

Case Study – Asset Repositioning & Dispositions

Overview: In this case study, CRE-Endeavors was the exclusive broker representative for the property owner of a 24-unit apartment building located in Baltimore, MD.

The Scenario: At the time our firm was hired as the exclusive broker for the seller, the property was losing money with bad debt at \$61,377.79 and not enough cash flow at the property to pay the debt service. This asset was financed with a Fannie Mae 10-year term loan at a 4.82% interest rate, which at the time, was about 125 bps higher than the current market and there was still 8.5 years remaining on the loan term.

CRE-Endeavors Task: 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 to increase net operating income at the property, initiate a marketing plan that would attract qualified and interested buyers, and then identify the buyer with the best offer and track record to meet the requirements of a Fannie Mae loan assumption.

Repositioning to 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 and needed to sell for a profit. Based on property and market performance, we marketed the property at a 6% cap rate (\$2,225,000) and sold for full ask.

Outcome

- This property traded for \$2,225,000. CRE-Endeavors brokered the investment sales transaction for this property.

