HOW TO FIND, FINANCE, FIX & FLIP

APARTMENTS

From Duplexes to 100+ Unit Complexes

RANKED **#1 BOOK** ON FLIPPING APARTMENTS

NATHAN TABOR

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Dedication

To my wife, Jordan. You are the love of my life, my best friend, and my greatest supporter! Thank you!

To my daughter, Abigail. You are my joy! I love you MORE!

James 1:27

Table of Contents

Introduction

In 2006, a gentleman walked into my buy-here-pay-here car lot and asked me if I wanted to buy an 18-unit apartment complex.

It piqued my interest, but I had NO background to speak of in real estate. I had never flipped a house, and I certainly hadn't renovated a multi-family apartment complex.

The numbers looked good, and I thought, *How could I go wrong*. So I called my banker and pitched the idea, which she flat-out refused. Over the next three days, I asked four other banks and they all said no. At that moment, my property-flipping career was over before it had ever started.

But I didn't give up. I kept looking and finally found a local community bank that agreed to a meeting! This was further than I had gotten with the first five banks. The local banker asked me to bring my current and previous tax returns—and my wife—to the meeting. I wasn't sure why my wife needed to come as well, but at this point I wanted to get a deal done so I was ready to oblige.

On the day of the meeting, my wife and I drove to the community bank and arrived 15 minutes early; we didn't want to be late. The meeting started, pleasantries exchanged, and a few questions were asked about our personal lives.

We then discussed the project at hand and the financial need to make it happen. Within a few minutes, the banker quickly spun around in his chair, turned his back to us, and started typing on his computer. He made no comment to indicate what he was working on. Five minutes later, he turned around and said, “Here is your commitment letter: 100% financing and 100% renovation. We can close in 30 days or less.”

“Huh?” I murmured. He said again, “Here is your commitment letter: 100% financing and 100% renovation. We can close in 30 days or less.”

Moments later, I picked myself up off the floor! WOW! All those no’s suddenly didn’t matter. Through perseverance, I had achieved what I needed to get the job done.

A few months later, the owner of a 12-unit apartment complex behind my 18-unit complex approached me about buying his units. Again, the banker gave me 100% financing with 100% renovations. It took only three months to complete all of the renovations and lease up the units**. In less than 8.5 months, I bought, renovated, and sold the 30-unit complex for a $223,000 profit!**

Had I quit after the first “no,” I wouldn’t have had this opportunity—or earned the profit. This single opportunity led to the next opportunity, which led to the next, and so forth.

In searching for your own financing, you will be told no. But don’t take no for an answer. Dig in, ask questions, do research and, if necessary, adjust your pitch, your model or your plan. But don’t give up on your passion.

What's more… you will be told no, you will fail, you will make mistakes. You will have all kinds of things happen to you. But each time, just dust it off and continue to pursue your goals.

How do I know? I was told no. I failed. I made mistakes.

Between 2006 and 2016, I've bought, renovated, and sold over $52 million dollars of real estate. I've also consulted on real estate deals worth over $200 million dollars. In 2014, 2015, and 2016, I was ranked as one of the largest management companies in the Piedmont Triad, owning and managing 399 units in 7 complexes.

Chapter 1

Why Flip Apartments?

Knowledge is power. Power can be used for many different purposes. In real estate, it can be used to negotiate a better deal, avoid mistakes, and grow your business.

When approaching a real estate deal, or any business deal for that matter, develop the mindset of being not only a diplomat but also a spy. If you have ever studied history, every country/government from the beginning of time has used spies to gather information.

When you are buying a property, you need to know everything you can from person possible: tenants, vendors, utility companies, the housing authority, government agencies, managers, maintenance staff, neighbors, business owners, blogs, online searches, and anyone or anything else you can find.

The more you know about the property, the better the deal you will make. Because the better the deal you make, the larger the profit you will make.

The purpose of this Apartment Flipping book is to educate you on what you should know. I have attempted to cover everything one needs to know about finding, financing, fixing, and flipping apartments. If I've missed something, please accept my apologies and let me know about it immediately at NathanTabor.com.

Why Flip Apartments?

Simple. To make MONEY!

Apartments are a tangible asset. It is brick and mortar that is valued by its cash flow. If you run the deal right, you can make mad money. You can flip the complex to another buyer or you can flip the apartment into your portfolio.

So whether you plan to hold or flip, you can make money as long as you do it right.

For the purpose of this book, apartment complexes refer to any apartment/multi-family dwelling that ranges from a single duplex to large complexes.

Why flip multi-family apartment complexes over single family homes?

Same Time. Same Money. Less Risk and MORE PROFIT!

With a house, you have ONE income! You are either collecting 0% or 100%. There is NO room for error.

The value of a single-family home is determined by the recent neighborhood comps. No real value is given to cash flow or the potential to cash flow the property. So there is ultimately no real way to increase the value of the home. The value is set by other sold homes in the same area.

With multi-family apartment complexes, you have multiple sources of income. A duplex is two units. If you have purchased the complex right, then one paying tenant should cover your costs.

The value of a multi-family deal is based on cash flow, known as a cap rate.

Example:

The cost of a single-family home is $50,000. The cost of a duplex is $50,000. Both need $15,000 worth of renovations. So the investment basis in each deal is $65,000.

The single-family home is worth $80,000 after renovations. That means you have the potential to make $15,000 before commission and holding costs.

The duplex also has a real estate value, but it is determined by cash flow. Based on each side of the duplex renting for $750, the value would be $90,000. This is based on a 10% cap rate with 50% expenses. See the section on cap rate to determine how value is established.

In the end, the same amount of money was spent. And the same amount of time was invested. But the return on the duplex is far greater than the single-family house and the financial risk is considerably lower.

CRITICAL TIP: Being a Broker vs. a Flipper

People ask me all the time why I'm not a real estate broker. The answer is simple.

Brokers are required to disclose any and all information they know about the property.

When flipping a property, you will learn things about the units that will need to be fixed. As a broker you would be required to disclose any and all information you know about the property. This creates many issues and it also opens you up personally to a lawsuit.

Chapter 2

The Greater the RISK
The Greater the REWARD

Nothing worthwhile comes in life without the risk. The same is true for business. As a multi-business owner, I like to stay risk averse. That means knowing just how much risk is acceptable and how much risk may be too much of a gamble or totally unrecoverable. Sometimes the greatest successes come from taking the biggest risks. But many business owners and entrepreneurs have fallen victim to taking on too much risk—especially at the wrong time. So let's talk about how you can evaluate a property for its value while assessing it for its risk.

Evaluating a property is similar to peeling back the layers of an onion. With each new piece of information, you get a better idea of what the core project will be. That is, what will need simple fixing, what will need renovation, and what will need a complete overhaul.

This is where you'll need to see beyond the surface mess and problems to determine if there is money to be made. This is where you have to assume that there will problems uncovered as you go… problems you can't yet see. At the same time, you need to execute a plan that protects you and your finances. This is where you have to be able to see ahead—way ahead— to the finished product and the investment potential it holds.

This professional guide is written from the point of view of both flippers and investors. And it's written specifically for those house or commercial flippers who want to find the real estate deals that have a major upside to them. When you find these deals, be prepared to discover a "mess." These investment potential properties will all have issues, and it may look like they need to be bulldozed! But always remember, the bigger the mess the better the deal. It only looks as bad as it does because no one else is willing to roll up their sleeves and get to work. So get ready to dig down to get to the heart of the matter.

Let's break it down into simple terms:

- If the location is bad, the property is worth *less*.
- If the property isn't leased up, the property is worth *less*.
- If there is deferred maintenance, the property is worth *less*.
- If the property is in great shape, in a great area, and has great tenants then the property is worth more.

3 Steps to Weighing the Risks

It's essential to make sure that you examine all the pros and cons of apartment and property flipping before you get into the business. There's a lot that can go wrong, and there are always lots of variables at play: the economy (local, regional, and national), local government, property issues, contractor availability, unforeseen problems, and much more. It's prudent to weigh all of the factors to ensure that you know what you are getting into.

After all, you can now find several shows on cable networks that focus on investors saving unwitting property flippers who were unprepared for problems and disasters that left them without funds or the wherewithal to fix it. So it's in your best interest to navigate the following three steps before stepping foot into the property flipping space.

First, open your calendar and make sure you have the time to manage the entire apartment flipping process—from the big things like keeping contractors on schedule and payments and inspections on time to the smaller things like selecting finishes and incidental decisions that can play a larger role than you initially think. If you aren't willing to make the time now to do the legwork, it's going to be hard to make the time when it really matters.

Second, make a list of every reason you should and shouldn't flip apartments. Include pragmatic issues as well as your hopes and fears. These all play into the reality of your new undertaking. Then go sit down and review them with someone you trust. Count on that person to help you add even more to both sides of your list as well as talk in depth about each pro and con.

Third, recognize there is potential to ***make*** a lot of money and there is also potential to ***lose*** a lot of money. If you're supporting a young and growing family, this may not be the right time for you to manage this much risk. Then again, if you are financially comfortable then apartment flipping may be a viable career option.

These three simple steps will help lay the path to your business success.

Chapter 3

Getting Started Without Money

What can you do if you don't have money or can't raise money? There is still HOPE!

Owner Financing or Partnership

First, find an owner of an apartment complex who is frustrated with owning an apartment. However due to vacancies and/or property mismanagement, the owner is unable to sell the complex at the desired price. Make sure the current owner has enough money on hand to cover expenses if your cash flow doesn't allow. And check that cash reserves are established to cover any unexpected shortfalls.

Second, you will need cash flow or reserves to renovate any unleased units. Make sure this cash flow is coming from the complex. Otherwise, you can negotiate with the property owner to deposit funds into an account each month until the cash flow can cover the necessary expenses. Don't fall victim to taking over a headache that now becomes your headache, after which the owner blames you because you couldn't deliver what you promised.

