx. 590-620 sf
26	UNITS TOTAL	

FINANCING: Treat as Clear Title. Let's say Purchaser gets new first mtg of $1,750,000 (60% LTV) at 4.5%; 5/25; P&I $9,685.78/mo.

PRICE: $2,900,000 ($111,538 per unit)

INCOME & EXPENSES
As At April 28, 2014

SCHEDULED RENTAL INCOME (Apr-14 Rent Roll)

Suites:	2 small 1-bdm @ $725 & $750	
	24 large 1-bdm @ $750-850	$247,200
Increase:	Effective Aug-14	15,600
	(both small 1-bdm to $750 & all large 1-bdms to $850)	
Laundry:	26 units @ $11.86/mo.	3,700
Parking:	Included in rental	0
Less:	Vacancy @ 3% (Apr-14 actual 0%)	(7,900)
		$258,600

EXPENSES (2013 Actual)

Property Tax	$16,600	($ 638/unit)	
Insurance	5,700	($ 219/unit)	
Utilities & Garbage	28,500	($ 1096/unit)	
On-Site Wages	10,700	($ 412/unit)	
Repair & Maint	24,900	($ 958/unit)	
Advertising	400	($ 15/unit)	
Miscellaneous	500	($ 19/unit)	
Mgmt @ 5%	12,900	($ 496/unit)	
		($ 3854/unit)	$100,200
NET OPERATING INCOME			**$158,400**
Annual Debt Service (new 1st mtg)			$116,200
CASH FLOW			**$42,200**

AT THE ASKING PRICE, the:

Capitalization Rate is:	5.5%
Cash Required is:	$1,150,000
Cash Flow is:	$42,200
Cash On Cash Return is:	3.7%
Mtg Paydown 1st Year is:	$39,000
Return On Equity is:	7.1%

FOR SALE > MULTIFAMILY BUILDING

Hillside Manor (36 Units)

121, 127 AND 131 TIMBER LANE, Kingston, ON

Building Highlights

- 1978 Construction
- Three 12 unit buildings
- 1.48 acres of land
- New roofs in 2005
- New balcony doors, windows, railings, duradek, vinyl siding and doors
- New forced air furnaces
- 2 appliances per unit: stove, fridge.
- Shared laundry in each building
- Several units with renovations: laminate, new paint, baseboards, counter tops, full size appliances, lighting and decora switches

FOR SALE > MULTIFAMILY BUILDING

Hillside Manor (36 Units)

121, 127 AND 131 TIMBER LANE, Kingston, ON

Number of Units	36	
Asking Price	$ 2,975,000	$ 82,639
Year Built	1978	
Legal	Plan 9320743 Block 2 Lot 3	
Site Area	1.48 Acres	
Parking	Ample tenant and visitor, surface	
Chattels	36 fridges, 36 stoves	

LOCATION:

DESCRIPTION:

This portfolio consists of three 12 unit apartment blocks with extensive upgrades and mountain views. 75% of the units have had renovations including new paint, new flooring while the other 25% have have longer term tenants. The roof was replaced approx 7 years ago along with new balcony doors, railings, duradek, vinyl siding, windows, doors, new forced air furnaces. Each suite comes with a fridge and stove and shared laundry which is owned by the building.

SUITE MIX:

1 Bedroom	28
2 Bedroom	8

FINANCING: *(Assumable CMHC Financing)*

$1,700,000	
Down Payment:	$ 1,275,000
Monthly PI =	$ 8,456
Annual PI =	$ 101,472
Interest Rate =	3.44%

Existing CMHC financing @ 3.44% with 8 year remaining term. Additional Vendor financing available.

NOTES:

Vendor will agree to finance 15-20% of purchase price, provided a down payment of 20-25% by a prospective buyer.

INCOME & EXPENSES

INCOME: *(Actual)*				**Actual**		**Projected**
1 Bedroom, 28	@	500 sf		750		775
2 Bedroom, 8	@	700 sf		850 - 925		950
Gross Monthly Income			$	28,075	$	29,300
Annual Income			**$**	**336,900**	**$**	**351,600**
Other Income	$20.00	per unit/mo	$	8,640	$	8,640
Gross Annual Income			**$**	**345,540**	**$**	**360,240**
Vacancy Loss	-2.5%		$	(8,639)	$	(9,006)
Effective Gross Income			**$**	**336,902**	**$**	**351,234**

EXPENSES: *(Estimated)*						
Management Fee	7%		$	23,583	$	24,586
Caretaker	$ 35	/unit/mo	$	15,120	$	15,120
Utilities	$ 1,100	/unit/yr	$	39,600	$	39,600
Insurance	$ 175	/unit/yr	$	6,300	$	6,300
Repair & Mntce.	$ 650	/unit/yr	$	23,400	$	23,400
Taxes **(Actual)**		**2013**	$	18,444	$	18,444
Miscellaneous/Advertising			$	1,000	$	1,000
Total Expenses			**$**	**127,447**	**$**	**128,450**
$3,540 /unit OR	37.83%					
Net Operating Income			**$**	**209,454**	**$**	**222,784**
Capitalization Rate is:				7.04%		7.49%
Cash required is:			$	1,275,000	$	1,275,000
Cash flow after debt service is:			$	107,983	$	121,312
Cash on cash return is:				8.47%		9.51%
Return on equity is:				11.84%		12.89%

Analyzing the Property's Figures

Now, once you have received a listing sheet of a property in an area you have already determined 'fits the system,' you can start to analyze if the property has any hope of being a profitable investment. Once again, this is done in two stages: first, with a more general overview, and then with a more detailed analysis.

The Big Filters

The Big Filters are designed to narrow down your focus on properties that have the best chance of making it through all of your detailed due diligence. You've already decided the area is OK; now use the following to eliminate the majority of the properties.

1. Building Size

Economies of scale and your access to investment capital are a major determining factor in what size of building you should invest in. Multi-family properties run the gamut of size from 6 units to 600 units, and as you move up in size you find that there are fewer buildings to buy and also less competition from other potential buyers. You will also find, in many cases, that the larger the building, the more sophisticated the vendor will be.

In the perfect world, an investor should focus on buildings that have 40 or more units. This size is where the true economies of scale kick in. Per suite management, maintenance and operations costs drop to a reasonable level and you will find that there is more competition for the management contract. You will find that many of the 'better' property management firms will only accept properties of this size or larger.

But, of course, this is not a perfect world and not every investor is blessed with unlimited investment funds and, therefore, 40 units can be out of reach. That's OK; there are many of our clients who, over the past 12 years, have done very well with 3-storey walk-up buildings with approximately 12 – 30 units in each. The key to these smaller buildings is they require more attention. First off, more attention needs to be placed on buying the building below market value and, secondly, more attention needs to be placed on the management of the property. With small properties, vacancies can be an immediate drain on the positive cash flow. One vacant unit in a 12 unit building is 8% vacancy while one vacant in a 45 unit building is only 2%. This ratio is also true with fixed and variable operations costs. A new hot water tank will cost more per suite in a smaller building than in a larger building… due to economies of scale.

Don't let this scare you off smaller buildings; just be aware that you will need to do more due diligence up front, making sure that the numbers truly do work.

One final thought on building size, always check to see if the units are in one building or more than one. If they are in more than one building, you will have a higher per suite maintenance cost than if they were all located under one roof. Factor this in to your due diligence to save you future headache.

2. Suite Mix

There is an interesting debate about the value of suite mix. What we've determined through experience is that suite mix plays a more important role when you sell, as opposed to when you own.

One bedroom apartments usually create a slightly higher positive cash flow, but are more difficult to sell than 2 and 3 bedroom apartments. In some geographic areas, especially close to transit or educational facilities, 1 bedroom properties have a higher turn-over rate which costs the owner more in repairs, maintenance and advertising. You need to decide whether cash flow or exit strategy (capital appreciation) is your main reason for investing. That will help you determine your suite mix.

Buildings in which 66% of the suites are two bedroom or larger will have a nice balance of cash flow and equity appreciation, if you have bought them in a good target area.

Currently, developers are building a lot of 1 bedroom units in their new buildings.; not because of long term demand, but because of affordability. This may help them move units today, but the long term demand curve for these smaller units doesn't look great given the coming demographic shift. That means that over the coming decade we will see a larger number of 1 bedroom units coming for sale right as demand begins to slow.

This is important to strategic investors for two reasons:

1. If you happen to have selling your properties as a long term strategy, you should position yourself away from 1 bedrooms wherever possible due to potential over-supply in the coming decades.
2. The rental market demand, especially in more expensive centers, will lean towards 2 and 3 bedroom units over the coming decade do to the demographic shifts we are experiencing across Canada.

Suite mix plays a role not only in your buying and financing strategies but also in your operations and long-term profitability.

3. Deferred Maintenance

A third item that is very easy to determine from the listing sheets is whether major maintenance components have been replaced. In most cases, **if the realtor is on the ball**, the listing sheet will include a commentary covering the overall condition of the building. Of course this is often a jaded view and you can only determine the real condition by walking through a property suite by suite and taking detailed notes.

However, what this commentary will reveal is if the current owner has spent any money on major upgrades or major structural components. Be aware, roofs, boilers, parking lots, windows and siding all have a very specific economic life to them. At some point they will need to be replaced or refurbished. Updating, maintaining and upgrading these critical components protect your asset.

SPECIAL DEFERRED MAINTENANCE REPORT NOTE:

If these major components are aged near the end of their economic life (which you will eventually discover when you have the full building condition report completed) and they have not been replaced or maintained, this could also be a signal that the current owner hasn't kept up with maintaining the suites or common areas as well. Use this as a reason to ask more detailed questions.

Each one of these major building issues should be professionally inspected before you remove conditions; a qualified multi-family inspector can do this for you and, in fact, you will be forced to have a trusted professional complete a detailed condition report for your bank (paid for by you).

Similar to condo corporations having to complete a 'Condo Reserve Fund Study' to identify future cash calls and major repairs, your inspection report will identify future cash calls and major repairs. However, in your case you will be the sole owner and therefore all cash-calls come out of your own pocket. That is why this document is so important and why you need to get this done early so you can factor into your potential offer the cost of completing these repairs or replacements.

The good news is quality appraisers and finance companies will tell you that they can justify higher values and capitalization rates (discussed in the next section) for buildings with little or no deferred maintenance. New roof, new boiler, and new windows – they all add up to a higher appraised value.

If there isn't any mention of major maintenance being recently completed, this can also be a plus for you – if you are interested in completing these repairs. Often you can get a property substantially below market value if major repairs or renovations are required. The strategy then becomes, buy, fix-up, re-appraise, refinance and take most of your initial investment out. At this early stage, just be aware of any deferred maintenance issues and how they will affect your offer price.

Alright, now that we have done a quick look at a property listing, let's start crunching the numbers to see if the property fits into your personal goals. First off, let's work with an easy 'rule of thumb' – Operating Expense Ratio.

Operating Expense Ratio

This calculation will provide you insights into how the building is operating under the current management. It will also tell you if there is potential room for you to improve the overall efficiencies of the property (i.e. higher rents or lower operating costs).

When looking at this figure, you will need to determine if the tenants pay for their own electricity or not. If they do, then the following simple formula will suffice. If the owner is paying for this, your expense ratio will be higher than the norms stated here. In addition, you'll want to find a way to make them responsible for their electricity. You can do this by converting the building to separate electrical meters for each unit.

A well performing building, after it has been normalized (often after you have owned it for 2+ years), in average condition, it will be operating in the 32% – 39% range of operating expenses.

Be wary of buildings if the number is much lower than this. That could be an indication that the numbers just aren't accurate or the current owner has been ignoring many of their maintenance issues. If the number is higher than this it could mean that the building is not energy efficient, there is lots of turn-over or the rents are too low. Either way, too high or too low doesn't mean to run away from it, what it does is prompt you to investigate further.

Utility costs play a major role in this equation, and during this time of higher utility costs you will find that most average condition buildings will be operating closer to the higher end of the range. Your job, after you purchase a property, is to review all the ways of both increasing incomes while decreasing expense through operational efficiencies

To calculate your current or target building's Operating Expense Ratio follow these 2 steps:

STEP #1 –
Calculate the Annual Effective Gross Income of the Property

(Rental Income + Laundry + Misc. income)
minus vacancy allowance = Effective Gross Income

Kingston Example: (336,900 + 8,640) – 8,639 = 336,901

STEP #2 – Calculate Operating Expense Percentage

Operating Expenses / Effective Gross Income x 100 =
Operating Expense Percentage

Kingston Example: 127,447 / 336,901 = 37.8%

Some questions that this example raises:

1. Why are the expenses listed as ‘Estimated?’
2. Are the rents currently at market, or have rental increase notices been served?
3. Is the vacancy rate calculation realistic for this building in this market?

