

Case Study

Disposition & Asset Management

Overview: In 2021, the impact of COVID-19 caused many owner/operators to struggle with collections at the property level. For multifamily owners, these challenges were significant because many people were out of work and had no way to pay rent; leaving owners to cover expenses & debt payments out of pocket. Fortunately, many local governments had programs that offered rent relief for residents and agency lenders were offering payment deferrals. In this case study, CRE-Endeavors represented the seller in the asset management/stabilization and disposition (sale) of a 24-unit apartment building in Baltimore, MD. Our client was losing money at this property due to his property management company over charging for miniscule maintenance expenses and having rent collection issues with bad debt at \$61,377.79 at the time our firm was hired to consult and broker this deal. In addition, this asset was financed with a Fannie Mae 10-year term loan at a 4.82% interest rate, which was about 125 bps higher than the market at the time. The financing at the property created another obstacle for selling the property because the property had to be sold as a loan assumption due to the significant yield maintenance prepayment penalty of \$585,810.21, which represented 32.2% of the unpaid balance at the time of the marketing. Our client's goal was to sell the property as quickly as possible at top dollar. To accomplish this, we had to stabilize the asset first to increase income and achieve the highest sales price, we also had to partner with Arbor (the lender) to find a qualified buyer that fit the requirements of the loan assumption. **Scenario/Relevant Work: Subject Property 24-units Multifamily located in Baltimore, MD**

Asset Management / Stabilization

- We took bad debt from \$61,377.79 in October 2020 to \$29,355.49 in April 2021 (52% decrease). To achieve this, we provided the owner and property management company with local rent relief programs to offer the residents (evictions were not permitted at this time but rent relief improved collections.)
- YTD October 2020 Repairs & Maintenance (R&M) expenses were \$23,769.46. From October 2020 to April 2021, we got R&M to \$7,943.20 by replacing the management company with Latchel, a software company that offers maintenance support by fielding maintenance calls and only using the preferred vendors of the management or ownership company.

Dispositions (Sale)

- After the property was stabilized, we had to identify a qualified buyer that could assume the in-place loan. This required us to conduct detailed vetting of prospective buyers. To assume a Fannie Mae loan, a prospective buyer had to have 9-months principal + interest in liquidity at closing, a net worth equal to the current loan balance (\$1,822,333.63), and 2-years of experience in multifamily assets.
- Our client (the seller) purchased the property from an auction for \$2MM in 2019 and needed to sell for a profit. Based on in-place income, we marketed the property at a 6% cap rate (\$2,225,000) and sold for full ask.

CRE-Endeavors, LLC

Outcome

- Total disposition (Sale) Volume \$2.225MM. My company was paid a commission on the sale and a consulting fee for the asset management.