Third, develop a written plan of action that you and the owner both agree on. Your plan of action should contain as much detail as possible and cover any possible and unforeseen contingencies. Always plan for the unknown.

Fourth, negotiate a purchase option to buy the property at a set price. You'll want this agreement in place BEFORE the property is stabilized because once the property is stabilized it is worth more! Execute all necessary legal documents before proceeding with the deal.

Fifth, once the signed contract is in place, start working on improving the property. The top two ways to immediately improve any property are to provide better maintenance and decrease both one-time and reoccurring expenses.

Sixth, once the property is stable and generating more income, you can either exercise your option to purchase the complex (as per previously established agreement) or you can flip your contract to another investor. Ensure that **<u>everything</u>** is in writing, and nothing is left only to a verbal agreement, understanding, phone conversation or handshake!

Get Creative!

The bottom line is that if you are determined to be a real estate investor then go ahead and do it! It may be what you think you want now. And it might not be the path you want in the end. Or success and money might not come as fast as you want. But as with anything else in life worth achieving, obtaining your dream most likely isn't going to be easy and it will take a lot of sweat equity, hard work, and determination on your part.

So, if you don't have money to start your project and you can't find an owner to provide owner financing or give you an option to buy, there is still another idea: become an expert!

- Become a property manager. Learn the business of marketing the complex, leasing units, collecting rent, filing evictions, and turning units. This experience will give you a working knowledge of the ins and outs of managing and maintaining an apartment complex.

- Become a handyman or contractor. From how to purchase materials to working with contractors and doing the work yourself, learning the ropes will save you a lot of money while you navigate the process.

- Become an apprentice. Find a management company, contractor or investor who needs a right-hand person. Learn their trade. Listen to how they conduct business. Surround yourself with people who are smarter than you. Then listen to their experiences, take their advice, and follow through.

Just know upfront that you aren't going to be handed your dream on a silver platter. But know that if you want it, you can make it happen!

CRITICAL TIP:

Be careful! If you take over management, maintenance or rehabilitation of a property and give the owner your personal guarantee, you can be liable if you default. These steps should be taken after you have done your due diligence. See Chapter 16: Due Diligence.

Chapter 4

Define Your Niche

Imagine walking into an ice cream shop and saying, "I would like some ice cream." What is the FIRST thing the person behind the counter is going to say? What flavor? Cup or cone?

Telling others you are a "real estate investor" has the same effect. It doesn't define you or what you do.

When describing your niche, you have to be specific: Nathan Tabor is a real estate investor who focuses on Class C apartment complexes with major deferred maintenance and occupancy issues.

Accurately defining your niche is critical. If you simply tell someone you want to purchase real estate, they aren't going to buy in to your plan. In their mind, they are probably thinking this person has no real concept of what they want to do.

4 Steps to Defining Your Niche

I found my niche. And you can find yours too! My niche was rundown apartment complexes with serious, deferred maintenance issues and extremely low occupancy. You will never make serious money flipping apartments if you don't find YOUR niche.

Truth be told, if you don't find your niche in life, you won't be content and satisfied. Likewise, if you don't find your niche in apartment flipping, you will waste a lot of time and energy.

Step One:

The biggest factor in finding your niche is determining how much money you have for a down payment. Banks currently require on average 20% of the property value down to purchase apartment complexes.

So ask yourself these questions: How much money do you have or how much money can you raise from investors? If you can get $20,000 up front, then you can do a $100,000 deal. $100,000 will get you a $500,000 deal and $200,000 will get you a $1,000,000 deal.

This is a crude, but realistic example. If you try to negotiate deals outside this parameter, you will cause yourself financial trouble.

Step Two:

Establish what you want to achieve and define your ultimate goal.

Are you trying to complete one project per year while keeping your current job? Or is your intent to strike out on a full-time venture?

This is extremely important because the world of real estate is vast with so many different options, you can spend all of your time chasing deals but never acquiring or finishing one.

I have one “friend” who started flipping at the same time I did. As of January 2017, he still hasn’t flipped a deal but is still trying. One month he is working on a $500,000 deal, and the next time I hear from him, he is working on a $20 million dollar deal.

So before starting a project, define your goals and the steps you plan to take to achieve them.

Step Three:

Determine the ideal location of your investment(s). Should you buy close to home or buy in another market? If your plan is to be involved in all aspects of the renovations, you’ll want to live closer to the property. If your plan is to buy in another market, make sure you have the infrastructure to handle what’s needed on a day-to-day basis.

Step Four:

Determine which class of complex you will pursue. Are you looking for a lower, but safe return? A “Class A” complex will give you the most security, but it also gives you the lowest return. A “Class D” complex will give you the highest return, but it also carries the greatest risk.

My greatest successes occurred when taking D+/C- deals and bringing them up to C/C+ properties.

Apartment Building Classifications

Class A: Multi-family

- Generally built within the last 10 years
- Rents are high
- Tenants are very credit worthy
- Club building and amenities

Class B: Multi-family

- Generally built within the last 11-25 years
- Rents are affordable
- Tenants are credit worthy
- Property is showing wear and tear

Class C: Multi-family

- Generally built within the last 26-40 years
- Rents are low
- Tenants are credit challenged
- Property has mild to severe deferred maintenance

Class D: Multi-family

- Generally built within the last 30+ years
- Rents are very low
- Tenants are highly credit challenged
- Property is in really bad shape

Develop your Niche

As you develop and establish your niche, you want others—realtors, friends, family, business associates, etc.—to immediately think of you when they hear a project that fits your model.

Work the local media and business journals. Every time you buy a complex, renovate a complex or sell a complex, see if you can get the media to do a story on it. Blog about your company and what you do. Take the time to understand and use social media sites, such as Facebook and LinkedIn, to discuss real estate investing. Walk others through the steps you are taking. This shows potential investors and purchasers that you know what you are doing. And it can bring you deals, investors, and buyers.

Next build a website. You don't have to spend big money to set up a website. Be honest and don't misrepresent or embellish who you are or what you have accomplished. Talk about who you are and what you want to do. People want a real person, and not a fake profile.

Finally, don't expect everything—or even anything—to just fall in your lap! It will take time and dedication to meet the right people, get the right connections, and gain traction in this industry. Success will also require hard work and a lot of no's until you find your comfortable stride. However, once you learn the right pace you will be well prepared to execute and dominate your space!

Chapter 5

Create Your Business Plan

Being Focused Is Critical

Growing up in Northern Alabama was an incredible experience for me. The community was poor, but nobody knew it because everyone had what they needed—and everyone in the community helped each other.

As a child, I didn't spend much time inside. We lived outside almost year round. From riding horses to playing hide-and-seek to painstakingly digging holes in the middle of an abandoned field, we were always outside.

The activity and the outdoors kept us in good shape. And at the same time, being outside from sunup to sundown served as a method to stimulate our creative juices.

I'll never forget the time the "one-eyed god" became an issue. My brothers and I caught the television bug and started sitting around watching TV more than spending time outside. We had even started to neglect helping our mother around the house, which made her none too pleased.

Distractions can happen in our lives from time to time. We know very well that we should be doing other things, but some other will takes over. Why? The new activity could be less stressful, it could be more fun or we could simply be procrastinating. The reason doesn't really matter, however. What matters is recognizing the idleness, standing up, and snapping out of it.

Eventually we told our mother we would do just that. And we did… for a short time. Then we went back to our old ways of watching TV. This cycle of activity and inactivity went on for several months until my mother had finally had enough. She walked into the den, unplugged the TV, and proceeded to cut the cord in half with a pair of scissors! He announced that if we couldn't get done what needed to be done on our own, she would leave us no alternative.

So the moral of this story is that if you have something in your life that is holding you back from achieving what you need to achieve, then it's time to cut the cord! And when the time is right, you can come back to the activity and enjoy. Truth be told, it was four years until our mother allowed us to watch TV again. And you know what? We didn't miss it one bit!

The Importance of a Business Plan

Not having a business plan is like taking a family vacation without making any plans. If you show up to the airport on the day you want to travel, you may or may not get a flight. If you do, it could cost you more than you planned. You might have to wait several hours to board an available flight. Or maybe you could miss the flight by thirty minutes because you didn't get there on time.

If you do get on a flight then, where are you going to stay once you arrive at your destination? And if you leave your wallet and driver's license behind, what will you do then?

So, you don’t just wake up on a Monday morning, jump in your car, and start driving to a destination. If you do, others will think you have NO common sense. NO purpose. NO vision. NO organization.

This is what an investor or bank thinks when you don’t have a detailed, specific business plan. The business plan is your official roadmap, and it has all the necessary details of how you are going to fund and operate your business.

Your detailed business plan establishes your niche. This single document is your greatest asset in securing an investor or bank financing. You need to spend a great amount of time, thought, and research while writing your business plan. Then you’ll need to work hard to refine it… and then refine it again. The result should be that anyone should be able to read your business plan in about 10 minutes and know exactly what you want to accomplish and how you plan to get there.

The number one benefit of having a business plan is to create a roadmap or step-by-step plan for yourself. Your business plan forces you to focus on and develop your primary message and identify your specific niche. The sooner you can clarify your message and niche, the sooner your business will take off. For more information, see **Chapter 4**

CRITICAL TIP:

I highly encourage you to consult a business professional or mentor in helping to write your business plan. There are hundreds of ways to write a business plan, so the following information should server as a good starting point.