SPECIAL OPERATING EXPENSES NOTE

Sometimes, when calculating the actual operating expenses on listing sheets, key items are not included. Please ensure that you include:

1. Property Management Fees (even if you are doing it yourself, you must factor it in)
2. On-Site manager (if there is one)
3. Utilities (including heat, light, water, sewer and garbage)
4. Insurance
5. Repairs & Maintenance
6. Taxes

It is important to note that Operating Expenses do not include any mortgage payments or other debt service. It also does not include salaries or dividends to the owners, unless they are also the on-site managers.

Capitalization Rate

Capitalization rate, more commonly known as Cap Rate, is a ratio that express's the relationship between a property's net operating income (NOI) and its value for the current year. It is a calculation used by bankers, appraisers and investors\ to determine the approximate value of a property. Many investors don't use it as a key determinant in purchasing a property although it is quoted extensively in the marketplace.

Market Cap Rates fluctuate from city to city and town to town. For instance, a building can fetch a 6.5% Cap Rate in Edmonton, while a similar building in Vancouver fetches a 4.5% Cap Rate.

As a sophisticated multi-family investor, it is critical that you are aware of what the **prevailing Cap Rate** is in the town in which you are investing. The best way to find out what the prevailing Cap Rate is for your target area is to go directly to your multi-family (commercial) banker and ask them. This will give you the "Lending" Cap Rate they will be using to determine the lending value of your property.

Mortgage Payment Not Factored Into Cap Rate

There is another critical point about using Cap Rates as part of your due diligence system. Your mortgage payment is not directly factored into the Cap Rate. That's why the **Cap Rate is only a 'rule of thumb'** in the marketplace and should not be your sole determining factor.

A Cap Rate focuses on the performance of a building compared to the general marketplace. However, if the prevailing interest rates are increasing, or you end up paying above market mortgage rates, you could get caught with a negative cash flow property.

So, even if the Cap Rate does fit the marketplace, there will be a huge difference on a building's ultimate cash flow performance based on your mortgage interest rate. An 8% Cap Rate building with a 5.5% mortgage rate will strongly outperform a 8% Cap Rate building with a 7.5% mortgage rate.

Use the following calculations to give yourself a quick preview of the property's market value. Armed with the prevailing Cap Rate and the results from these formulas, you will better prepared as a negotiator. But please note, in hot target regions, you will discover that the majority of vendors and their realtors will still be asking much more than the 'lending' value of the property. Your job is to provide a legitimate market based offer along with your justifications (the formulas being a part of this). Give it your best shot, and if there isn't any movement on the vendor's side, walk away. **Remember, the numbers do not lie – if the building doesn't work at the price they're asking, you better know how you are going to 'fix' the numbers to make it work!**

Here are the three key **Cap Rate formulas** you can use to calculate three specific outcomes, depending on the information you are provided. Use these to solve for the number you are missing (or wish to confirm):

1. **Expected Net Operating Income (NOI)**. This is very handy when you see an advertisement for a property that includes value and location, but no mention of income. The following calculation will give you a ballpark number you should hear when you call for more details:

   Net Operating Income = Price x prevailing Cap Rate

   Net operating income is now calculated as: **(Gross Rental Revenue + Laundry Income) – Vacancy Allowance – Operating Expenses = Net Operating Income.**

2. **Approximate Market Price.** This calculation will give you an approximate price for the property based on prevailing market conditions and the Net Operating Income (NOI). Although this value is not the 'true and final' market value, it does provide you with a number from which to work.

   Approximate Value = Net Operating Income / Prevailing Cap Rate

3. **Capitalization Rate.** This calculation will tell you if the vendor is in line with the prevailing marketplace. You will need to know the asking price and the Net Operating Income (NOI).

   Cap Rate = (Net Operating Income / Asking Price) x 100

Cap Rate Exercises

Property:	10645 – 11th Street
Built:	1966
Mortgage Rate:	6%
Gross Operating Income:	150,000
Projected Operating Income:	155,000
Vacancy Allowance:	3,053
Laundry Income:	2,640
Operating Expenses:	55,366
Prevailing Cap Rate:	8%
Asking Price:	1,350,000
Condition:	Average
Deferred Maintenance:	None

Using the formulas from above, answer the following questions:

#1 Calculate Net Operating Income: $____________________

#2 Using today's income, what would the Cap Rate of this building be: ___________%

#3 What, as a rule of thumb, would be a fair approximate market value using today's numbers:

$___________________________________

#4 What would be a fair approximate market value, if the prevailing Cap Rate was 8.5%:

$___________________________________

Capitalization Rates fluctuate from year to year, and from city to city. The document below is just one very helpful source you can tap into as you narrow down your target market. This particular report is released every quarter and outlines the Cap Rate in major Canadian cities and the trends. Your realtor will also have access to something similar. Get a hold of it so you know which numbers to use in your calculations because if you are using the incorrect Cap Rate, you could be dramatically under or over-valuing a property.

CANADIAN CAP RATE SURVEY | Q3 '13

CBRE National Research | Global Research and Consulting
National Investment Team - Canada

	Vancouver	Δ	Calgary	Δ	Edmonton	Δ	Winnipeg	Δ	SW Ontario	Δ	Toronto	Δ	Ottawa	Δ	Montreal	Δ	Halifax	Δ
DOWNTOWN OFFICE																		
"AA"	4.50-5.00%	↔	5.00-5.50%	↔	5.25-5.75%	↔	N/A		N/A		4.75-5.25%	↔	5.00-5.75%	↔	5.00-5.50%	↔	N/A	
"A"	4.75-5.25%	↔	5.50-6.00%	↔	5.50-6.00%	↔	6.00-6.50%	↔	6.00-6.50%	↔	5.25-5.75%	↔	5.25-6.00%	↔	6.00-6.50%	↑	6.00-6.50%	↔
"B"	4.75-5.25%	↔	6.25-6.75%	↑	6.75-7.25%	↑	6.75-7.50%	↔	6.50-7.00%	↔	5.75-6.25%	↔	6.25-7.00%	↔	6.75-7.75%	↑	7.25-7.75%	↑
SUBURBAN OFFICE																		
"A"	5.75-6.25%	↔	5.75-6.25%	↔	6.25-6.75%	↔	7.00-7.50%	↔	7.50-8.00%	↔	6.00-6.75%	↔	6.25-7.25%	↔	6.50-7.50%	↔	7.00-7.50%	↔
"B"	6.00-6.50%	↔	6.50-7.00%	↑	6.75-7.25%	↔	7.50-8.00%	↔	8.50-9.00%	↔	7.00-7.75%	↔	7.25-7.75%	↔	7.50-8.50%	↔	7.75-8.25%	↑
INDUSTRIAL																		
"A"	5.50-6.00%	↔	5.50-6.00%	↔	5.50-6.00%	↔	6.50-7.00%	↔	6.75-7.50%	↓	5.75-6.25%	↔	6.00-6.25%	↔	6.25-7.25%	↑	6.50-7.00%	↔
"B"	5.50-6.25%	↔	6.25-6.75%	↑	6.50-7.00%	↑	7.00-7.50%	↓	7.25-8.00%	↓	6.50-7.50%	↑	7.00-7.50%	↔	7.75-8.75%	↑	7.25-7.75%	↑
RETAIL																		
Regional	5.00-5.50%	↔	5.00-5.50%	↔	5.00-5.50%	↔	5.75-6.25%	↔	6.75-7.25%	↔	4.75-5.50%	↔	5.00-6.00%	↔	5.50-6.25%	↔	5.50-6.00%	↔
Power	5.50-6.00%	↔	5.50-6.00%	↔	5.50-6.00%	↔	6.00-6.50%	↔	7.00-7.25%	↔	5.50-6.50%	↔	5.75-6.50%	↔	6.00-7.00%	↑	6.00-6.50%	↔
Neighbourhood	5.50-6.00%	↔	5.75-6.25%	↔	5.75-6.25%	↔	6.50-7.00%	↔	7.25-7.75%	↔	5.50-6.50%	↔	6.25-7.00%	↔	7.25-8.25%	↑	6.25-6.75%	↔
Strip	5.50-6.00%	↔	6.00-6.50%	↔	5.50-6.00%	↔	7.00-7.75%	↔	7.25-7.75%	↔	5.50-6.50%	↔	6.25-7.25%	↔	6.25-7.00%	↑	6.75-7.75%	↑
Strip (Non Anchored)	5.75-6.25%	↔	6.50-7.00%	↑	6.75-7.25%	↑	7.50-8.00%	↔	8.00-8.50%	↔	6.25-7.25%	↔	7.00-7.50%	↔	7.75-8.75%	↑	7.75-8.25%	↑
APARTMENT																		
High Rise A	3.50-4.00%	↔	4.00-4.50%	↔	4.50-5.00%	↔	N/A		4.50-5.25%	↔	3.50-4.25%	↔	4.25-4.75%	↔	4.75-5.25%	↔	5.25-5.75%	↔
High Rise B	4.25-4.75%	↔	4.75-5.25%	↑	5.00-5.50%	↔	5.00-5.75%	↓	5.50-6.00%	↔	4.25-4.50%	↔	5.00-5.50%	↔	5.25-6.00%	↔	5.75-6.25%	↔
Low Rise A	3.75-4.25%	↔	4.00-4.50%	↔	4.75-5.25%	↔	5.50-6.00%	↓	5.50-6.00%	↔	3.50-4.25%	↔	4.25-5.00%	↔	5.75-6.50%	↔	5.25-5.75%	↔
Low Rise B	4.50-5.00%	↔	4.75-5.25%	↑	5.50-6.00%	↔	5.75-6.00%	↔	6.00-6.50%	↔	4.50-5.25%	↔	5.25-5.75%	↔	6.25-7.00%	↔	6.00-6.50%	↔
HOTEL																		
Downtown Full-Service	6.50-7.50%	↔	6.75-7.75%	↑	7.00-8.00%	↔	8.00-9.00%	↔	8.50-9.50%	↔	6.75-7.75%	↔	7.50-8.50%	↔	7.75-8.75%	↔	8.75-9.75%	↔
Suburban Limited-Service	7.50-8.50%	↔	7.75-8.75%	↑	9.00-9.50%	↔	9.50-10.50%	↔	9.00-10.00%	↔	8.00-9.00%	↔	8.75-9.25%	↔	9.50-10.50%	↔	9.50-10.50%	↔
Focused Service	7.00-8.00%	↔	7.25-8.25%	↑	8.00-9.00%	↔	8.00-9.00%	↔	8.00-9.50%	↔	8.00-8.50%	↔	8.00-9.00%	↔	8.25-9.00%	↔	8.25-9.50%	↔

NOTES ON SURVEY

Cap Rate: Estimates are provided by NIT members in respective markets based on market transactions and/or feedback from investors on their current yield expectations.

AA Downtown Office: The Downtown's best office buildings, typically newer, larger than 800,000 SF with larger floor plates, attract larger, top quality tenants with 5 and 10 year leases.

Class A Suburban Office & Industrial: Best of class product, recently completed to a high-standard, leases to better quality tenants on 5 and 10 year leases, typically newer construction.

Class B Suburban Office & Industrial: Older product, mostly 5 year leases, typically previously owned.

Regional: Enclosed Malls, are the top performers in sales PSF, has strong anchors and high percentage of National Tenants in CRU space. Typically >500,000 SF and has a department store as one of the anchors.

Power Centres: Open-air retail centre comprised of larger, brand name tenants. Tend to be in a node with other anchor tenants. Limited CRU space and typically larger than 400,000 SF or in a node of that size.

Community/Neighborhood: Enclosed Centre that serves a community and is generally anchored by some combination of a junior department store, supermarket, drug or sport store; supplies a wide range of apparel and soft goods. Can range from 150,000 SF–350,000 SF.

Strip (Anchored): Open-air centre anchored by either food or drug.

Strip (Non-Anchored): Open-air centre typically not anchored by either food or drug.

Hotel: Rates indicated are based on normalized results after deduction of management fees and reserves for replacement.