The number one rule when writing a business plan is NOT to make it a fluff piece. Make it realistic and honest. After all, if you fudge the details on the report, you're only lying to yourself. And accurate roadmap to success will get you there a lot faster than one filled with falsehoods and half-truths. For example, if you state that you want to start flipping real estate and plan to have a $20 million portfolio within two year, that isn't realistic. Could it happen? Sure! Anything can happen. Is it the norm? Absolutely not.

Let's take a look at the necessary elements of a business plan.

Executive Summary

The Executive Summary is the most critical and important part of your business plan. It is the hook that will keep someone—a banker, an investor, a business partner—reading. Your Executive Summary serves as an overall summary of who you are and what you want to do. It is a 10,000- to 30,000-foot look at the path ahead.

The subsequent parts of your business plan allow you to expand on your executive summary. I find it prudent to leave the executive summary for last because it's hard to summarize the topics you have yet to cover. Once you gather and report all the information below, you can simply take the highlights of each section and combine them to build your Executive Summary.

Some sections can be paragraphs or even pages long, but it's ok if some of these sections contain only one or two sentences. Include details, but don't be boring. After all, you are telling a story, and you want it to be a compelling story. Do NOT chase rabbits! Meaning, focus on what your goals are and the help you need to accomplish your goals.

Company Description

Describe your company's legal structure, mission statement, vision, goals, and target market.

Example: Company Legal Structure: A North Carolina LLC.

Market Analysis

There will always be properties to flip. The true issue will be finding the deals that fit your business model. Research the market; pull comps (comparables) by working with a local real estate broker or using a website like loopnet. By the way, it will be in your best interests to have a one or two good real estate agents in your back pocket. They can help you look for deals and notify you first when one comes available.

Organization & Management

Do you have other parties involved in your business? If so, this is where you list their name(s), title(s), responsibilities, and prior experience.

You can also discuss your plans to manage the renovations in this section, along with who will be the property manager.

Positioning/Niche

Define out exactly what you want to do, where you want to do it, how you are going to do it. If you want to focus on duplexes and quadplexes, then describe how it will be accomplished. You can address items like working with licensed contractors or performing the work yourself.

Finding Deals

See Chapter 10: The Art of Finding Your Deal

Funding Request

Now it’s time for the big ask. You’ll need to detail how much money you are requesting and exactly how you plan to use it.

What terms you are offering? If you’re certain about what you can offer, then go ahead and include that in your funding request. However, I would suggest omitting this information so you can negotiate the terms as you go.

CRITICAL TIP:
Acquiring an investor is 10 times easier if you have real property to show them. It is easier to say I need $20,000 to purchase, renovate, and flip the property located at 123 South Main Street than it is to get funding for the next deal you might find.

It is also hard to find a property if you don't know if you can find an investor. If you are in this situation, then I recommend taking the following actions:

- Pull comps on 3-5 flips in the area.
- Build out an investment packet based on these numbers.

Once you have your investment packet prepared, and then start seeking investors. Show them the packet. Then ask them if you can find these types of deals, how much would they invest? Once you have solid commitments from investors, and then go find the property. Finding the right property WILL take a lot of hard work and diligence no matter how you put your plan together.

Immediate Steps to Take:

Develop your plan. Be honest with yourself. Where are you now? Where do you want to be? What are you willing to sacrifice to get there? Once you have this written, convert it into a plan of action.

Be diligent with your plan. Review your plan often. Discuss it with others. Research the best ways to reach your goals. Ask questions. Turn over every stone. Stay on top of your plan and when a problem arises address it immediately.

Deliver your plan. Confidence and passion is important in reaching your goals. Be ready to share your vision with others. Remember, only YOU can achieve your goals! (But you might need the help of others along the way.)

Don't fear failure. Fear being in the exact same place next year as you are today!

Chapter 6

How to Date an Investor

As with romantic dating, there's a right way and a wrong way to approach a potential investor. There is definitely a fine art to dating an investor, so you'll want to take special note of this chapter.

Don't approach someone and ask, "Hey, will you help me buy real estate?" It's an ineffective approach and makes your potential investor think that you don't take them seriously and that you aren't serious about what you are doing.

The first people you should 'date' are the 'low-hanging fruit,' like family, friends, co-workers or people you have met in the industry. But don't take advantage of a close or friendly relationship by not taking them seriously. When you ask someone for money, they want to be taken as seriously as if you were approaching a million-dollar investor. So when you approach those familiar to you, have a plan. See Chapter 4: Define Your Niche. Make sure that your plan is both doable and reasonable. As time goes on, the size of your deals will grow. This growth concept applies to all real estate investors, including myself. The deals I can do today are 4 to 6 times greater than when I first started investing in real estate.

A person with passion is hard to stop, especially if they have a plan. However, too many times, a passionate person doesn’t know when to stop talking. Have you ever been in a meeting when a sales rep is pitching you and the pitch goes on and on and on… and before you know it, this person can help you do everything in the world!

CRITICAL TIP:

Do NOT talk about ALL your plans to take over the world! Would you show up on your first date dressed up in a wedding dress or tux? If you did, your date would run! And if they didn’t run, then you certainly should! Be realistic in your approach!

For example, I once had a meeting with a very successful business man who was struggling to get his coaching career off the ground. After meeting with him for 10 minutes, I stopped him and politely asked what he was best at doing? What could he help me the most on? What was he most passionate about?

You see, within 10 minutes he told me that his coaching catalog included 180 topics. As he started listing them, my eyes glazed over and my mind started wondering, “WOW! That’s a lot of topics! I wonder if he could recite them all.”

Now, here’s the oddest part. I know this person, and he certain knows about all 180 topics. But even I became bored and skeptical. So, when you step foot in the real estate market and start looking for investors, don’t be that person who knows everything and can do everything. Appr oach the courtship of your investors like dating. When you start dating someone, there are expectations, standards, and processes that inevitably take place.

- **Look your best and be your best!** Put your best foot forward. Don’t show up looking like a scrub or a pimp.
- **Don’t discuss marriage and kids on the first date!** In other words, don’t go for the hard sell right away. Yes, the person sitting across from you might be that person one day, but no need to jump the gun. You will scare the person off before anything can ever go anywhere.
- **Take baby steps and develop the relationship.** Please know the other person has an interest in developing a relationship with you or they wouldn’t be having a ‘date’ with you.
- **Don’t let your impatience ruin a good thing.** Build your foundation on mutual respect and getting to know each other one brick at a time. Yes, have your plan in place, but there’s no need to reveal it all at once.

The Four Stages of an Investor Relationship

How long you stay in each stage depends upon you and your investor. Full disclosure: just like dating, you may never make it out of a particular stage when courting an investor—and that’s ok. Just like dating, not ever date leads to romance or marriage. Some dates, though, lead to great friendships.

Stage One: Attraction

Everyone will have to go through this phase. It's the allure of a deal, the idea of making money, and seeing what the future holds. The investor is very interested in what they have seen on the outside. There is compatibility and high interest in learning more about each other.

Stage Two: Spending Time Together

Numbers are shared. Deals are discussed. The nuts and bolts of the relationship are coming together and this is one of the hardest phases. If what you said during the attraction stage was exaggerated, the investor will see through it quickly. If there are flaws in your plan, your investor will start to lose focus on you and your deals.

From here you either move on to the Disappointment Stage or the Stability Stage.

Stage Three A: Disappointment

You have lost the investor and will have to start back at stage one with another investor. Study what went wrong. Ask the investor if he/she will give you feedback. Take your packet to a family member or a friend and examine it with them. Find the issue, and address and fix it immediately.

There could be a problem with your deal OR it's possible that your deal doesn't fit that specific investor's model.

Why did an investor back out? Your deal can be strong and worthy of any investor. But that doesn't mean every investor will be interested. Why?

- They might not have the money to do the deal and don't want to tell you.
- They might not be interested in the type of deal presented.
- They might not be interested in the level of risk.
- They might need time to warm up to the idea.

Whatever the reason for your deal falling through, do NOT take it personally. And don't burn any bridges. You never know when this investor might come around or when a better deal might pique their interest.

Stage Three B: Stability

You and the investor draw up the necessary paperwork and plan of action. You will have 'disagreements' at times, but you'll focus on the overall goal and make sure that you work hard to be an honest and ethical partner.

Stage Four: Commitment

You sign the documents and move to close the deal. Once the first deal is done and you know each other, you can start pitching other projects and ask the investor to introduce you to other potential investors. You will want to grow your portfolio, and to do so you will need as many investors as possible in your portfolio.

CRITICAL TIP:
When working with investors, make sure you negotiate, negotiate, negotiate.
There is NO standard percentage or payback time.

5 Basic Steps to Raise Private Money

Everyone I know is looking for an investor and their plan to make money is the best you have ever heard! They are going to flip real estate. The reason they haven't started yet is all the same. They can't find anyone who wants to invest with them.

As you read the paragraph above what is your first thought? In a nut shell, my thought is they must not be trying hard enough or don't know what they are doing.

How do you change this?

First, define your niche.

Second, anytime you can share your niche with someone do it. Family, friends, coworkers, neighbors or anyone you come into contact with. Tell them about the opportunity and share with them how much money you need to raise.

Third, share your business plan with them and the return you are offering. Typical return on private money is 8-12% but everything is negotiable. On my first few deals I had to offer 12% and a percentage of the profits.

Fourth, talking about a deal verses presenting a real deal is totally different. The sooner you can find a real deal the more likely you are to land an investor.

Fifth, learn the process of how someone can use their 401k, home equity, personal loan to get a higher return in real estate investing.

People work hard all the time to reach their goals. However, sometimes people don't work smart to reach their goals.

Chapter 7

How to Create an Investor Packet

In my opinion, it is better to NOT have an investor packet than to have a horrible one or one that is has missing information. An investor packet that is properly constructed will help you with your bank and investors.