Focused Service Hotel: Upper-midscale lodging focused on rooms operations with limited food and beverage and meeting facilities; examples include Hampton Inn, Residence Inn.

www.cbre.ca/nitcanada

CBRE

Lending Cap Rates

There is an important differentiation between the actual selling Cap Rates and the lending Cap Rates. In some cases they match but, in others, they can differ wildly. For instance, here are the current **Lending Cap Rates** used by the banks and CMHC to value your building:

Edmonton:

Wood Frame Walk-Ups	6.50-7.00%
Concrete high rises	6.25-6.50%

Calgary:

Wood Frame Walk-ups	6.50-7.00%
Concrete High Rises	6.25-6.50%

Vancouver

Average Areas	4.5 – 6.00%
West-End and better areas	5.25-5.75%
Fraser Valley	6.5 – 8.5%

Toronto & Area

City Location	5.75-6.00% (excellent quality building over $3,000,000)
City Location	6.00-6.25% (excellent quality building under $3,000,000)
Smaller centers	7.00-8.00% (excellent quality building under $3,000,000)

It's important to note, not every building will fall into these ranges. A particularly derelict building will have a higher Cap Rate outside of the ranges, and a brand new one will often be lower than the range.

Net Income Multiplier
The Quick Rule of Thumb Calculation

The **Net Income Multiplier** (NIM) is the Multi-family Investor's shortcut calculation. It is used to weed out the completely unrealistic vendors so that we can focus our efforts on buildings that make sense. It is just a quick filter. Remember, as with all 'Rules of Thumb,' this formula is only to be used as an initial check in your due diligence process… it is not the decision maker.

The **NIM** formula follows Capitalization Rates as you need to understand Cap Rates in order to make this formula work. The **Net Income Multiplier** is the inverse of the Capitalization Rate. Once again, it is important to be accurate with your local Cap Rate because even a .5% difference in Cap Rate can make a tremendous difference in values and cash flows. Here's how it works:

Once again, you will need to know what the prevailing Cap Rate is for your target market. We'll continue to use an 8% Cap Rate in this example.

STEP #1 – Calculate the NIM

Calculate the inverse of the Cap Rate (8%) by using the formula:

1 / Cap Rate = NIM

Example: 1 / .08 = 12.5

STEP #2 – Calculate Expected Value

Estimate the approximate value of the property:

NIM x Net Operating Income = Approximate Value

NIM Exercise

Gross Operating Income:	150,000
Vacancy Allowance:	3,053
Laundry Income:	2,640
Operating Expenses:	55,366
Prevailing Cap Rate:	8%
Condition:	Average
Deferred Maintenance:	None

Using the formulas and data from above, answer the following question:

#1 What would be an approximate market value for this property: $ ______________

Cash-on-Cash PLUS

Realistic View of What Your Investment Creates

The basic and most common **Cash-on-Cash Return** calculation produces a percentage figure based on the ratio between the amount of money invested in the property versus the amount of real cash flow the property produces in a given year. The **Cash-on-Cash PLUS** calculation, although more complex, gives you a more realistic and measurable look at your return-on-investment.

Primarily, investors use this calculation to review different purchase scenarios to identify which one provides the best return with the least amount of risk. This calculation is also used as a way to contrast and compare an investment property with other investment options (such as stocks, property funds, bonds or G.I.C.s). It is also a handy tool to use when comparing different properties or property types.

Here are the simple formulas required to calculate a true cash-on-cash scenario.

STEP #1 – Calculate the Cash Flow of the Property

When calculating the cash flow of the property, it is important to use real numbers (not estimates) wherever possible. This will include actual income collected, actual expense incurred and actual mortgage payments. We will use the same property example. The cash flow formula would look like this:

(Actual rental income collected + Actual laundry + other income) minus actual operating expenses minus mortgage payment = Cash Flow

Example:

$149,587 minus $55,366 minus $81,366 = $12,855

STEP #2 – Calculate Cash-on-Cash Return Part 1

This is the basic Cash-on-Cash calculation that many investors use. It will give you your actual return on your cash invested. The cash flow formula would look like this:

Cash Flow / (Down payment + capital improvements + closing costs) x 100 = Cash-on-Cash return %

Example 1: (regular 25% down payment)

$12,855 / (337,500 + 5,000 + 4,500) x 100 = 3.70%

Example 2 : (15% down payment – non CMHC)

$12,855 / (202,500 + 5,000 + 8,300) x 100 = 5.96%

STEP #3 – Calculate Cash-on-Cash PLUS

This is where you discover what **your real return on investment** is from this property, even if the property value does not increase. The **Cash-on-Cash PLUS** calculation factors in your mortgage pay-down which occurs automatically with your mortgage payment. This is real equity that you collect upon the sale of your property. The formula is a bit more complex than the basic **Cash-on Cash** calculation; you will need to look at your mortgage statement:

(Cash Flow + annual mortgage pay-down) / (Down payment + capital improvements + closing costs) x 100 = Cash-on-Cash PLUS™

Example 1: (regular 25% down payment)
($12,855 + 18,260) / (337,500 + 5,000 + 4,500) x 100 = 8.97%

Example 2 : (15% down payment)
($12,855 + 20,695) / (202,500 + 5,000 + 8,300) x 100 = 15.55%

The **Cash-on-Cash PLUS™** calculation is a return on investment calculation without having to worry about predicting what the market value of the property will do. As we all know, predicting market value increases is an inexact science at the best of times and if your only profit is in value increase, that can be a dangerous investment strategy.

The **Cash-on-Cash PLUS™** calculation is a solid number based on real life results. This will be very valuable when dealing with bankers or Joint Venture partners, showing that you have a grasp on the investment without resorting to hype and salesmanship.

You can also use the **Cash-on-Cash PLUS** formula to try out different investment scenarios like lowering the down payment and adding a second mortgage, or raising the down payment and lowering the mortgage costs. Try out many different scenarios to see which one provides you the best bottom line results.

Cash-On-Cash PLUS™ Exercise

Annual Cash Flow:	15,820
Down Payment:	261,000
Repairs:	12,000
Legal & closing costs:	6,800
Mortgage Payments:	79,987
Mortgage Paydown:	16,020

Using the data above, Calculate:

#1 Your **Cash-on-Cash** Return: ______________%

#2 Your Cash-on-Cash PLUS™ **Return: ______________%**

Closing Costs
Be Prepared To Write The Cheques!

Although the following is not another formula that will help you determine whether the property makes sense or not, it is a very important consideration when deciding on the amount of money you will have available for the down payment. Closing costs on a multi-family property are substantially more than on a typical single family home transaction.

Forgetting about these substantial costs is one of the most common mistakes we see when investors move from single family property investing to multi-family investing. Make sure you factor these in when arranging for your available investment capital. It is also very important to understand that you will incur some of these costs even if you don't end up purchasing the property. These costs are part of your due diligence system.

You will also see that a large **staying power fund** must be factored into every purchase. Inevitably, in the first six months after you purchase the property, something major will require your attention… and invariably it will cost you cash. This can include major repairs or upgrades but it can also include a 'repositioning' of the building.

This repositioning occurs when you take over a property and discover its true reality. Sometimes you will have go through a 'clean up' that may lead to upwards of 50% vacancy as current tenants don't like your new atmosphere. This is to be expected as you increase rents, change the demographic of your renter profile, or complete renovations. If you're not financially prepared for this turn over period and its inherent loss of income, this situation will sink you quickly.

Here is a list of costs for a typical 20 - 30 unit building. At this stage of the process you do not need to know what each of them are. We will cover them in more detail when discussing the financing of the building. However, you should have a budget set in advance. Talk to your lawyer, mortgage broker, inspector, appraiser and insurance broker before you set your budget so you get an accurate estimate as these costs vary widely from jurisdiction to jurisdiction:

Legals - estimate (yours)	\$3,500
Legals - estimate (the Lenders)	\$3,500 (yes, you pay theirs too)
Insurance	\$3,700
Insurance review	\$ 500 (as decreed by lender)
Tax Adjustments	\$ varies
Mortgage Stand-By Fee	\$9,000 approx (refundable at closing)
Mortgage Application & Processing Fee	.5% to 1.5% (on 1st mortgages)
CMHC Application Fee	\$150 per unit
Appraisal	\$1,200 – 1,800 (\$750 for update)
Phase 1 Environmental Study	\$1,500 - 2,500 (\$750 for update)
Engineering Inspection Report	\$1,200 – 1,800 (roof, mechanical)
Staying Power Fund	3 months of mortgage & tax payments

REIN Multi-Family Property Analyzer Form

Capturing Your Figures

On the following pages you will find the REIN Multi Family Property Analyzer Form. It will assist you in capturing all of your required data. It has some important differences when compared to the Single Family Analysis Form. Here, as a quick checklist, are the numbers you will be focusing on in these initial due diligence stages:

- [ ] Building Size
- [ ] Suite Mix
- [ ] Deferred Maintenance Costs
- [ ] Effective Gross Income
- [ ] Operating Expense Ratio
- [ ] Capitalization Rate
- [ ] Net Income Multiplier
- [ ] Cash-on-Cash Plus™
- [ ] Closing Costs

REIN™ Multi-Family Quick Analyzer

Photo Numbers: ____________________

Property Data:

Address:________________________ City/Area: ________________ Date Viewed: ______________

Asking Price: ____ Age:______________________

Owner: ________________________ Tel: ___________________ Fax: ______________________

Source: ________________________ Tel: ___________________ Fax: ______________________

Onsite Management Impression: 1 2 3 4 5 Current # Vacant ____________

Number of Suites Requiring Renovation: ____________ Windows replaced? Yes No

Overall: Common Area Condition: 1 2 3 4 5 Exterior Condition: 1 2 3 4 5

Roof Required? Yes No Siding Required? Yes No Suite Condition*: 1 2 3 4 5

Neighbouring Buildings: Worse Same Better

Income & Inspection:

Description	**# of Units**	**Rent Per Unit Per Month**	**Total Current Monthly Rent**	**Increase Potential?**	**Condition / Size Comments**
Bachelor					
1 Bedroom					
2 bedroom					
3 bedroom					

Total Monthly Rent $ ___________

X 12

Total Annual Rent $ ___________

Add Laundry & Other Income $ ___________

Gross Annual Income $ ___________

Subtract vacancy allowance _________ % - $___________

Effective Gross Income $___________

* Each suite's condition should be documented on a separate piece of paper as part of your due diligence inspection

Expenses:

	Current Annual	**Current Monthly**	**Projected Annual**	**Comments**
Heat (gas, oil, electric, hot water, other _________				In-suite Paid By Tenant / Landlord
Electricity				In-suite Paid By Tenant / Landlord
Water / Sewer				
Taxes				Announced Increase? Check city
Insurance				(allocation only – total factored in on back of form)
Property Management				_____ % of Effective Gross Income
Onsite Manager				Name:
Ongoing Repairs & Maintenance				_____ %
Other:				

TOTAL Operating Expenses $ ___________ $___________ $ ___________

Net Operating Income (annual):______________________
effective gross income – operating expenses

Operating Expense Ratio: ___________%
operating expenses / effective gross income x 100

NET OPERATING INCOME (NOI) $______________ **Prevailing Cap Rate: ____%**
(from bottom of page 1)

Approx Market Value Based on Income: $__________________ This Building's Cap Rate: _______%
Net Operating Income / prevailing cap rate (decimal) (net operating income / asking price) x100

Purchase Details:

PROJECTED PURCHASE PRICE $ _____________

1st Mortgage Funding ($ ______________) _______%
2nd Mortgage Funding ($ ______________)
Vendor Take Back ($ ______________)
Other Funding ($ ______________)

TOTAL DEBT FUNDING → ($ ____________)

DOWN PAYMENT REQUIRED $ ______________

Expected Annual Mortgage Payment (P+I): $ ________________

Expected Cash Flow (NOI minus mortgage payment) $ ________________

Closing Costs:

Legals (yours)	$ ______________	
Legals (the Lenders)	$ ______________	
Insurance	$ ______________	
Insurance review	$ ______________	
Mortgage Stand-By Fee	$ ______________	(refundable at closing)
Mortgage Application & Processing Fees	$ ______________	(include broker fee & CMHC)
Appraisal	$ ______________	
Phase 1 Environmental Study	$ ______________	
Engineering Inspection Report	$ ______________	(roof, mechanical)
Land Tranfer Tax	$ _______________	
Staying Power Fund	$ ______________	(3 months of mortgage payments)

TOTAL CLOSING COSTS → $ ______________

Immediate Repairs and Renovations $ ______________

TOTAL CASH REQUIRED TO CLOSE **(Down payment + Closing Costs + Repairs)** **$ ____________**

Cash-on-Cash Return: ______________%
(Expected Cash Flow / Total Cash To Close) * 100

Cash-on-Cash PLUS™ ___________%
(Expected Cash Flow + mtge paydown / Total Cash To Close) * 100

1. What Strategy am I Considering For this Property? ❑ Long Term ❑ Short Term (<5yrs)
2. Does This Property Fit My System? ❑ Yes ❑ No
3. Will This Property Be Impeccably Property Managed? ❑ Yes ❑ No
4. Who Will Manage The Property? __________________________

Building Valuations

Thomas Beyer

Building Valuations & Automagical Wealth Creation

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Preamble / Legal Disclaimer

Real Estate has been around 100's of years

- I didn't invent apartment buildings nor its proper management nor its passive income nor its leverage potential with income nor its tax deferral options nor its (usual) increase in value through time and improvements nor am I especially good at it .. Knowing what you want is important as is careful p(l)anning, but execution is key, as is a sense of urgency, listening, reading , kaizen… knowledge helps a lot, as does a sense of life's opportunities and the ability to take advantage from them, but also useful is awareness of life's risks and how to mitigate or manage them … being in the market at the right time helps, too .. And thanking God and others is important as is having fun while doing what some people call "work" .. And no GUARANTEES !

Knowledge is no one's sole domain

- I acknowledge shamelessly copying other people's good ideas that I picked up during conversations, telephone calls, meetings, presentations, education, courses, tapes and CDs over the years. Those people also learned and possibly also copied some of those ideas from other people's books, tapes, CDs, courses, seminars or lectures. I have used material from the people used in the "Thank You" section and probably dozens more. Please forgive me if I have copied your original thought and not given you credit.

Thank You To:

- Many people have influenced my life, my values, my thought processes and my real estate investment career and I wish to give credits to their sometimes very small or sometimes hugely influential contributions, many of which are sprinkled throughout this presentation: Don Campbell, Richard Dolan, Patrick Francey, Russell Wescott, Raymond Aaron, Greg Habstritt, Wright Thurston, Robert Allan, Robert Kiyasaki, Douglas Gray, Tom Peters, Stephen Covey, Ron LeGrande, Tim Johnson, Douglas Thiessen, Dale Carnegie, Charles Givens, Harry Dent, John Murphy, Ozzie Jurrock, Lou Gerstner, Jesus, Terry Regenwetter, Janet Perna, Dave Rencz, Barry McGuire, Richard Bell, Gary Allard, George Fabi, John Stobbe, George Hilton, Zig Ziglar, Sasha + Greg + Mike Uhryn, Jim Vincent, Dominic Mandato, Paul Prochnau, Randy Jamieson, Brian + Donna Barnett, Rick Jenkins, Christian Lendi, Ross Gilker, Neil Kaarsemaker, Peer Rumland, Achim Goldbach, Rory Sutter, Thomas Heiden, Howard Weale, Val Toffoli, Debbie Bradford, Nancy Ternowski, Brian Tracey, Dennis Aitken, Don Rumpel, David Jennings, Pat Gilker, John Kish, Doug Bittle, Rick Bayer, Bernie Garnhum, Len Williamson, Peter Tsukahira, Jeff Coors, Paul Szkiler, John Beckett, David Davis, Scotty Grubb, Keith Weaver, Charlie Bredo, Rick Linklater, Mike Hammerlindl, my father Detlef, my mother Ursula, my wife Lynda Beyer, and our two children Sonja & David

AGENDA

- 4 Views of Value
- 5 Value Influencers
- 6 types of vacancies
- CAP Rate + Price "per door"
- Making $s automagically

VALUATIONS – FOUR VIEWS OF VALUE

1) The Seller's
- Usually the highest

2) The Buyers / Yours
- Need to be close to seller's for deal to happen
- Need to know max. price

VALUATIONS – FOUR VIEWS OF VALUE

3) The Bank's
- Relevant for mortgage purposes only
- Debt coverage (DCR) is key .. Not bank's value view nor actual value nor price !

4) CMHC
- Usually most conservative
- Usually, 80% LTV is 65-70% LTP (or less)

FIVE KEY VALUE INFLUENCERS

1) Rent Level
2) Expenses
- Operating
- Upgrades / Deferred Maintenance / CapEx

3) Vacancies
4) Multiplier
- GRM
- CAP Rate (inverse of P/E Ratio)

5) Future Upside / Potential ←

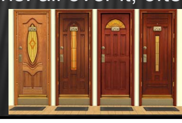
- If off only 10% on each, total price is off over 50% !!

Building Valuations

Thomas Beyer

KEY METRICS (1) - PRICE PER DOOR

- Price "per Door"
  - Edmonton: 110K (for a crappo) to 175K (for pristine, but old) to 300K (new)
  - Calgary: 160K to 225K (i.e. 20-30% more!)
  - GTA area: 100 to 250K/door
  - Tier 2 towns: 60-120K/door
  - Vancouver/Lower Mainland: 200 to 400K/door
  - Smaller towns: all over it, often below 65K



DEVIATION FROM AVERAGE (1)

- Premiums paid for
  - 2BR .. about 12-18K
  - 3BR .. about 15-25 K
  - Balconies
  - All suites above ground
  - Concrete (vs. wood frame or "stick")
  - Suite size

DEVIATION FROM AVERAGE (2)

- Premiums paid for
  - Newly renovated
  - Premium locations
  - Low vacancies
  - UPSIDE
    - Excess land, density, units or height
    - Excess revenue potentials (retail, antennas, billboards, vending machines, storage, rental increases ..)

GROSS RENT MULTIPLIER & METRICS

- How many times the annual rent are you paying for this building?
- Use 10 (8-12.5) as a rule of thumb or 100 to 150 times monthly rent
  - A $750/month unit is worth ~ $90,000
  - A $1000/month unit is worth ~ $120,000
  - Adjust depending on location, market, etc.
- Other metrics
  - Price per sq ft
  - Cash per door

CAP RATE

- Capitalize the income stream (into perpetuity)
  - How much cash would you pay for this (perpetual) net operating income
  - Does not count CAPEX or upgrades required for rental increases
- Nothing scientific, just a figure used to assess comparables and "risk" of area
- CAP rate = NOI / PRICE
- Thus: PRICE = NOI / CAP Rate

NOI	$80,000
CAP	Value
10.0%	$800,000
8.0%	$1,000,000
7.5%	$1,066,667
7.0%	$1,142,857
6.5%	$1,230,769
6.0%	$1,333,333
5.0%	$1,600,000

CAP RATES IN ALBERTA

- Edmonton: 5.25% to 5.75%
  - Building with $55,000 NOI would be worth $1,000,000 with a 5.5% CAP
- Calgary: 4.5% to 5.5%
  - Building with $55,000 NOI would be worth $1,100,000 with a 5.0% CAP (i.e. 10% more)
  - And because rents are 10-15% higher with similar expenses this means 20-25% more per door
- Smaller towns: about 1% higher

CAP RATES ELSEWHERE

- Toronto / GTA: below 5.5% usually
- LA, New York, London, Vienna, Vancouver: below 5% usually
- Smaller towns: AT LEAST 6.5%, better 7%+ due to risk
- ON, SK, MB, NS, NB: about 0.5 to 1.5% higher than AB or BC
- US: slightly higher than Canada

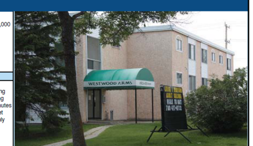
SAMPLE PRO-FORMA

- "Best-case" version of the truth
- SALES DOCUMENT
- Must adjust to reality
- A sample to examine
  - True expenses
  - True CAP rates
  - True leverage
  - True Value

Sample Only

FOR SALE
11926 - 105 Street (21 Unit)

Number of Units	21	
Asking Price	$ 1,596,000	$ 76,000
Year Built	1968	
Legal	Lot 54, 55 Block 5 Plan RN52	
Site Area	15,000 sf	
Parking	Paved, Energized	
Chattels	21 stoves, 21 fridges	



LOCATION:
The building is located in the prime neighbourhood of Westwood. The area consists mainly of multifamily housing with light residential. Walking distance to N.A.I.T. Walking distance to transit station and Kingsway Garden Mall. Minutes away from future NAIT LRT station located on 106th Street and Princess Elizabeth Avenue by 2014, which will certainly increase the desirability of the area once complete.

DESCRIPTION:
Westwood Arms is a 2 1/2 storey apartment block with a stucco exterior and a flat tar and gravel roof. The building is still under original family ownership. The boiler is considered to be original and regularly maintained. 2 sets of washers and dryers, all equipment is owned. HWT is approximately 5 years old. Common areas are in good shape. Nearly all of the suites have newer appliances (over 70%) and most suites have undergone some renovations over the years.

SUITE MIX:

1 Bedroom	20
2 Bedroom	1

FINANCING: *(Proposed CMHC Financing)*

$1,276,800	
Down Payment:	$ 319,200
Monthly PI =	$ 6,022
Annual PI =	$ 72,267
Interest Rate =	3.90%

Proposed CMHC financing is based on 80% Loan to Value at 3.90% interest amortized over a 30 year period.

NOTES:
Currently no vacancies in the building. Gross Monthly Income is based on 100% occupancy.

INCOME & EXPENSES

INCOME: *(Actual as of April 2010)*			Actual	Projected
1 Bedroom, 20	@	480 sf	695 - 800	750
2 Bedroom, 1	@	628 sf	875	900
Gross Monthly Income			$ 14,805	$ 15,900
Annual Income			**$ 177,660**	**$ 190,800**
Other Income	$ 12.00 per unit/mo		$ 3,024	$ 3,024
Gross Annual Income			**$ 180,684**	**$ 193,824**
Vacancy Loss	-4%		$ (7,227)	$ (7,753)
Effective Gross Income			**$ 173,457**	**$ 186,071**
EXPENSES: *(Actual 2009)*				
Management Fee	4%		$ 6,525	$ 6,525
Caretaker	$ 42 /unit/mo		$ 10,558	$ 10,558
Utilities	$ 1,183 /unit/yr		$ 24,842	$ 24,842
Insurance	$ 153 /unit/yr		$ 3,207	$ 3,207
Repair & Mntce.	$ 434 /unit/yr		$ 9,123	$ 9,123
Taxes **(Actual)**		**2010**	$ 13,755	$ 13,755
Miscellaneous/Advertising			$ 3,795	$ 3,795
Total Expenses			**$ 71,804**	**$ 71,804**
$3,419 /unit OR	41.40%			
Net Operating Income			**$ 101,653**	**$ 114,267**
Capitalization Rate is:			6.37%	7.16%
Cash required is:			$ 319,200	$ 319,200
Cash flow after debt service is:			$ 29,386	$ 42,000
Cash on cash return is:			9.21%	13.16%
Return on equity is:			16.25%	20.20%

6 TYPES OF VACANCIES

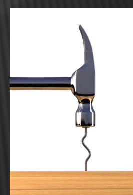
- Empty
  - and not re-rented
  - and being upgraded
  - and rented for next month
- Occupied (but not paying)
  - just sloppy .. usually pays
  - being evicted with unknown outcome
  - being evicted with known outcome

EXPENSES

- NOI = Gross Rent - Vacancy - Expenses
- Utilities
  - $1000 to $1200 per 1BRsuite per year
  - $150 more per BR for 2BRs and 3BRs
  - $200 or so less in BC if electric baseboards
- Repair and Maintenance
  - $750 to $800/suite/year
    - much higher usually in year 1

EXPENSES .. CONT.

- major items <u>not on pro-forma usually</u>
  - roof
  - boiler
  - hallways
  - balconies
  - windows
- Property Management Fees
  - 3% to 3.5% for 60+ units
  - 4% to 5% for 24-60 units
  - 5% to 6% for less than 24 units
  - Sometimes 8-10% incl. “onsite” for small buildings



EXPENSES

- Onsite Manager:
  - $30 to $45/suite/month + bonus
- Taxes
  - approx. 1.0% to 1.2% of building value in AB
  - approx. 2.5% in SK or MB
  - approx. 1.5% to 2.0% in BC or ON
  - get the real figures
  - If price is 2x assessment, taxes will go up 2x !!
  - Condo converted buildings have higher taxes in AB but lower in ON !