Here are a few tips to keep in mind when creating your investor packet:

- The potential of the deal is the most important element.
- The design of the packet needs to be professional.
- Make it easy to read and follow.
- Create a hook. Why this deal is too good to pass up?
- Share the backstory of the property. Provide details about how it got to this condition.

Elements of an Investor Packet:

Cover Page

Provide all relevant information on the cover page. It is basically the index page of a book. Items to include on the cover page:

- Property photo
- Property name and address
- Property asking price
- Property cap rate
- Your name and contact info

This page highlights the deal (not for promoting your business).

Property Highlights

Bullet point the benefits of the deal:

- Purchase price
- Renovation costs
- Completed value after stabilization

Tell your potential investor why this is such a good deal. For example, it's in a good neighborhood with good schools.

Property Photos

You can take the photos yourself or get them from the listing broker. You can also typically find images through an internet search or from the tax card.

Just remember two things:

- The better the photos, the better the packet.
- All photos should be realistic in case your investor visits the property.

Location

List the property address here again and take a screenshot of a Google map. It is important to describe the area and any possible amenities: proximity to dining, entertainment, parks, venues, etc. For example, there is a grocery store 0.7 miles from the property. If the investor is on the fence with the deal, the location may either help or hurt.

Also detail the property's proximity to local roadways, intersections, businesses, and any other relevant information.

Current Cash Flow Analysis

Provide documentation that supports what the property is currently collecting (Rent Roll) as well as the current expenses. To determine the property value, see the Cap Rate section in Chapter 12.

Projected Cash Flow Analysis

How long will it take to stabilize the property? What will the property collect once it is stabilized? What are the projected expenses? Plan to build out this section and thoroughly explain your numbers.

Think you can raise rents each month? Explain why. For example, the current rent is $100 under market rate. There are five complexes within a two-mile radius that rent for $600 a month and the current rent for your property is only $500 per month.

Renovations Needed

Detail how much money will be invested in renovations, what renovations will occur, and how long it will take to complete the renovations.

Area Description and Market Data

This section becomes more relevant as the dollar amount of the project grows. Here are some questions you'll need to answer in this section:

- Where area of town is the complex located?
- What are the demographics of the current tenant base?
- Is the crime in the area going up or down?
- What are the employment trends in the area?
- Are businesses creating new jobs or losing jobs?
- Who are the major employers in the area?
- What are the population growth trends?
- What are the area vacancy rates?

Most of this information can only be found by paying for a service or working with a real estate broker.

This structure is the primary foundation for your investor packet. However as you work with different investors on a deal, you may find that you need to add or delete other elements.

Disclaimer

You need to add a disclaimer notice on your investor packet. You always need to add a disclaimer to anything you do. If you don't know if something is legal, then contact an attorney for confirmation. Many investors have found themselves tied up in legal issues, so be sure that you're doing everything by the book before you get started.

Chapter 8

How to Structure a Promissory Note

Real estate investing can be an interesting business at times. But raising capital from family, friends or random people can create major problems. Because money is money and people's tempers can flare when they think things aren't right, having the right paperwork in place helps you avoid most of these issues. Raising money through a promissory note is some of the quickest money you can solicit.

Promissory Note

A promissory note is a contract stating the terms of the loan. It creates an obligation for the borrower to repay a loan back to the lender. This type of guarantee is standard practice in lending. Banks use their own forms of promissory notes. Having a promissory note is wise for you as you start your business. It outlines exactly what you are getting and how you plan on paying it back. So, if there is ever a discussion about terms, all you have to do is pull out the note.

A promissory note also gives your investor confidence that their loan is documented. It is truly a win-win situation for all parties involved in the deal.

Disclaimer: Consult with an attorney and accountant on how to best structure a promissory note for your company.

Legal Points of a Promissory Note

- Your name, company name or both
- Investor's name, company name or both
- Execution date
- Amount of the note (written in both numerical and long form)
- Describe the note terms: structure, interest, term, amortization schedule, date of first payment, date of last payment
- Establishment of loan: unsecured or secured.
- Payment arrangements: wire, online, mail, check
- Signatures of both borrower and lender
- Notarization

Charging Interest

When borrowing money, state and federal laws govern how much interest can be charged. Do an internet search for your state using a phrase like, "laws for interest rates," and you will find the information you need.

Keep in mind that the greater the risk, the greater the chance you will be paying a higher interest rate.

Pledging Security

The main advantage of borrowing money versus selling equity is that you hold onto full ownership of your business.

You also reap 100% of the profits. The main disadvantage of borrowing versus selling equity is what are you will pay for borrowing the money and what is needed to secure it.

You will either have an unsecured note or a secured note. If your promissory note is unsecured, you have collateral or personal guaranteed on the note. This type of note is hard to come by.

The lender might want collateral and they might not. Don't offer collateral unless the lender asks for it.

If they do ask for collateral, it could be your house, your car, your personal guarantee or a combination of many different things. Make sure everything is listed in the promissory note and include as much documentation as possible.

Do NOT state that "this note is secured with my vehicle." Some people may own more than one vehicle, so be specific about which vehicle is being used to secure the loan.

Do state that "this note is secured with my 2015 Chevrolet Tahoe with vin number________."

Repayment Terms

The first rule in determining repayment terms is what you can afford to repay. Do NOT sign a note that you know you can't honor. I also highly suggest NOT signing a note that negotiates as much time as possible. The terms of your note are all subject to what you negotiate. Your first payment could be due in 7 days or it could be due in 24 months. It could be a 90-day note or a 10-year note. It could be interest only payments with a balloon payment on a scheduled date.

CRITICAL TIP:
If possible, make sure your note has an extension in case you can't make the first deadline.

There are three main repayment structures:

1. **Amortized Payment:** Your payment is the same each month—just like your car payment. A portion is interest and the rest is principal. At a set date, the note is paid in full.

2. **Interest Only:** Your payment is interest only. The principal balance isn't being lowered. At the end of a set time, the full principal amount is due. This is known as a balloon payment.

3. **Amortized Payment with Final Balloon Payment:** Your payment is set each month, and the note term doesn't cover the amortized schedule. For example, the amortized schedule is five years but the promissory note is one year. You pay the interest and principal for one year, and the final payment is the outstanding principal balance.

You'll also want to negotiate in advance how you might handle the following situations with your lender:

- Missed payments—How many days of grace do you have? When can the note be called?
- Prepayment penalty—is the lender locking you into a long-term, high-interest note?

Here are a few more points to remember when negotiating your promissory note:

- You have to pay back the monies you borrow in the timeframe outlined on the note.
- A promissory note is a legal and binding contract.
- There are hundreds of ways to structure a promissory note.

Need a promissory note? Visit Docs.NathanTabor.com to learn more.

Chapter 9

Navigating Bank Financing

The minor details are what normally trip you up in life and business. For example, take the simple task of forgetting to pick up a gallon of milk on the way home. Is it a big deal if you forget? That depends on who you ask. But one thing is certain: you could have avoided the situation if you had done what was needed.

Getting a real estate deal financed is no different. You must have all of your facts together with evidence to back them up. And you must cover every detail—even the unexpected. If you're not thorough, your banker may wonder how competent you truly are. Think about it. If you want to renovate an apartment complex that requires attention to detail and you can't get your financials together, what is the bank going to think?

So if you want to get a deal done, take the time to understand what's needed by the bank. Here are four things to keep in mind.

First, I highly recommend before you submit a packet to anyone that you consult with a commercial lender to discuss your plans. Find out what they need to have in hand to get the deal done.

Second, banks have a certain way they like to underwrite deals. Giving them a proper packet makes their job a lot easier. It also makes you look like you know what you are doing… because you do!

As an aside, remember that banking has changed drastically over the last few years and it still continues to change because of federal regulations. Just because a step was necessary last year doesn't mean the same will be true for this year. Stay on top of any banking regulations and changes so that you are always up to date.

Third, when you take a deal to the banker it needs to have as many of their questions answered as possible. This means you must have all aspects of the deal covered to garner the best chances of receiving the financing deal you need.

Fourth, traditionally a bank will finance 80% of a deal, meaning you will have to bring 20% to the table. So for every $100,000 of financing, you can expect to provide $20,000 down.

What Your Bank Needs

- 2 years of tax returns: If you own a business, they will want to see both personal and business tax returns.
- 20% down payment: Verification of funds may or may not be required. If you are raising money from investors, make sure you know your numbers up front so you can plan accordingly.
- Credit report: You can pull a credit report to show the banker your current credit score, but your banker will also pull their own.

- Personal financial statement: This document details all of your assets and liabilities.
- Property analysis: See Chapter 12 on Calculating the Cap Rate.

Need a personal financial statement?
Visit Docs.NathanTabor.com to learn more.

CRITICAL TIP:

Make sure ALL documents you present to the bank are accurate and can be verified! Your personal financial statement will include both assets and liabilities. If you state that you have $52,000 cash in your home safe, the bank will need to verify this asset. And the only way to verify this asset is to make a $52,000 cash deposit into your account.

What if you state that you have $30,000 in revolving debt? Is that accurate? If not, the bank will know when they pull your credit report. If you are off by a few thousand, the bank probably won't blink. But if the debt is truly $60,000 the bank will raise a red flag regarding the accuracy of your numbers.

It's always best to be truthful than try to hide any financial information. You do NOT want to give the bank any reason to not work with you. You don't want to give them any doubt that you are who you say you are and you can do what you say you will do.

CRITICAL TIP:
Find and meet with 3 commercial bankers in your area. Tell them your niche and ask them if they finance these types of deals. If they say yes, ask them to underwrite you and give you an amount they would finance. If they say no, ask them if they know who does finance your niche.

Securing Your First Deal vs. Future Deals

When you start out on this first project, there is a process you need to follow. And the first process is getting the deal financed!