EXPENSES

- Insurance = $180 to $220/suite/year
- Other / Minor: $250/year
  - Advertising
  - Accounting
- Misc. Income:
  - Laundry
  - Parking
  - Cell phone tower
  - Bill boards

EXPENSES

- Total Expenses
  - $3750 to $4400/suite/year
    - Pro-formas frequently WELL below that !!!
  - for an older, ugly building: 45% to 55% of rent
  - for an average, well managed, “balanced” fully occupied building
    - 20 suites: 40 to 45 %
    - 21-40 suites: 35% to 40 %
    - 40+ suites: 33-36 %

EXPENSES

- for a new or pristine or newly renovated building: 30% to 33%
- PLUS: CAPEX
  - Thus, true CAP rate often 1-2% below industry rates

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- 6 types of vacancies
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- Making $s automagically

IMPROVEMENT METRICS

Ready for the

$1M

Answer ?

(based on a $1M asset with $250,000 down)

IMPROVEMENT METRICS

Rule of 150:

- Value = NOI/CAP rate
- Value goes up $12.50/CAP for each $ in monthly NOI increase
  - i.e. $150 (12 * $12.50) for 8% CAP
- If NOI goes up by $100/month, then each suite goes up by $15,000 in value or $180,000 for a 12-plex

HOW TO MAKE MONEY AUTOMAGICALLY

- A Rose with Thorns!
- Rosebud..i.e. $250,000+ for a 12 suiter!
  - How hard is it to get rents up by $125 to get an NOI increase of about $100?
  - $100 * 12 *150 * 12 = $180,000 .. PLUS
  - $100,000 mortgage paydown in 5 years
- Huge 100%+ cash-on-cash ROI if bought for $1M with $250,000 cash in 5 yea
- Not cash yet !!

HOW TO MAKE MONEY AUTOMAGICALLY

- i.e. turn $250,000 into $500,000 in 5 years
- Then re-fi and buy another one
- Turn $500,000 into $1M
- Thus, turn $250,000 into $1M in 10 years
- Doable in many markets with some smarts

RULE OF 150 - EXAMPLES

- Add a dishwasher for $500
  - Increase NOI by $20/mth: $3,000 in value
- Add lights, paint and carpets for $3,500
  - Increase NOI by $80/mth: $12,000 in value
  - Rule of thumb: 2x value increase minimum
- Note: rent control laws in BC and ON
  - Better in AB or SK !!
- Market must support rent increases
  - tough in small towns !!

PROFIT POTENTIAL – TREMENDOUS!

- Formula: (NOI - Mortgage Payment + Growth) / Cash Invested

Reserve Factor	120%	Interest Rate	3.5%
CAP	5.5%		

Overall ROI / Cash-on-Cash PLUS

Growth / Year:	-3.0%	0.0%	1.0%	2.0%	3.5%	5.0%	6.0%	7.0%	8.0%
Leverage									
0%	2.1%	4.6%	5.4%	6.3%	7.5%	8.8%	9.6%	10.4%	11.3%
25%	1.8%	5.1%	6.3%	7.4%	9.0%	10.7%	11.8%	12.9%	14.0%
50%	1.3%	6.3%	7.9%	9.6%	12.1%	14.6%	16.3%	17.9%	19.6%
60%	0.8%	7.1%	9.2%	11.3%	14.4%	17.5%	19.6%	21.7%	23.8%
65%	0.5%	7.7%	10.1%	12.4%	16.0%	19.6%	22.0%	24.3%	26.7%
70%	0.1%	8.5%	11.3%	14.0%	18.2%	22.4%	25.1%	27.9%	30.7%
75%	-0.4%	9.6%	12.9%	16.3%	21.3%	26.3%	29.6%	32.9%	36.3%
80%	-1.3%	11.3%	15.4%	19.6%	25.8%	32.1%	36.3%	40.4%	44.6%
85%	-2.6%	14.0%	19.6%	25.1%	33.5%	41.8%	47.4%	52.9%	58.5%

Creating Your Offer

When purchasing Multi-family properties, it is important to use a “Commercial” Purchase Contract (Offer To Purchase) that is in general use in your target buying area. These more specialized Offers have more ‘commercial type’ boilerplate clauses in them regarding taxes, settlement and other items. These differences are subtle yet important.

It is important that you become familiar with the contract template you are going to use. Like everything else in the multi-family world, learn all the clauses and commitments contained in the document long before you get to the point of needing it. Ask questions of your lawyer if you do not fully understand any of it.

Although many realtors have ‘commercial’ contracts in a Word processing document for ‘ease of editing,’ what you will discover is that as the document gets sent back and forth (often electronically by e-mail) between the buyer and seller – every single word must be reviewed every single time. This detailed review doesn’t happen, of course, but sadly this ease of editing has led to some very awkward and costly situations. If your realtor insists on electronic at least use a fillable PDF type of document. But, either way, anything electronic can be edited.

So, although a standard word document template seems to initially be a time saver, it inevitably turns into a long and arduous process and will end up costing you more in legal fees as your lawyer will be required, by you, to review the complete document every single time throughout the negotiations.

We have seen unscrupulous vendors change complete paragraphs in the final version of electronic offers. So, while you are focusing on negotiating specific numbers and dates, the vendor has the opportunity to significantly change the offers structure and, if you are not reviewing the whole document every single time, you will miss these changes and end up signing off on a deal that you did not agree to.

Now, this won’t happen in most cases, but you need to be aware that using an easily edited, electronic version increases the risk of something like this occurring. We highly recommend that you use a commercially acceptable contract, make the appropriate changes and then, once the agreement is set, you and the vendor may agree to re-write the document so it is clear to all lawyer and bankers what the final deal entails.

Writing offers on Multi-family: The 15/30/60 Method

Mark Warkentin, Linley Welwood LLP, 2014 © LinleyWelwood.com

How do I prepare to write an offer? Before writing any offer, especially your first offer, make sure to prepare by covering the following:

- Create a plan with your mortgage broker for what you can finance
- Discuss your plans with your accountant to maximize tax planning
- Study and get comfortable with the process and the documentation

What form of purchase contract do I use? You choose the standard form from the jurisdiction in which the property is located. For instance, if you live in Alberta but are buying in BC the most common form of purchase contract in BC is the one created by Canadian Bar Association (CBA) BC Branch. It is used for nearly every home purchase in BC, but can also be used for purchasing multi-family. A copy is found on the next page. Other possible forms of contract are: the Canadian Bar Association's commercial contract, your realtor's in-house form, or creating your own version (not recommended unless you are very sophisticated).

"The 15/30/60 Method"

This is a unique approach, presented for the first time to REIN members. You will use the simple purchase contract from your target region, along with some specially drafted schedules. The sample schedules described here will also work with other forms of purchase contract, but might need some slight adjustments.

Why 15/30/60? Simply because there are three time triggers: 15 days, 30 days, and 60 days. The seller has 15 days from acceptance to provide key information. Then, at 30 days, you remove your first two subjects and, at 60 days, you remove your last four subjects. You should allow a further few weeks for closing, so the whole process from offer to closing might be 90 days. The language and clauses following should be all you need for most deals, but get advice from your agent, lawyer, and broker! It is critical that you realize this is just a framework to be adjusted to suit each situation.

The timelines are elastic—you can make them shorter or longer. Generally more time is better, except when it's not!!

Finally, the subjects are not meant to be a due diligence checklist—you want some meaningful subjects, but not so many that you look flaky or you scare off the seller. You will still need to do your thorough due diligence, which covers many more items than addressed in the subjects.

CONTRACT OF PURCHASE AND SALE

PREPARED BY: ______________________________ DATE: ______________
(BROKERAGE - PLEASE PRINT)

ADDRESS: ______________________________ PC: __________ PHONE: __________

PER: ______________________________ MLS® No.: ______________
(LICENSEE - PLEASE PRINT)

SELLER: ______________________	**BUYER:** ______________________
SELLER: ______________________	**BUYER:** ______________________
ADDRESS: ______________________	ADDRESS: ______________________
______________________	______________________
______________ PC: ________	______________ PC: ________
PHONE: ______________________	PHONE: ______________________
RESIDENT OF CANADA ☐ NON-RESIDENT OF CANADA ☐ as defined under the *Income Tax Act.*	OCCUPATION: ______________________

PROPERTY:

____
UNIT NO. ADDRESS OF PROPERTY

____
CITY/TOWN/MUNICIPALITY POSTAL CODE PID

____
LEGAL DESCRIPTION

____

The Buyer agrees to purchase the Property from the Seller on the following terms and subject to the following conditions:

1. **PURCHASE PRICE:** The purchase price of the Property will be ______________________________

____

______________________________ DOLLARS $______________ (Purchase Price)

2. **DEPOSIT:** A deposit of $______________ which will form part of the Purchase Price, will be paid on the following terms:

All monies paid pursuant to this section (Deposit) will be delivered in trust to______________________

______________________________ and held in trust in accordance with the provisions of the *Real Estate Services Act*. In the event the Buyer fails to pay the Deposit as required by this Contract, the Seller may, at the Seller's option, terminate this Contract. The party who receives the Deposit is authorized to pay all or any portion of the Deposit to the Buyer's or Seller's conveyancer (the "Conveyancer") without further written direction of the Buyer or Seller, provided that: (a) the Conveyancer is a Lawyer or Notary; (b) such money is to be held in trust by the Conveyancer as stakeholder pursuant to the provisions of the *Real Estate Services Act* pending the completion of the transaction and not on behalf of any of the principals to the transaction; and (c) if the sale does not complete, the money should be returned to such party as stakeholder or paid into Court.

INITIALS

____
PROPERTY ADDRESS

3. **TERMS AND CONDITIONS:** The purchase and sale of the Property includes the following terms and is subject to the following conditions:

Each condition, if so indicated, is for the sole benefit of the party indicated. Unless each condition is waived or declared fulfilled by written notice given by the benefiting party to the other party on or before the date specified for each condition, this Contract will be terminated thereupon and the Deposit returnable in accordance with the *Real Estate Services Act*.

4. **COMPLETION:** The sale will be completed on______________________________, yr. _________ (Completion Date) at the appropriate Land Title Office.

5. **POSSESSION:** The Buyer will have vacant possession of the Property at ____________ a.m./p.m. on __________________________, yr.__________ (Possession Date) OR, subject to the following existing tenancies, if any: ____

6. **ADJUSTMENTS:** The Buyer will assume and pay all taxes, rates, local improvement assessments, fuel, utilities and other charges from, and including, the date set for adjustments, and all adjustments both incoming and outgoing of whatsoever nature will be made as of ______________________________, yr. __________ (Adjustment Date).

7. **INCLUDED ITEMS:** The Purchase Price includes any buildings, improvements, fixtures, appurtenances and attachments thereto, and all blinds, awnings, screen doors and windows, curtain rods, tracks and valances, fixed mirrors, fixed carpeting, electric, plumbing, heating and air conditioning fixtures and all appurtenances and attachments thereto as viewed by the Buyer at the date of inspection, INCLUDING:

BUT EXCLUDING:____

8. **VIEWED:** The Property and all included items will be in substantially the same condition at the Possession Date as when viewed by the Buyer on ____, yr. ______________.

9. **TITLE:** Free and clear of all encumbrances except subsisting conditions, provisos, restrictions, exceptions and reservations, including royalties, contained in the original grant or contained in any other grant or disposition from the Crown, registered or pending restrictive covenants and rights-of-way in favour of utilities and public authorities, existing tenancies set out in Clause 5, if any, and except as otherwise set out herein.

10. **TENDER:** Tender or payment of monies by the Buyer to the Seller will be by certified cheque, bank draft, cash or Lawyer's/Notary's or real estate brokerage's trust cheque.

11. **DOCUMENTS:** All documents required to give effect to this Contract will be delivered in registrable form where necessary and will be lodged for registration in the appropriate Land Title Office by 4 pm on the Completion Date.

INITIALS

PROPERTY ADDRESS

12. **TIME:** Time will be of the essence hereof, and unless the balance of the cash payment is paid and such formal agreement to pay the balance as may be necessary is entered into on or before the Completion Date, the Seller may, at the Seller's option, terminate this Contract, and, in such event, the amount paid by the Buyer will be absolutely forfeited to the Seller in accordance with the *Real Estate Services Act*, on account of damages, without prejudice to the Seller's other remedies.

13. **BUYER FINANCING:** If the Buyer is relying upon a new mortgage to finance the Purchase Price, the Buyer, while still required to pay the Purchase Price on the Completion Date, may wait to pay the Purchase Price to the Seller until after the transfer and new mortgage documents have been lodged for registration in the appropriate Land Title Office, but only if, before such lodging, the Buyer has: (a) made available for tender to the Seller that portion of the Purchase Price not secured by the new mortgage, and (b) fulfilled all the new mortgagee's conditions for funding except lodging the mortgage for registration, and (c) made available to the Seller, a Lawyer's or Notary's undertaking to pay the Purchase Price upon the lodging of the transfer and new mortgage documents and the advance by the mortgagee of the mortgage proceeds pursuant to the Canadian Bar Association (BC Branch) (Real Property Section) standard undertakings (the "CBA Standard Undertakings").

14. **CLEARING TITLE:** If the Seller has existing financial charges to be cleared from title, the Seller, while still required to clear such charges, may wait to pay and discharge existing financial charges until immediately after receipt of the Purchase Price, but in this event, the Seller agrees that payment of the Purchase Price shall be made by the Buyer's Lawyer or Notary to the Seller's Lawyer or Notary, on the CBA Standard Undertakings to pay out and discharge the financial charges, and remit the balance, if any, to the Seller.

15. **COSTS:** The Buyer will bear all costs of the conveyance and, if applicable, any costs related to arranging a mortgage and the Seller will bear all costs of clearing title.

16. **RISK:** All buildings on the Property and all other items included in the purchase and sale will be, and remain, at the risk of the Seller until 12:01 am on the Completion Date. After that time, the Property and all included items will be at the risk of the Buyer.

17. **PLURAL:** In this Contract, any reference to a party includes that party's heirs, executors, administrators, successors and assigns; singular includes plural and masculine includes feminine.

18. **REPRESENTATIONS AND WARRANTIES:** There are no representations, warranties, guarantees, promises or agreements other than those set out in this Contract and the representations contained in the Property Disclosure Statement if incorporated into and forming part of this Contract, all of which will survive the completion of the sale.

19. **PERSONAL INFORMATION**: The Buyer and the Seller hereby consent to the collection, use and disclosure by the Brokerages and by the managing broker(s), associate broker(s) and representative(s) of those Brokerages (collectively the "Licensee(s)") described in Clause 20, the real estate boards of which those Brokerages and Licensees are members and, if the Property is listed on a Multiple Listing Service®, the real estate board that operates that Multiple Listing Service®, of personal information about the Buyer and the Seller:

A. for all purposes consistent with the transaction contemplated herein;

B. if the Property is listed on a Multiple Listing Service®, for the purpose of the compilation, retention and publication by the real estate board that operates the Multiple Listing Service® and other real estate boards of any statistics including historical Multiple Listing Service® data for use by persons authorized to use the Multiple Listing Service® of that real estate board and other real estate boards;

C. for enforcing codes of professional conduct and ethics for members of real estate boards; and

D. for the purposes (and to the recipients) described in the brochure published by the British Columbia Real Estate Association entitled *Working With a REALTOR®*.

INITIALS

PROPERTY ADDRESS ______________________________

20. **AGENCY DISCLOSURE:** The Seller and the Buyer acknowledge having received, read and understood the brochure published by the British Columbia Real Estate Association entitled *Working With a REALTOR®* and acknowledge and confirm as follows:

A. the Seller has an Agency relationship with

______________________ and ______________________
BROKERAGE LICENSEE

B. the Buyer has an Agency relationship with

______________________ and ______________________
BROKERAGE LICENSEE

C. the Buyer and the Seller have consented to a limited dual agency relationship with

______________________ and ______________________
BROKERAGE LICENSEE

____
LICENSEE

having signed a Limited Dual Agency Agreement dated ______________________

If only (A) has been completed, the Buyer is acknowledging no agency relationship. If only (B) has been completed, the Seller is acknowledging no agency relationship.

21. **ACCEPTANCE IRREVOCABLE (Buyer and Seller):** The Seller and the Buyer specifically confirm that this Contract of Purchase and Sale is executed under seal. It is agreed and understood that the Seller's acceptance is irrevocable, including without limitation, during the period prior to the date specified for the Buyer to either:

A. fulfill or waive the terms and conditions herein contained; and/or

B. exercise any option(s) herein contained.

22. **THIS IS A LEGAL DOCUMENT. READ THIS ENTIRE DOCUMENT AND INFORMATION PAGE BEFORE YOU SIGN.**

23. **OFFER:** This offer, or counter-offer, will be open for acceptance until __________ o'clock a.m./p.m. on ______________________, yr. __________ (unless withdrawn in writing with notification to the other party of such revocation prior to notification of its acceptance), and upon acceptance of the offer, or counter-offer, by accepting in writing and notifying the other party of such acceptance, there will be a binding Contract of Purchase and Sale on the terms and conditions set forth.

X ______________ WITNESS	______________ BUYER	SEAL	______________ PRINT NAME
X ______________ WITNESS	______________ BUYER	SEAL	______________ PRINT NAME

24. **ACCEPTANCE:** The Seller (a) hereby accepts the above offer and agrees to complete the sale upon the terms and conditions set out above, (b) agrees to pay a commission as per the Listing Contract, and (c) authorizes and instructs the Buyer and anyone acting on behalf of the Buyer or Seller to pay the commission out of the cash proceeds of sale and forward copies of the Seller's Statement of Adjustments to the Cooperating/Listing Brokerage, as requested, forthwith after completion.

Seller's acceptance is dated ______________________, yr. __________

X ______________ WITNESS	______________ SELLER	SEAL	______________ PRINT NAME
X ______________ WITNESS	______________ SELLER	SEAL	______________ PRINT NAME

Schedule 1: Additional Terms

"The Seller will provide within 30 days of Acceptance, an estoppel certificate signed by each tenant, confirming the terms and good standing of each lease, in the Buyer's format if so provided."

"The Seller will allow Buyer or its agents reasonable access to the Property, for the purpose of preparing a building inspection report, an environmental condition report, and any other due diligence."

"The Seller will provide further details on any expenditure over $500 related to the Property during the last three years, as requested by the Buyer."

"The Seller, after Acceptance, will continue to manage the Property in a commercially reasonable manner until Closing, including ongoing and proper maintenance and repairs, and filling of vacancies; and after all subjects are removed any new tenant and tenancy must be approved by the Buyer."

"The Seller will transfer all security or damage deposits plus interest, and any rents outstanding, to the Buyer on Closing, the value of which is in addition to the Purchase Price."

"The Seller will make reasonable efforts as part of the Closing to assign any ongoing service contracts to the Buyer as the Buyer may request."

"The Seller represents and warrants:

a) The Property complies with current municipal zoning and permitted use;
b) The Seller has not received any notice and is not aware of any material or substantial facts or circumstances relating to the Property or to zoning or permitted use thereof, which has not been disclosed to the Buyer in writing and which might, if disclosed, be reasonably expected to affect the Buyer's decision to proceed with this purchase;
c) To the best knowledge of the Seller, the Property does not contain any hazardous material, including aluminum wiring, asbestos, or ureaformaldahyde insulation."

"The Seller will provide, 7 days before Closing, an updated rent roll, and represents and warrants such updated rent roll to be correct."

"The Seller will provide at Closing all original copies of current or ongoing contracts or documents, including leases, service contracts, utility contracts, licenses, and any other document reasonably required by the Buyer to continue operating the Property."

"The Seller and the Buyer will in good faith make any further adjustments after Closing as may be necessary to carry out the terms of this agreement."

"The Buyer may assign this purchase contract to another party, at its sole discretion."

Schedule 2: 15 days after Acceptance:

"The Seller will supply to Buyer, within 15 days of Acceptance, the following information regarding the Property:

a) Last three years of financial statements;
b) Current rent roll
c) Copies of current leases
d) Copes of ongoing service contracts
e) Summary of damage deposits currently held
f) Most recent appraisal showing value of Property, if in Seller's possession
g) Most recent Phase 1 Environmental Report (or any other environmental report), if in Seller's possession
h) Most recent building condition report, if in Seller's Possession
i) Any other information reasonably requested by the Buyer, if in the Seller's possession

[Note: if you are buying strata property, you will also ask for copies of current strata bylaws, last three years of strata council minutes; depreciation report, disclosure statement, etc.]

Schedule 3: 30 days after Acceptance:

"The following are subjects in favour of the Buyer, to be removed or waived at the sole discretion of the Buyer within 30 days of Acceptance:

a) Subject to review by the Buyer of the materials supplied by the Seller in Schedule 2, to the sole satisfaction of the Buyer;
b) Subject to review by the Buyer's legal and accounting advisors of this purchase contract and schedules, to the sole satisfaction of the Buyer."

Schedule 4: 60 Days after Acceptance

"The following are subjects in favour of the Buyer, to be removed or waived at the sole discretion of the Buyer within 60 days of Acceptance:

a) Subject to the Buyer obtaining approval for financing, to the sole satisfaction of the Buyer.
b) Subject to the Buyer obtaining approval for all necessary insurance, to the sole satisfaction of the Buyer.
c) Subject to the Buyer obtaining a building inspection report, to the sole satisfaction of the Buyer.
d) Subject to the Buyer obtaining an environmental inspection report, to the sole satisfaction of the Buyer."

[Note: you may need to create an Optional Schedule 5 with a more detailed listing of what is included. If there is any doubt, list the items to be included such as appliances, window coverings, tools, supplies.]

Structuring Your Offer: From An Accountant's View

Navaz Murji, CGA

When you present your offer it is important to define the terms and conditions of your offer. Ensure you have the flexibility to structure and complete the deal in a timely fashion without having to go back to the seller to ask for permission.

I always present an offer in a shell corporation. This corporation has no assets or liabilities except the offer. This allows me the flexibility to walk away from an offer after subjects have been removed. I still stand to lose my deposit. You need to get legal advice as the seller may have some remedies that a lawyer would be able to advise you on.

Your subjects and conditions are extremely important. Besides the usual due diligence conditions, I usually add the following conditions:

1. The buyer retains the right to assign this contract prior to closing.

   This clause allows me to assign the contract to a related company or a third party without asking the buyer. If the realtor or buyer asks, always tell them you are not sure how your accountants and lawyers will want to structure the deal, hence this will give you the flexibility to structure your deal once your have proper advice. If there is a higher priced offer, you can sell it without the consent of the seller.

2. Break out the value of Land vs Building

   You can depreciate your building but you cannot depreciate land. If you break out the value on the contract, it is unlikely CRA will challenge the values. If you do not break out the values, you will have to estimate the value and it will be easier for CRA to challenge your calculations.

Corporation, Partnership or Limited Partnership?

Corporate vs Personal Tax Rates

From a tax perspective always own rental properties in your personal name as rental income is taxed in the highest possible tax rate in a corporation. For 2014, here are the tax rates for rental income earned in a Corporation vs as an individual at the maximum tax rate

	Corp	Personal
BC	45.70	43.70
AB	44.70	39.00
Saskatchewan	46.70	44.00
Manitoba	46.70	46.40
Ontario	46.20	46.41
Quebec	46.60	49.97
New Brunswick	46.70	46.84
Nova Scotia	50.70	46.50
PEI	50.70	47.37
Newfoundland	48.70	42.30

Refundable tax 6.7% on Federal only

Many people are forced by their banks to own multi-family properties in Corporate names due to the financial institution's legal department. So we can't go without speaking to this important ownership structure.

<u>Corporations</u>

These types of entities are, for example, AKA Ltd, Inc. Co or LLC. Corporations are individual entities hence the administration fees are higher. One needs to file annual returns, corporate tax returns, T Slips, WCB returns, etc. They also have more time consuming tax planning issues.

When refinancing a property in a Corporation, one needs to be careful when repaying individual shareholders their original investment. Any funds paid to individual shareholders in excess of their original loans to the corporation will have to be paid as dividends and if the corporation does not have a refundable dividend tax on hand (RDTOH), this amount will be lost forever and consider this as an additional tax.

In later years of a Corporations life, when the mortgage principal is being paid down, this is considered a profit. This portion of the profit is eating up cash flow as it is being paid to the bank not the shareholders. So careful tax planning needs to be done in determining dividends, salaries and corporate tax in an appropriate mix.

Besides tax, there are other considerations for incorporating. A corporation has a professional look and feel to it. Bankers, insurance companies, investors and suppliers understand corporations and look at it as a professional business as opposed to a mom and pop operations.