Getting your first deal financed will be the most challenging and hardest of all of our future business ventures. You have numerous factors working against you, but that doesn't mean it can't be done. It just means you will have to work much harder.

Remember, the first five banks I approached for my first deal all said NO! The sixth bank not only financed the deal, but they covered 100% of the purchase and renovations. The only thing that could make it better would have been no interest and non-recourse.

Growing up, my granddaddy used to say he couldn't afford a new car for three reasons. The first reason was he didn't have the money, and the other two reasons didn't matter. You can have this attitude if you choose, but it won't help you in real estate.

Banks today don't fool around. They are required by the federal government to underwrite to a certain level, and they must have all files and documentation in order. Having a relationship with a banker will get you in the door. Having a well-structured loan request tremendously increases your chances of getting funded.

Understanding Loan Terms

Understanding what you are signing is very important. If you don't understand the loan terms, then by all means ASK!

Your loan term will be defined by the length of the note. The amortization is how the principal and interested are paid over time.

If you have a five-year note and a 20-year amortization, at the end of five years there is an amount owed that you either have to pay in full or refinance. If you have a 30-year note and a 30-year amortization, then when the 30 years is up the property is paid off.

Understand Interest Rates

Interest rates vary all over the board. The higher the rate, the higher your payment and the longer it takes to pay off the principal balance. Above all, make sure the payment fits within your flipping budget.

Loan Fees

Loan fees are charged by the bank to cover their time of financing the deal. One percentage point for loan fees is average, but I've seen it as high as 5% with non-traditional lenders. This is money you pay at closing, so lenders will not finance it.

Third-Party Reports

Third-party reports are paid by you, but ordered by the bank. Traditionally, the bank will allow you to pay these reports on the closing statement. Do keep in mind that if the deal doesn't close, you will still owe the payment for these reports.

Pre-Payment Penalty

A pre-payment penalty, also known as a "pre-pay," is an agreement between a borrower and a lender that stipulates the penalty for early payoff.

Let's say you owe the bank $500,000 and your goal is to make $100,000 on flipping the property. But there is a 5% pre-payment penalty for paying the bank note off in the first 12 months. Then you aren't going to make $100,000 because you will owe the bank $25,000 in prepayment fees. Most bank notes today have a five-year pre-payment schedule. The first year is 5%, the second year is 4%, the third year is 3%, the fourth year is 2%, and the fifth year is 1%.

Not catching this little piece of information can throw off your entire deal.

Recourse vs. Non-Recourse

The difference between the two is a personal guarantee versus no personal guarantee. Recourse means that if you default on the property, they have the right to come after you personally if the property sells for less than what is owed on it. Non-recourse means that if you default on the property, the bank's only recourse is taking the property back.

Read through your non-recourse note and see if there are any clauses where the lender can convert the note to recourse. This typical would occur if you did something that violated the terms of the note.

Construction Loan

A construction loan is a short-term, interest only loan and allows you the time and money to fix the issues on the property. Make sure you ask the lender if they will finance a construction-to-permanent loan because when the construction loan comes due, you need to have an option secured for a permanent loan.

Title vs. Attorney – Varies by State

Get to know a title company or a local real estate attorney (a.k.a. "dirt lawyer"), depending on how your state closes real estate deals.

Day of Closing

You may find that your scheduled closing gets delayed—not once, but many times. This was quite frustrating for me in the beginning. Plans had been made and money had been counted, but then closing day came and there were issues or questions or someone was dragging their feet. It took a few deals for me to understand that I needed to take a depth breath and be patient. The deal was too close to finishing and too much work had been done to throw it away at this point in the process. The other big issue may be with the realtor and banker. They were many integral parts of my business success, and if I acted like a big, spoiled baby, I could damage future deals.

Remember that unforeseen things will happen before you get your property closed. Focus on the bigger picture and you'll be able to manage anything that comes your way.

Property Valuation

The bank will want to know how you arrived at your valuation of the subject property. The more concrete numbers you can give them in writing, the better your chances of getting a loan will be. See Chapter 12 on Calculating the Cap Rate to determine how to value a property.

CRITIAL TIP:

Prorate your expenses and income
when you buy or sell a property.

Working with a Partner(s)

At times it is necessary or simply convenient to work with a partner. A partner can help you find properties, raise funds or secure financing. Partners can also add another element to the equation. You and your partner may not agree on one or more processes. Or if a problem occurs, you and your partner may disagree on the solution.

No matter the size of the deal or how well you know your partner, it's important to clearly define the terms and expectations of your partners in writing. You'd be foolish to step into such a large financial deal without all expectations and duties spelled out in advance.

Whether you're establishing a partnership agreement or an LLC, I strongly encourage you to do it. Yes, it will take time and effort but it will be worth it!

Why? It all comes down to money. When money isn't being made, there isn't much to argue over. However, when there's money is involved, there tends to be a lot at stake. Money is the mother of all arguments. For example, when funds are needed to cover a shortfall, who's responsible to supply the funds? And what happens when a deal closes and the closing statement shows a huge profit?

If these items aren't detailed in advance, I guarantee you there will be a disagreement. And if you are lucky, there won't be a lawsuit. Either way, there will be hurt feelings and a lot of wasted time figuring it out.

Hire an attorney if necessary. If you plan on making big money and doing big deals then you will need to operate as such. If you finance a deal without the terms of the deal defined in advance, the deal will not end well for you.

Other Financing Options

- Fannie Mae
- USDA
- HUD

Non-Traditional Financing Options

- Owner Financing
- Equity Partners
- Investors
- Hard Money
- Private Money

Chapter 10

The Art of Finding Your Deal

Finding the right deal is an art form. It takes diligence, dedication and determination.

First step is making sure you have defined your niche. See Chapter 4: Define your Niche

Real Estate Brokers

Most real estate brokers, especially the really good ones, aren't going to waste their time on a 'newbie.' But you can be new to the industry but have the knowledge of an expert. You can overcome the 'newbie' label by being specific and knowledgeable regarding your niche.

Fill in the blanks with your specific information:

"I want to invest in apartment complexes on the _______ side of town ranging in price from $_________ to $_________ with ______________ (deferred maintenance) and ___________ (high occupancy)."

Becoming a niche buyer with a specific targeted asset allows others to know exactly what you are looking for and when they find it, you will come to mind. It also allows you to know exactly what you are looking for.

What happens next?

You start finding deals! You start making offers! You

But you also make that broker money, which means they will bring you every deal they can find! Defining your niche accurately is a must-do if you want to be successful.

Websites

Loopnet is the biggest source of properties online. You will need to sort through the listings to find a good deal. Craigslist is a good source and normally means the complex has issues and the owner doesn't have enough funds to pay broker fees.

Mailers

Purchasing a list of property owners is the shotgun approach. It works. It doesn't work. Never hurts to try.

Bank Foreclosures

This is a difficult method. The best shot is tracking down the local asset manager at the bank. The most time consuming way is monitoring foreclosure sales at the court house.

Tax Department

Monitor unpaid tax bills. When you contact an owner with an unpaid tax bill be sensitive to the situation.

Off-Market Deals (a.k.a. Pocket Listings)

Pocket listings are properties that are for sale, but not yet listed. To find these deals, I called, emailed, and met as many brokers and management companies as I could find.

And I told them specifically what I wanted. This is another opportunity where defining your niche accurately also comes into play.

CRITICAL TIP:
Want to kill your reputation? Cut a broker out of a deal. If a broker brings you a deal, don't ever go behind their back and cut them out of the deal.

Start building relationships ASAP! Remember to be very specific in the financing deal you are seeking. Developing relationships with others is essential to your success. You want them to think of YOU when they hear about a project that fits your niche. Take time in getting to know others who are in the industry. Pick their brain. Refer business to them.

Owners either sell their properties to make money or they sell to get out of a headache or mess. So find owners who have a headache and/or mess on their hands. Then offer to help.

Other Ways

- Classified Ads
- Investment Clubs
- Accountants
- Appraisers
- Attorneys
- Housing Authorities
- Management Companies

- Financial Planners
- Insurance Agents
- Vendors: Electricians, Plumbers, General Contractors, HVAC

Contact these sources and describe the type of deal you are interested in.

Chapter 11

7 Signs of a Failing Apartment Complex

You will know a problem complex when you see it. You will have that feeling that something isn't right. Two factors will come into play at this point. Is the owner fed up with the place? And what does the owner owe on the place?

If the owner is ready to sell but is upside-down in what he/she owes, they might not see or have a way out. You can help them out of this situation, but you will have to get creative.

Here are some signs to watch for when looking for a failing apartment complex:

Sign #1: Landscaping

The grass isn't mowed, the bushes aren't trimmed, the weeds are taking over and limbs are hanging over the roof. The overall landscaping of the complex is horrible.

Sign #2: Roof

The roof is missing shingles or has different colored shingles, making it look like a quilt.

Sign #3: Windows

The windows are falling out, held together with duct tape or were installed when JFK was president.

CRITICAL TIP:

If the complex doesn't have central heating and air, most housing authorities also require window screens.

Sign #4: Parking Lot

The parking lot isn't striped, and the asphalt has had only minimal repairs. Look for "alligatoring" in the parking lot. When this happens there are cracks all throughout the parking lot.

Sign #5: Trash

Random trash has been discarded throughout the property and the exterior of the complex isn't pleasing. Tenants have placed old couches, mattresses and furniture in the yard, and balconies are overflowing with junk.

The dumpsters are always full of trash and running over which means one of two things: the pick-up schedule isn't often enough or the trash bill isn't being paid on time.

Sign #6: Broken Down Cars

When driving through the parking lot look for cars with no tags, flat tires – cars that are broken down.