In some provinces such as Alberta, bankers will insist that you incorporate. Alberta has a non-recourse mortgage which means bankers cannot come after you individually if you do not pay the mortgage in full. So bankers will insist on you incorporating and getting a personal guarantee so that they can recover any shortfall from you personally.

Partnership

A partnership is where 2 or more individuals agree to purchase a property. From a tax perspective, it is similar to a couple forming a partnership to purchase a property and they share the profits and losses equally. They share all liabilities equally. If the partnership fails, the creditors will generally go after the person who is easiest to collect from. This is a simple set up and losses in early years flow through to the partners easily.

Limited Partnership

This set up is not commonly used. This is not a do it yourself project as it has many pitfalls. Make sure you get legal advice from a lawyer that understands the SEC rules in the province you reside, province you plan to invest in and the province the investor resides in..

In a simplified format, the partnership purchases the property and shares its losses and profits with all the partners just as any other partnership. The major difference here is one of the partners is called a "General Partner" which is usually a limited corporation.

The General partner will usually guarantee the debts to the bank which may include personal guarantees of the shareholder of the corporation the general partner set up. The other partner's liability is limited to the funds they invested in.

There are many other considerations in each of the formats. You need to figure out what your game plan is and then formulate an appropriate strategy for set up that you should be using.

Navaz Murji CGA: **Investment and set-up questions** - navaz@realaccountant.com
Personal Tax Returns, GST, IT Questions - nazim@realaccountant.com
Simon Yim CGA, CA: **Corporate year ends and personal tax questions -** accountant@realaccountant.com

Multi-Family Building Appraisals

1) What is an appraisal?
    - An analysis, taking into consideration physical attributes, location, actual and potential performance of a property, arriving at an estimate of market value as of a specified date.

2) What does it involve?
    - An inspection of the property – a representative sample of suites (2 to 3 of each type), common areas, exterior and mechanicals.
    - A review of current rent roll and historic income/expense statements for the property.
    - A review of rents in competing projects to establish market rent levels.
    - A review of comparable property sales to establish an appropriate capitalization rate to apply to net income – results in market value estimate.

3) How does a narrative multi-family appraisal differ from a single-family home appraisal?
    - Level of research and reporting – single-family appraisal is typically a 4 to 5 page form, a narrative apartment appraisal – approximately 30 to 50 pages.
    - Single-family appraisal looks at 3 comparables, value estimate is based on Direct Comparison Approach.
    - Narrative multi-family appraisal – rent comparables (6–10 properties) and sale comparables – minimum 5. Emphasis is on Income Approach, Gross Income Multiplier and Direct Comparison Approach are supportive techniques.
    - Fees: single-family appraisal approximately $175 to $250 plus tax. Narrative multi-family appraisal varies depending on size of property and complexity of analysis – approximately $1,750 to $4,500 plus disbursements and tax, disbursements being our out-of-pocket costs, e.g. titles, taxes, etc.

4) Market Norms:
    - Rents vary too widely to report market norms.
    - Laundry revenue: depends on owned vs. leased, suite mix and tenant profile. Low of approximately $7.50 to $10.00 per unit per month to as high as $20.00 per unit per month.
    - Vacancy and collection loss allowance
        - Depends on location, market conditions. Currently, for Edmonton, allowances applied range from a low of 2% to 3%, high of 5% to 5.5% though actual physical vacancy may be higher.
    - Expenses
        - Property taxes: $600 to $1,300, depends on location, suite mix, age.
        - Insurance: $175 to $250 per unit per annum. Depends on suite mix, construction type.
        - Utilities: $900 to $1,400 per unit per annum. Depends on age, suite mix, amenities.
        - Repairs and maintenance: $450 to $750 per unit per annum. Depends on age, suite mix, amenities, condition.
        - On-site admin: $30 to $40+ per unit per month. Depends on number of suites.
        - Property management: 3% to 5% of effective gross income. Depends on number of suites.
        - Advertising/miscellaneous: $750 to $5,000 per annum. Depends on number of suites.
    - Per suite averages: $3,200 to $4,500 per annum. Depends on suite mix, amenities.
    - % of effective gross income: 32% to 45%. Depends on suite mix, amenities.

5) Pre- and post-renovation appraisals
   - Pre: current value as-is.
   - Post: current value assuming renovations completed.
   - Pre: is a conventional appraisal.
   - Post: projects potential performance – rents and expenses assuming renovations are completed today. Also looks at impact on capitalization rates and other value indicators due to renovations.
   - Most renovations will have greatest impact on rents achievable and potentially to vacancy allowance. Only major renovations (including items such as roof, boiler, windows, etc.) will affect expenses or cap rate.

6) Expected delivery timelines
   - While single-family appraisals may be delivered within a few days, narrative multi-family apartment appraisals can be from ten days to three weeks, depending on current workload and nature of assignment/property.

7) Updates: This is a valuation of a property that was previously appraised by the same appraiser or appraisal company.
   - Involves a review of the property for changes since the last valuation – location, physical, etc. The valuation component is similar to a new appraisal – depending on length of time since original appraisal.
   - Fees, generally 70% of a new appraisal, though depends on time frame since original appraisal.
   - Generally will be accepted by lenders though should be presented with original appraisal.

8) How lenders use narrative multi-family appraisals
   - Provide security for a mortgage.
   - Typically, mortgage is a percentage of appraised value, or for purchases, a percentage of the lower of the purchase price or appraised value.
   - May be utilized to calculate debt service ratio (net income divided by debt service). Also, utilized to review physical condition, remaining economic lifespan (affects amortization of mortgage) as well as market conditions, existing rents vs. market levels, and any issues that may be identified in the appraisal.

9) Current market value parameters
   - Capitalizations rates: this represents the return rate on an investment. The riskier the property – location, condition, etc., the higher return required by the investor and therefore higher capitalization rate. Calculated by dividing net income by sale price.
   - Typical capitalization rate range:
     - Edmonton: stabilized (with market rents in place), 6% to 7.5% +.
   - The low end applies to properties in the best neighbourhoods, University area, Oliver, as well as mid- and high-rise properties and newer construction.
   - The upper end of the range applies to older properties, those located in lower-income neighbourhoods, poorer condition, etc.
   - Per suite
     - $60,000 - $120,000 per unit (low rise).
     - Depends on location, suite mix, condition.
     - Rooming houses/all bachelor suite properties will fall below this range, high-rise properties; new construction with greater amenities will fall above this range.

R . E . I & Co.

REAL ESTATE INSPECTIONS

also Environmental Assessments, Building Product Analysis, Energy Conservation Audits and Project Management

Excellence in Service

From: Bill Baird

Edmonton Regional Office
P. O. Box 77089 Grandin Park Mall
22, Sir Winston Churchill Avenue
St Albert, Alberta T8N 6C1

Telephones: (780) 448-0689
(780) 459-1008
Fax: (780) 459-1042
Mobile Office Cell Phone: (780) 951-9484

February 19,

Dear

BUILDING INSPECTION 108 **REET EDMONTON**

Attached is the completed report on this building.

Summarizing the main points are as follows:

a. The roof has an expected life of around 10 years (with minor repairs as shown in report).
b. The boiler is working well and could be expected to last 10 years or more with regular maintenance.
c. Approximately $200 - $300 of landscaping and land grading should be completed.
d. The general condition of the building is good and probably grades 7 1/2 - 8 out of 10.

Should you require any further information please do not hesitate to contact the undersigned

Yours sincerely,

Bill Baird

REAL ESTATE INSPECTIONS & CO.

Edmonton

EMERGENCY RESPONSE
DEPARTMENT

PUBLIC SAFETY & EDUCATION BRANCH
#301 12220 STONY PLAIN ROAD
EDMONTON, ALBERTA T5N 3Y4
(403) 496-3850
FAX: (403) 496-3853

September 23

Dear Sir:

RE: 10' ____ ____'eet, Edmonton, Alberta

An inspection of the above noted building was conducted on September 13, under the authority of the Safety Codes Act. After reviewing the apartment building it has been determined the following conditions shall be met to bring this building in conformance with the Approved Fire Safety Guidelines for Apartment Buildings adopted as an Alberta Regulation by the Provincial Fire Council in November

It is recommended that you consult with this Office prior to the commencement of work to ensure that appropriate construction materials and assemblies are used to provide the required ratings.

1. Fire Alarm and Detection Systems

   Any required additions to an existing fire alarm system shall be installed in conformance with the current Alberta Building Code and the appropriate referenced U.L.C. standards for the installation of fire alarm systems.

   Where the required additions necessitate the installation of a new fire alarm system, the use of a professional electrical engineer is required.

   While the Fire Safety Codes Officer has identified the requirement for specific additional devices to be added to the existing fire alarm system, this does not negate the need for the installer and the building owner to ensure the fire alarm system is fully upgraded to comply with the Alberta Building Code and the relevant U.L.C. standards.

.../2

RENTAL INFORMATION

Date:____________________

My Name is: ____

I Currently Rent Suite # __________ at the address ____

DETAILS of my tenancy are as follows:

1. Current Rent $ ....

2. Security Deposit $ ....

3. Date I moved in .... , ...
   month day year

4. I have a written lease with my landlord. YES NO

5. I am currently up to date with my rent payment. YES NO
   (if No, I currently owe $....................)

6. There are no side deals, pre-paid rent or rent discount (i.e. free rent) arrangements between my landlord and me other than that I am a tenant as set out above.

Dated this .... day of .... , 20.....

Tenant (1) Name ________________________________

Signature ________________________________

Tenant (2) Name ________________________________

Signature ________________________________

Multi-Family Buying Strategies – The Seller is Key

This section of the **Multi Family Gold Mine Program** is designed to give you an overview of strategies needed to buy your next building. The goal here is to help you identify the best strategy for your target property.

The success of your transaction boils down to very important points:

- The motivation level of the seller to actually sell
- The current financing of the seller
- The length of time the seller owned the building
- The quality and experience of the realtor(s) involved
- The knowledge and flexibility you bring to the table

As with all real estate investing, it is critical that you are dealing with a vendor who actually wants to sell the building at a realistic price. We do not want to waste our time with those just fishing the market as they will eventually walk away.

Motivated sellers, or at least those who actually want to sell, will provide you with the best deals, the best terms and the best price. Unmotivated sellers will only provide you grief and frustration. As an illustration, we look at two transactions that began at the exact same time, in the exact same area of the target city.

Investor #1 used the strategies and questions outlined in the **ACRE Program** to identify a motivated seller. This seller wasn't desperate to sell, but felt that now was a good time to cash in and let the property go. This seller had made a clear decision to sell. She wasn't going to give it away, but at least we knew it was actually for sale.

Investor #2 used the **Multi-Family Gold Mine** strategies to find a building he thought would fit the system. The numbers looked great, the cash flow was strong and the price was right at market. It was a solid 8 out of 10 investment. The down side was that this investor forgot to use the critical questions to find out if the vendor was motivated to sell the property.

Result - Investor #1 used a multiple offer strategy (discussed below), and provided the vendor with two clear choices for selling. The motivated vendor accepted one of the offers, with a few changes negotiated back and forth. Part of the purchase contract stated that the vendor was to provide financial statements, allow the buyer a complete suite-by-suite inspection, and to allow access by appraisers and inspectors.

All of these occurred within 7 days of the vendor accepting the offer. The property and financials all turned out to be acceptable to the buyer and everything closed on time, no extensions required. This all occurred because there was a motivated buyer and, more importantly, a motivated seller.

Result - Investor #2, who focused on the building and not the vendor, discovered why determining motivation level is so important. Four and a half months later the investor and owner were still in negotiations and hadn't progressed much at all. The realtors were frustrated as they felt their time wasting away; the investor was frustrated as she had spent so much time with very little reward. The vendor put up blocks at every stage of the process: he didn't want to provide financial statements, wouldn't allow the purchaser to view the building unless it was at a very specific time that, of course, didn't work for the purchaser, rent rolls were supplied but the vendor would not certify them as correct. The litany of pain continued each step of the way. Finally, the buyer saw what was really going on and walked away from the deal. It became painfully obvious that the vendor had ZERO motivation to sell the property and had just wasted four and a half months of the buyer's time. The property was still for sale 18 months later.

The bottom line is, it doesn't matter how motivated you are, or what buying strategy you're using, the key will always be:

Only Deal With Motivated Vendors!

Purchasing & Offer Overviews

There are many strategies you can use to purchase multi-family properties. However, unlike single family homes, there are only a couple of strategies that work consistently. The key with all investing is to keep your system simple and easy for all parties to understand because a confused mind will either say NO or will sit in inaction for months at a time.