Sign #7: Maintenance

Gutters are falling off the building, exterior doors aren't painted and the overall condition of the property hasn't been maintained.

CRITICAL TIP:
Business Advice

- Always seek the counsel of an attorney and an accountant. It is money well spent to avoid future headaches.
- Always do each deal as a separate company, whether you use an LLC or an incorporation. You always want to protect yourself and your other companies.
- Always be searching for new ways to finance deals. You never know when your current source will not want to finance any more deals.

Chapter 12

Calculating the Cap Rate

When I completed my first real estate deal, I honestly didn't know what I was doing. I was out of my element and out of my pay grade. Fortunately things worked out, but they could have been a disaster. Looking back, it was truly a miracle that I didn't lose my shirt—and my sanity.

Shortly after selling the Chestnut Street property, a dear friend of mind asked me what the cap rate was. She and her husband had spent the last 40 years developing commercial strip malls and had done very well. I immediately didn't have a clue what she was talking about, but I had to give my best answer. I had several suggestions, but didn't come close.

She paused, then nervously laughed and said, "Please tell me you didn't purchase a property and not know the cap rate!" I sheepishly said, "Why yes, I did." She shook her head and said that I was lucky.

I dodged a bullet! I mean, the good Lord was looking out for me. I made a major mistake and it turned out OK. But had it failed, I would have had nobody to blame but myself.

Before you purchase any property, PLEASE make sure you understand this value.

How to Calculate the Cap Rate

Let's learn how to calculate the value of an apartment complex. The formula is quite simple and easy to understand. At first, it is so simple that it might seem hard.

Please understand this is the simplest of cap rates and certain deals might have twists or other variables that need to be considered. If you don't understand it, I highly recommend you consult a broker or real estate consultant.

Cap Rate stands for Capitalization Rate. Simply put, it establishes value. It's plain and simple. It's easy to interpret and it streamlines information.

When purchasing or selling a property, keep this in mind: the lower the cap rate, the higher the price; the higher the cap rate, the lower the price.

When selling a property, you want the lowest cap rate possible. Transversely when buying a property, you want the highest cap rate possible! Also, understand that when you buy a complex, you'll want the highest cap rate possible and the seller will want the lowest cap rate possible. Your job is to run your numbers and determine if a deal works. Don't purchase a real estate deal that doesn't make sense. If you can't get the numbers to work before the deal, I promise you will NOT get them to work after the deal.

CRITICAL TIP:
Cap rate does not include principal,
interest and income taxes

Cap Rate Formula:

Cap Rate = <u>Net Operating Income (NOI)</u> ÷ Sales Price

You take the NOI and divide it by the sales price, which gives you a percentage. You can also calculate the math backward.

NOI ÷ Cap Rate = Sales Price (Buying Price)

The cap rate is an arbitrary number at this point. To figure the cap rate, you will need to know the cap rate on recently sold complexes.

Let's break down the information needed to determine the Net Operating Income (NOI).

To figure NOI, use this formula:
Gross Potential Income – Vacancy + Other Income – Expenses = Net Operating Income

Note that NOI does NOT include income taxes or mortgage payments (principle and interest).

Let's walk through how you establish each of these numbers.

Gross Rents

To figure the NOI, you first need to know the gross potential income, which is simply how much money the property can collect if it collects 100% (or no vacancies) for 12 months.

Units x Monthly Rent = Total Monthly Rents

Total Monthly Rents x 12 Months = Total Annual Rents

Example: A 30-unit apartment complex rents each unit for $500 a month. Gross rents would total $180,000 a year. To get that number, multiply the 30 units by $500 each month. This totals $15,000 a month. Then multiply $15,000 a month times 12 months, which equals $180,000 for the year.

30 units x $500/month = $15,000/month

$15,000/month x 12 months = $180,000/year

Of course, this is a simplified formula based on all units accumulating the same amount of rent. The variable here is that you might have different rent amounts for different sized units. If that happens, you follow the same formula but separating out the different rent values.

You may have a 30-unit apartment complex with 12 1-bedroom/1-bath units and 18 2-bedroom/1-bath units. The 1-bedroom units rent for $400/month and the 2-bedroom units rent for $500/month. Then you would multiply 12 x $400 x 12, then multiply 18 x $500 x 12. Add those two numbers together to determine your final calculation.

Vacancy Rate

The above calculation is, of course, based on a perfect world. But we don't live in a perfect world. Every apartment complex is going to have at least one vacant apartment at any given time. Some apartment complexes may typically have a higher vacancy rate.

For example, a 30-unit apartment complex might have 3 vacancies. When you divide the vacancies by the number of units, you get your vacancy rate.

3 Vacancies ÷ 30 Units = 10% Vacancy Rate

Therefore the vacancy rate is 10%. So how does that equate into dollars?

$180,000/Year x 10% Vacancy Rate = $18,000/Year

You will need the rent roll to accurately determine the vacancy rate. For the example, I'm using a 10% vacancy rate here. Be sure to check Chapter 16: Due Diligence on how to verify the rent roll and occupancy.

If you have a 30-unit apartment complex and it has a 10% vacancy rate, that means that three units are not occupied at any given time. To determine the amount of money you won't be collecting, multiply the gross rents by the vacancy rate.

Here's something else to think about. Is the vacancy rate the *same* three units throughout the year? Or are three *different* units vacant each month? If three different units are vacant every month, then your expenses are going to increase dramatically due to turning units.

How can you know? Find out by reading Chapter 16: Due Diligence.

Here's the formula again:

Gross Potential Income – Vacancy + Other Income – Expenses = Net Operating Income

Remember, NOI does NOT include income taxes or mortgage payments.

Other Income

Other income is income that isn't earned through rent collection. Here are the most prevalent forms of other income:

- Laundry facilities
- Late fees
- Application fees

For this example, let's assume that $6,000 was collected as other income.

Industry experts count this as income. However, I do NOT count these numbers in my cap rate. They are subjective, and can't be relied on. If you are trying to stabilize a property and are depending on late fees and application fees to make your numbers work, then there must be another issue involved? If you have a stable property, you should have late fees and applications fees. Right?

And as for laundry facilities, by the time I pay the water and power bills, I've never made any money on laundry facilities.

Operating Expenses

Operating expenses are those expendable costs needed to operate the property. Most of these expenses can't be avoided, perhaps except for snow removal in Florida!

- Property Insurance is required by the lender. If you don't have a note on the bank, you still need insurance in case of a fire or other damage.
- Management Fees are an expense whether you self-manage or hire a management company. If you self-manage, you still have to include a reasonable expense here to pay yourself for your time and effort. And when you flip the property, the buyer will definitely add this figure in his/her calculations.
- Maintenance Fees cover issues and repairs that occur all of the time, and can be caused by tenants or general wear and tear.
- Utilities include power, water, and cable/internet to run the property management office. In addition, make sure you know who's paying for the street lights in the parking lots.
- Preventative Maintenance/Repairs cover parts of the property that have to be maintained regularly, such as roofs, HVAC, windows, paving, etc. You should change your HVAC filters regularly and

ensure that all smoke detectors have new batteries every six months.

Operating Expenses can also include:

- Dumpster/Trash Removal
- Snow Removal
- CPA/Accounting
- Landscaping
- Mowing
- Legal Fees: Evictions, Lock Outs, Court Fees
- Materials
- Advertising

Depending on the property, other expenses may be appropriate to include. Take some time to walk the property, investigate, and make sure you have covered everything.

CRITICAL TIP:
Do the tenants pay for utilities or does the property owner? If utilities are included in rent, that drastically increases your expenses and lowers your cash flow.

Examine the owner's income and expenses to determine these numbers. If something seems off, then go directly to the source and confirm the expense. If an expense can't be confirmed, then make sure your number is inflated enough to cover any and all potentials.

A good rule of thumb is that operating expenses should be between 40-50% of the effective gross income. If you see operating expenses at 30-35%, the owner could be either running a very tight ship or helping to manage the property, which cuts some costs. My average expense is 33%, but not one time has a bank or buyer ever used less than 42% of effective gross income when figuring operating expenses.

Effective Gross Income = Gross Rents – Vacancy

For our example, I took $162,000 ($180,000 minus $18,000) and multiplied that by 42%, which results in operating expenses of $68,040.

Calculating the Net Operating Income (NOI)

Calculating your Net Operating Income (NOI) is a critical area to pay attention!

Gross Potential Income – Vacancy + Other Income – Expenses = NOI

Using our same example, the calculation would work like this:

$180,000 – $18,000 + $6000 – $68,040 = $99,960

Some expenses are NOT included in the above calculation, such as things you can't control like flooding, fires, theft, and tenant-caused problems. To plan for these issues, please see section in Chapter 19 on Maintenance Reserves.

Now you can determine the value of the property—the FUN but CRITICAL part! Pay too much and you create a headache, and you do NOT make any money!

In 2015, CBRE released a report stating that the average class C complex sold for a 10.46% cap rate.

Now if you know the sales price, you can figure the cap rate. If the property is on the market for $1,000,000, you would take $99,960 and divide it by $1,000,000, which gives you a 9.9% cap rate.

CRITICAL TIP:
How do you determine if 8% is a good cap rate for this property? You must pull comps and see what other properties have sold for in the area.

If you want to go the other way and figure out a value, you would take the NOI of $99,960 and divide it by a percentage. If you are on the south side of town and the average comp is a 14% cap rate, then the property is worth $714,000. If you are on the north side of town and the average comp is a 7% cap rate, then the property is worth $1,428,000.

$99,960 divided by 10% = $999,660 property value

$99,960 divided by 8% = $1,249,500 property value

$99,960 divided by 12% = $833,000 property value

CRITICAL TIP:

Please see Chapter 16 on Due Diligence and Chapter 17 on Managing the Renovations. If a property will sell for a 10% cap rate but needs $200,000 of renovations, you can't pay a 10% cap rate for it.

You WON'T make any money!
You will probably lose money by the time you pro rate taxes, pay broker fees, and address any other issues or overages.

Need a cap rate worksheet?
Visit Docs.NathanTabor.com to learn more.

Chapter 13

Valuing a "Troubled" Property

One of the hardest parts of flipping is valuing a property with serious deferred maintenance and/or occupancy issues. What do you pay for a property like this?

Here are the steps of valuing a troubled property:

1. Research and establish the cap rate for your market

2. Establish NOI by using conservative rent amounts and expenses

Once you have done these 2 steps you will know the value of the property after the property is renovated and rented.

Then you:

3. Determine holding and carrying costs

4. Determine projected profit. This is what YOU want to make!

5. Determine amount of monies needed to renovate property

6. Determine cost to list and sell property

Now you have the full picture! You know what the property is worth upon completion and you know what it's going to cost to renovate, carry, stabilize and sell the property.

Now it’s quite simple. Take this formula and plug in your numbers to discover the value of the troubled property.

Value of Stabilized Property – Cost to Renovate – Projected Profit – Holding/Carrying Costs – Broker Fees = Value of “Troubled” Property

Value of “Troubled” Property = OFFER PRICE!!!

Chapter 14

Submitting Your Offer

Every step you take in the process of submitting your offer is critical. If you are trying to "steal" a property or even be considered as a legitimate investor, your offer is your first impression. Remember, the better the deal on the front end, the more profit on the backend.

Would you show up to a meeting with your hair uncombed? Your shirt dirty? Mustard stains? Basically looking like somebody who didn't care? If you don't take the time to perfect your presentation in advance, the meeting isn't going to go well. I guarantee that the other person will think that you don't have a clue regarding how to conduct business. Once you've set this impression, it is almost impossible for the other party to think differently.

We've all met someone who didn't present themselves well, either by the way they spoke or dressed or acted. And since we are all human beings, we immediately formed an impression that stuck. That's life.

If you attend a meeting and your clothes are neat and pressed, your hair is combed, and you have taken the time to make yourself presentable, then you have cleared the first hurdle. A good first impression depends on your know-how to conduct yourself and present yourself well. So, it's in your best interests to avoid this first misstep.

Submitting an offer is the same. If you don't take the time to properly prepare, your deal most likely won't end well. I've been on both sides of the table. I've been both a buyer and a seller, and I can tell you that I don't respond to inquiries with misspellings, incomplete data or incomplete offers. These proposals amounted to a simple waste of my time because if the person was putting such little effort into their offer, it's highly doubtful that the bank would take them seriously either.

The point is simple. When you make your offer, make it solid. Make it right. Make it professional.

Types of Offers

There are two ways to make a real estate purchase offer: a Letter of Intent or a Purchase and Sale Agreement. Let's look at the differences.

Letter of Intent (LOI)

A Letter of Intent (LOI) is the initial offer to a commercial property seller that you want to buy their property. The commercial real estate Letter of Intent should tell the broker and/or seller that you're a serious buyer who is ready to close at the price and terms you have specified, provided you can work out the details of a contract.

Need a letter of intent?
Visit Docs.NathanTabor.com to learn more.

Purchase and Sale Agreement

A Purchase and Sale Agreement is used in a transaction involving the acquisition or disposition of real property between a seller and a buyer. The length and specificity of the Purchase and Sale Agreement will vary significantly depending on the size, type, and complexity of the property being acquired or sold, as well as the relative bargaining power of the parties.

As a seller of properties, I've always viewed Letters of Intent as not having any "teeth." It's just a piece of paper with no real meaning. On the other hand, a Purchase and Sale Agreement involves more than intent. It is much more specific and immediate.

Here's an example of what NOT to do in a real estate transaction. At one point, I had three complexes listed on LoopNet for sale. Over a 10-minute timeframe, I received Letters of Intent on all three properties from the same person. It was a generic template and the person hadn't even taken the time to put in the name and address of the complex. It was simply a pre-populated letter.

My response? I didn't even respond. Why? If a person doesn't have the time to make a personalized Letter of Intent, then I don't consider them to be serious about their intent. Overtime, I started to ignore all LOI's because not one was ever able to close a deal.

This is where the type of education or mentoring you receive is critical.

How do you make a strong offer?

When submitting a Purchase and Sale Agreement contract, you want to fill it out completely, down to the tax parcel info. Your effort will show that you are detailed, diligent, and follow the rules. These are the traits that a seller considers to be critical in getting a deal closed.

CRITICAL TIP:
Do NOT leave out any critical information.

Significant Earnest Money shows you are serious and ready to close the deal. PROTECT your earnest money! At some point, it becomes permanent and you do NOT get it back! How much should you offer? The amount of earnest money varies from deal to deal, but my rule of thumb is to offer what you can. The more you put down, the strong you appear.

What is significant? 1% is typically a good rule of thumb but read the situation, consider your offer, and contemplate how much you can make off the deal.

Proof of Funds shows you have the amount needed for the down payment. It's quite simple. We can do the dance all night long but if you don't have the down payment, the deal won't move forward.

A Commitment Letter from a guaranteed lender will be generic but shows that you have spent the time consult with a lender, review your finances, and officially ask for loan approval.

Closing Attorney or Title Company information gives the impression that you are confident that this deal will close. It doesn't cost you anything to find a real estate attorney who will oversee your closing.

A Due Diligence Time Frame needs to be as through and quick as possible. If you can't walk the property for 30 days, that means you aren't serious about buying the property from the seller.

If you know you can make money on a deal, and then make your offer STRONG! Put your best foot forward and pull out all the stops. If you are working in a particular market, be careful not to get a reputation of someone who just writes contracts and never closes.

Want to Get Better at Making an Offer? Here are a few tips:

Role-playing helps you see things from a different perspective. If you were selling something what would you want? You would want confidence, not arrogance. You would want documentation, not promises.

Want to learn what a seller is thinking? Find one and ask if you can buy them a cup of coffee. Spend time picking their brain.

Real estate, like life, is more about relationships than anything else. Develop and nurture relationships with those who can help you. But make sure it's a two-way street.

Help others when they need help… and they will do the same for you.

CRITICAL TIP:

Don't be afraid to offer what a property is worth! A complex was listed for $2.2 million but after walking the complex I offered $1.07 million. They accepted the offer.

PERSONAL STORY: My Grandfather, The Patient One

My grandfather had patience like I've never seen. He would take three boys fishing on the Flint River and, looking back, he would never fish for even two minutes. He spent his entire time untangling our messes, putting a worm on our hook or taking the fish off the hook. He never had a harsh word to say nor a disparaging remark about our fishing skills or lack thereof. And he always had a content smile on his face.

At the time, I didn't realize all of the amazing traits he displayed at one time. From talking with others, I know he didn't always have these traits. I heard he was hard to handle at times, and he said things I'm sure he regretted. I even heard stories that his temper was out of control.

I met him in his early 60s. He was a fit, skinny, white-haired grandfather whom I called Pop. How I wish I could see him again and spend time with him. He taught me many things. But one of the most important things he taught me was helping others get what they want and being patient while they get there. Yes, he didn't get to fish, and I'm sure he would have really liked fishing. However, he got to see the joy and happiness of others getting to fish. And he knew that without him, we couldn't have done it by ourselves.

To reach your goals you will need the help of others and you will need to be patient. The sooner you can implement these traits the better off you will be!

Need a purchase checklist?
Visit Docs.NathanTabor.com to learn more.

Chapter 15

What Do You Renovate

You can't fix everything. But some things, you can't afford to not fix. There is no magic eight ball that you can shake and get the right answer. This is a tricky subject, and it can be difficult at times to make a decision—but it's an important task.

Remember your goal is always to make money!

To make money, you must sell the property to a new owner. This means that you have to wear two hats when buying the property, renovating it, and stabilizing it.

How do you decide what to replace?

- Run your numbers and establish the property value after renovations and stabilization.
- Establish your purchase price and renovation costs. I highly recommend you add an overage to your renovation costs.
- Calculate your holding costs.
- Project your profit.

Now, here are the nuts and bolts of accomplishing these points.

Complexes have reputations. To get quality tenants you have to change this perception, which leads to changing the reputation.

You can't change the location. However, the quality of renovations is a great way to change the perception and reputation of a housing complex. Just be careful not to make the outside look nice, but not put the same quality of work into the inside of the building as well.

So when deciding what to replace, approach it with this thought: if you were buying your complex with the intent to keep it for many years, what would you want to see?

Would you want cheap, poor quality renovations? Or would you want good quality products and renovations?

When you list the complex, any potential buyer is going to have a due diligence list and will be calculating their own numbers. Your best strategy should be to renovate the complex as if you were keeping it!

For even more information and details read Chapter 16 on Due Diligence.

Exterior

When you enter the complex, what is your first impression? Rotten boards? Gutters covered in mildew and falling off? Windows cracked or broken? Graffiti?

If you can visually see an issue with something on the exterior, you need to replace it or truly weigh your options to not fix the problem. Be ready for the future buyer to ask about the issue and ask for a credit.

Example: If the exterior doors are dented, then you'll need to replace them. If they are all different in appearance (e.g., some are 6 panel while others are 4 panel or even flat), I would highly recommend replacing them as well so that they are uniform.

Interior

Your best option when considering interior renovations is to adopt the mindset of a tenant. Imagine being a potential tenant in the property. When you walk in, does the unit have a funky smell? Is it clean and fresh? Are the renovations complete? Would you be comfortable living there? If not, then you know there is more work to be done.