As mentioned in this program, your reputation is critically important in the industry. Making it easy for every party goes a long way to getting you to the 'top of the list' which means you have access to the best properties, the best bankers and the most flexible vendors. However, if you decide that simplicity is not for you and you become known as the person who creates long and convoluted offers to purchase – you will quickly lose your position as an easy buyer. Being an easy buyer does not mean that you are an easy mark, what it does mean is that all parties enjoy working with you, you do what you say you're going to do and you close on properties.

What we're going to discuss here are the most common, clear and powerful strategies used to purchase buildings. They include:

- Purchase with New Financing or Assumable Financing
- Purchase with direct Vendor Financing
- Purchase with an Agreement For Sale

Before entering any of these agreements you will want to have decided your bottom line purchase price, what the exact terms you require (long closing, renovations, vendor financing, rent increases, etc.) and what it will take for you to be completely comfortable with the purchase.

An important note is that most veteran investors will gladly pay more for a building as long as they receive the terms and conditions that they want. In most cases you will find that the vendor's focus is price, while yours should be the overall deal which includes both price and terms.

After we discuss the different options in this overview we will detail how senior level investors maximize their ability to get their offers accepted.

1. New Financing / Assumable Financing

In the majority of cases, you will be purchasing the property, paying a down payment and arranging new financing. Although not exciting, it is simple and easy and a good strategy to use, especially if the vendor is unsophisticated as it is the more traditional transaction structure. Remember to review the Creating Your Offer section of this Program for clauses to use as well as template schedules to attach to the contract.

In these most simple of purchase cases there may or may not be underlying financing already in place on the property. The majority of these mortgages are assumable, as long as the buyer is strong enough to qualify for the mortgage. A special note here is that if you are assuming underlying financing, request the complete documentation to review the mortgage terms before agreeing.

If you do assume, you can often complete what is termed as a **Top-up and Blend mortgage**, which allows you to assume the underlying financing and top it up to the full financing you would have received if you were applying for a new mortgage. This can be helpful for all parties as it:

1. Helps the vendor by saving them a large pay-out penalty.
2. Helps the bank, as it ties the new purchaser into the property.
3. Helps you by allowing you to negotiate some very good terms and conditions with the vendor as you have just saved them substantial pay-out penalties.

This strategy is also used by buyers in a rising interest rate marketplace. It allows them to keep some of the mortgage money at the original (lower) mortgage rate (the vendor's old mortgage) and only the additional funds will be at the higher interest rate. These two rates are then blended to provide you a lower than market value interest rate, hence the name **Top-up and Blend.**

2. Direct Vendor Financing

This is the strategy where the vendor is in a position to carry the full amount of financing on a property. They, in essence, become the bank. With direct vendor financing, you will often be dealing with vendors who have owned the property for a long time and have very little, if any, underlying financing left on the building. This provides the vendor with flexibility and also provides you with a number of unique options in the negotiations stage.

The vendor already knows the building and how it performs from a financial perspective so your job becomes 'presenting vendor financing in terms they understand and accept.' This is done by providing them with clear financial reasons to accept the vendor financing option. One of the key strategies is for you to explain to them the tax savings and implications that are involved if they do provide you with vendor financing. This is often the key closing comment used by investors to long-term owners.

Here's how it works: in a regular or traditional transaction, the vendor would have to pay their full Capital Gains tax in one big cheque upon the sale of the property. However, if they provide Vendor Financing to you, they can divide (or reserve, to use the technical term) their Capital Gains tax payable over a period of up to five tax years.

This means they have substantial opportunity to break their Capital Gains tax payments into smaller and more manageable pieces. The length of time they are able to reserve their capital gains payments is determined wholly on the length of financing that they are providing you, to a maximum of five years.

In addition, you are paying the vendor a regular 'mortgage payment' as if they were the bank, which allows his income to continue, even after selling the property.

Picture how powerful this strategy is from the vendor's side: He already knows the building; he already understands how it operates so he will be confident in getting paid. His Vendor Take Back mortgage is registered directly on title, so his money is safe. He can reserve his Capital Gains tax payments over an extended period, AND he continues to receive income from a property he no longer has to own or manage. There really isn't a better deal on the planet for a vendor.

Now, picture it from your side: You get a building at a great price, without all of the regular steps and substantial fees required if you are going to qualify at the bank. There aren't any CMHC mortgage insurance fees, even if the vendor finances 95% of the building, and in many cases there won't be any personal guarantees to sign.

You can expect to pay equal to or above current mortgage rates. Make sure it is an open mortgage with the right to pay down (or off) the loan at any time. The best type of mortgage to attempt to get is an "interest-only-payments" mortgage. This means that you are paying simple interest on the loan each and every month, with zero pay down of the principal. The full principal is due and payable at the end of the mortgage term. This will lower your monthly payments, increasing your positive cash flow.

What can you expect when you are presenting an offer with vendor financing?

1. A Realtor who may not know how to present the offer, or who wishes not to.
2. A realtor who says that the vendor won't carry a mortgage (because that's what she believes without truly explaining the positives of doing so to the vendor).
3. A vendor who doesn't quite understand how it works and confused minds always say NO!
4. An outright NO from the vendor because they have a real immediate use for the cash.
5. An absolute YES because the vendor understands that the income it will generate for them is better than many of their other options available.

The good news is there is an easy way around most of the problems associated with presenting a vendor with a Vendor Finance Offer, and we'll cover that later in this chapter under the "Senior Step" strategy.

3. Agreement For Sale Purchase

This is perceived as an even more complex transaction than a Vendor Take Back offer. Agreement for Sale contracts are used quite regularly in the multi-family investing industry, so they should not be a major surprise to any of the parties involved, although you will come across realtors and vendors who don't understand them.

One situation in which you could successfully use an Agreement For Sale purchase contract is where a vendor has a current first mortgage on the property with a substantial buy-out penalty. They are motivated to sell the property, but do not want to take the huge penalty at closing.

An Agreement For Sale allows them to 'sell' the property, create an additional Vendor Take Back mortgage (if they wish) and save themselves the large penalties. The Agreement for Sale document is attached to a commercial or 'multi-family' purchase contract from your local realtor and becomes a part of the contract.

It provides you, the buyer, with full rights and obligations of ownership as if the building is yours (which, in a legal sense, it is). The title remains in the seller's name, thus not setting off the due on sale clause of the mortgage while, at the same time, the buyer is protected through the use of a caveat or caution being registered on title.

The period of the Agreement for Sale is often matched up with the remaining length of the vendor's bank mortgage, meaning when their mortgage finally comes due, you will have to arrange new financing and pay out the vendor and his bank.

While under an Agreement For Sale, you run the property as if it was yours; you are now obligated to purchase the property, unconditionally. You collect the rent, pay the operating and capital expenses and you pay the seller the mortgage payments who then pays the bank.

Vendor	Buyer (you)
Makes Bank's first Mortgage Payments	Collects Rents – Manages Property
Collects interest on Vendor Take Back Mortgage	Pays all operating and capital expenses
Stays on title until end of Agreement For Sale	Makes all repairs
	Pays vendor mortgage payments (first & second)

This strategy creates a true win-win situation for both the vendor and the buyer. However, you need to clearly spell out to the realtors and vendor how all parties win. Here it is from a vendor's perspective: he avoids the large mortgage penalty, he can continue to receive income (on a Vendor Take Back mortgage), and he gets the day-to-day property operations out of his hands. In addition, he wins because you are willing to pay a higher purchase price on the property to get these financing terms.

Now, from your perspective, imagine how profitable it will be for you if you can lock this property up at today's price yet aren't actually closing on the property for two more years. During those two years the property has escalated in price by 10%, thus giving you the benefit of that profit, without you actually owning it. And, it gets even better. When you're ready to finance it (at the 2 year mark) most banks will allow you to use the new and current appraised value (not the value you agreed to two years ago). What a tremendous bonus for the buyer.

You'll remember at the start of this Buying Strategies chapter we discussed that terms are often more important to a veteran real estate investor than price. That's what the Agreement For Sale is all about: helping to provide you with access to properties at today's market value, and not physically have to close on it for years.

On the following page we have included an Agreement For Sale Schedule as a template for you to take to your lawyer and have her create one that fits your personal needs. Members can also download a full, 11 page Agreement For Sale contract template. This is the agreement template only, so you can familiarize yourself with the language. Use it as a learning tool and as a template from which you and your lawyer can create your personalized version.

Financing Schedule and Statement of Disclosure

Containing Details of Agreement for Sale ______, 20_______.

Between ________________________________, as Vendor(s),

And __________________________________, as Purchaser(s).

This Schedule forms a part of the attached Real Estate Purchase Contract. The terms of the unpaid vendor's equity in the agreement for sale are as follows:

1. Principal Amount: $___________________
2. List of charges that will rank ahead of the Agreement for Sale:

   ____

   ____
3. Rate of Interest: _________% to be calculated semi-annually.
4. Amortization Period: _________________, to commence _________________, 20_____
5. Term: _________________, to mature _________________, 20_____
6. Payments of $_________________ to be paid:

   ❑ Monthly ❑ Quarterly ❑ Semi-Annually ❑ Annually

   and are:

   ❑ Blended Principal & Interest ❑ Interest Only

   and are to be made regularly commencing _________________, 20_____
7. Interest charges are to be computed from _________________, 20_____
8. The Agreement for Sale May be assumed without consent of Vendor
9. Acceleration: Agreement for Sale is to become due and payable at option of Vendor if Purchaser sells the property: ❑ YES ❑ NO
10. Purchaser is to provide and maintain on an annual basis to the Vendor, at the Vendor's option; a series of post-dated cheques or a void cheque and a signed pre-authorized withdrawal form: ❑ YES ❑ NO
11. Prepayment: ❑ The Agreement for Sale may be prepaid at any time without notice, bonus or penalty, either in whole or in part. Partial payments must be at least $100.00.

    or ❑ The Agreement for Sale may be pre-paid at any time with the addition of 3 month's interest.
12. Agreement for Sale Terms: Prepared by Vendor's lawyer at Purchaser's cost.
13. Other Terms: ____

_________________________	_____________________	_____________________
Witness to Purchaser's Signature(s)	Purchaser	Purchaser
_____________________________	_____________________	_____________________
Witness to Vendor's Signature(s)	Vendor	Vendor

Senior Level
Multiple Offer Strategy

Once you have mastered the understanding of the many different ways in which you can structure a multi-family purchase, your job becomes 'getting the vendor to say YES!' One of the most powerful strategies to make your offers get accepted by the vendors is the **Multiple Offer Strategy.**

This approach has been used for decades by sophisticated investors both in multi-family and single family investing. The name of the strategy really says it all. Here's how it works…

You create two or more offers for the vendor to consider, each one having a different focus. For example, one could be full price with vendor financing (Vendor Take Back mortgage), while the second one is a lower price without the vendor having to provide financing. By doing this you now give the vendor a choice of options. Instead of saying yes or no to your offer they will, in most cases, choose one or the other. It is basic human psychology that when given a choice, people will make a choice. So, rather than play the game like the majority of investors, giving vendors the choice of yes or no – you are giving them two different options from which they can choose.

It also helps to uncover what their particular hot button is. If they choose to send you a counter offer on the full price option, you know that price is their main issue. If they choose to counter offer on the lower price option (without vendor financing) you know their issue is not price, it is terms. This will give you an added advantage as the negotiations progress.

A key to this strategy is to design your offers so that it doesn't matter to you which one they accept. You may want one more than another, but if they accept your second choice, be prepared to act upon it.

A second key is to always add a cover page to your offer, a cover letter that clearly states who you are, your background in purchasing real estate and, most importantly, the benefits of each offer. Using the cover letter takes the 'realtor interpretation' out of the loop, allowing the vendor to make an informed decision. You may have an amazing realtor, however, the vendor may not and, rather than look uninformed, they may tell the vendor not to accept any creative offer what-so-ever. We've seen this occur in too many cases to count. That's why clear communication is so important.

You will discover that by adding a cover letter with their options clearly laid out, you will receive substantially more accepted offers. And that's the name of this game, getting offers accepted at your terms and price. By focusing on that aspect of Multi-family investing, the rest becomes easier.

Now that you have a quick overview of a few purchase strategies, we're going to assume that you have bought a property and are beginning to operate it. That leads us to…

Tips and Ideas

Tips and Ideas