Do you want to live in a home where the kitchen is nasty and old? Or not clean or renovated? Do the cabinet doors and drawers open and close properly? Does the countertop have burn marks and knife cuts?

What about the bathroom? Having a nasty toilet or tub is the kiss of death for a tenant. They will be taking a bath in this tub and giving their children a bath in this tub. For the best sale results, at least add new tile or install a shower wrap.

One of the top reasons a tenant will NOT rent a unit is because of the condition of the kitchen and/or bathroom.
Next, image your child or grandchild crawling on the floor. Is the flooring clean or new? Or is it nasty, torn up or worn? If so, then you'll need to replace the flooring.

The walls need to be patched, cleaned, and given a fresh coat of paint. And make sure that stains or drawings don't bleed through the new paint.

When you open closet doors, what do you see? If you don't see a closet rod and shelf, then your tenant and future buyer will see the same thing.

Are you getting the picture? Tenants want to live in a place that is clean and has quality renovations that make them feel comfortable. That should be your goal. Provide people with the best thing they can afford. If you can achieve this, then there won't be a stumbling block for your buyer.

What you don't fix during your renovation process or if you skimp on the work and materials, then your buyer will ether pass on your deal or start negotiating for a better price. Say you don't repair the parking lot, but the offers you get include a reduction of $40,000 dollars for the parking lot. What are you going to do? If you want to flip the complex, you are either going to have it fixed or you are going to lower the price.

PERSONAL STORY: Pickle vs. Jalapeño: What's the big difference?

Growing up on a farm, I quickly learned that just because things looked similar didn't mean they were anywhere close to the same.

At first glance, a pickle and a jalapeño look a bit alike; they are both green, long, round, and grow on a plant. But that is where the similarities end.

Growing up, we attended a local Christian school. And in an effort to get to know the principal better, we invited Mr. Terry and his family over for dinner. They had never been on a farm. At dinner, we served roast beef, green beans, mashed potatoes, pinto beans, corn bread, and jalapeños.

We said grace and began to eat. About five minutes into our meal, the principal's face turned red and sweat dripped from his forehead. After a few more minutes, my mother asked him if he was O.K., and he said yes. Dinner continued and the evening wrapped up.

Over the coming months, we became better friends with Mr. Terry and his family. One day, he said in passing that the first time he ate dinner with us that he had eaten the hottest cucumber EVER! We all laughed and said that wasn't a cucumber, but a jalapeño pepper!

I learned two things at that moment:

1. If you don't know what something is, do ask.
2. When in pain or trouble, don't hide it. It's O.K. to ask for help!

Mr. Terry could have avoided his discomfort if he had asked before eating the jalapeño. Then after eating the jalapeño, he could have said something and my mother would have brought him a glass of milk or some bread, which would have taken away most of the heat.

CRITICAL TIP:
What does this have to do with real estate?

EVERYTHING!

99.9% of the mistakes I've made in real estate could have been avoided had I simply stopped and asked someone for advice or help.

Chapter 16

Due Diligence

5 Rules of Due Diligence

When doing your due diligence, it is critical to do it right. Here are 5 rules that will help you avoid mistakes and make your deal stronger.

Rule #1: Make sure all communication is in writing. Whether the communication is through your broker, the seller's broker, the seller, the attorney or the garbage man—put it in writing.

Rule #2: Itemize all needed documents in an addendum to the purchase contract or LOI. Stipulate when each document is due and specify the dates for walking all units and the entire property.

Rule #3: As you start this process, build out a "jacket" on the deal. A jacket is a notebook or folder that you use to store every document. With a good organization system, you won't waste time searching for lost materials or ask the seller to provide them again.

Rule #4: Build out your own P&L and expenses to operate the complex. Review what has been provided to you, but assume every number is wrong until you verify it with proper documentation. If you can't verify a number, then you will need to research and find a way to verify it. If you still can't verify a number, then increase that number by 50% to cover yourself for any unexpected contingencies.

Rule #5: Determine the real cost to renovate and stabilize the property. If you don't feel comfortable with this process, consult with someone who can help you.

Due diligence ***will*** make you or break you! Due diligence is **CRITICAL** to your success as a real estate flipper or investor. Done well, and you can operate a successful business. Not done well, and it could be the NAIL in your coffin. The time when you are purchasing and flipping a property is your time to identify all of the issues and problems at hand. Then determine the necessary steps to fix them before you can no longer recoup your earnest money.

Remember, real estate contracts have four corners. Meaning once you close the deal, the contract is binding and what's contained in those four corners is it. There are NO returns or exchanges!

Now there can be one asterisk in this situation. If you can prove intentional fraud on the part of the seller, then you can sue on this ground. However, I've been there and it's not easy to prove. Plus it's very costly to hire an attorney to pursue the matter. The best thing for you is to become an expert in the due diligence process.

If don't feel you can know everything or can't handle everything, then call in someone who does or can.

During your due diligence period you need to check every aspect. Below are the things I check and verify when purchasing a complex.

American with Disabilities Act (ADA)

Does the complex need to be ADA complaint, and if so what areas? If you believe there are any ADA issues, make sure these are addressed before the end of due diligence.

Administrative Offices

Is there an office on site? Is it located within in a model unit? If so, you have to subtract the potential rent from the gross income.

Animals

Animals are a gift from God. Personally, I've always had a dog in my life. But animals in an apartment create a unique situation. Is the owner a responsible or irresponsible pet owner? After a few years in the business, I had to make a hard decision. The decision was to not allow animals in the units. The damage caused by precious pets can be quite expensive.

You will also want to check with your insurance company about any restrictions on animals.

Appliances

When doing your due diligence, you need to know when various items in the units where last replaced. A used set of appliances will cost around $400 and will probably last a few years. A brand new set of appliances will cost around $900 at one of the big box stores. Your rent and tenant base should determine the type of appliances you purchase.

CRITICAL TIP: Stealing Appliances

One of the frustrating aspects of owning apartment complexes is when tenants steal appliances. Most magistrate offices will NOT issue an arrest warrant if you don't have the unit serial number. And the amount of the claim doesn't make sense to turn it into insurance. So make sure you write down the serial numbers of the appliances in each unit. Another option is to rent units without appliances, and the tenant can supply and take care of their own appliances.

Appraisals

Is a current appraisal available? Has the owner or bank completed an appraisal in the last 6–12 months? The older an appraisal gets, the more useless it becomes.

But if an appraisal has been completed recently, ask your bank if you can pay a fee to update the current appraisal instead of having a new one completed. It will save you time and money. Now, make sure you read the current appraisal, study the comps, look for any red flags, and make sure your numbers make sense with the value. If the property is worth $1,000,000 and it needs $100,000 of renovations and you are paying $850,000, then you aren't going to make any money.

Asbestos

Traditionally, you will find asbestos in tile flooring and potentially in popcorn ceilings. Having an expert examine the property is highly recommended, if not mandatory.

Bank Statements

How do you verify income? Simple! Ask for Bank Statements! This is the ONLY way to verify how much money is being brought in by the complex. If the rent roll says $30,000 a month and the bank statement records $15,000 in deposits, then either half of the tenants aren't paying rent or they are only paying half of what the rent roll states.

Bathrooms

What is the condition of the bathtub? Can you restore it, install a wall surround or does it need to be torn out?

Check the cabinet, sink, faucet and for water damage under the sink.

Bed Bugs

Bed bugs are expensive to treat! Look through city complaints and work orders to identify any potential bed bug issues. Talk with tenants and management as well. Does the complex have a history of bed bugs? Check with local companies and get quotes on the cost to treat bed bugs if needed. Traditionally companies will give you a better rate on bed bug treatment when they do your insect treatment.

A 2-bedroom, 1-bath unit will cost between $350 and $600 to treat, and most cities require the landlord to pay for the treatment. Even if a tenant is required to pay, what are you going to do if they refuse? Bed bugs spread quickly from one unit to the next. It is much easier and cost effective to treat on unit rather than 50% of your complex. The best thing you can do when bed bugs arrive is to address the issue immediately.

Certificates of Occupancy

You will need Certificates of Occupancy for all units in order to have a meter set by the power company.

Current Owner's Loan

What is the status of the owner's current loan? Will the bank let you assume the loan? Or would the bank be interested in financing the deal for you?

The answer is always 'no' until you ask! So don't be afraid to structure a deal that works for you and the seller. It might not be a traditional structure, but if you can get the deal done and the numbers make sense then approach the bank with your offer.

Keep the following items in mind when structuring a loan:

- Terms
- Assumable
- Appraisal
- Insurance
- Bank interest in financing another loan

Drainage

Walk the property and look for areas where rain water is running off the property. You will notice rutting, loss of grass, and issues with ditches. Storm water runoff is a leading cause of water pollution. It is caused when water runs off solid surfaces and collects various pollutants, such as pesticides, oil, and other sediments. Runoff can affect both water and aquatic life. The fix is simple, but costly. So negotiate with the seller to fix the issue.

Dumpster Pads and Fences

Most older complexes don't have dumpster pads or fences. However, most waste management companies require that you have a concrete dumpster pad and pull-up area so their trucks don't damage your parking lot. Most cities now require dumpsters to be contained within a three-sided fence.

CRITICAL TIP: What's the cost of hauling off all the waste after demolition?

Electrical Plugs

Purchase an outlet tester for $5 and use it on every outlet. The cost to rewire a unit can be in the thousands of dollars. After purchasing complexes, I've found units where half the plugs didn't work. But during due diligence, the tenant or previous owner didn't disclose this. The burden and cost was left to me.

CRITICAL TIP:

One of the scariest moments I've ever had flipping apartments was the afternoon I walked into a unit on the second floor and found two men in a bedroom. Upon a quick glance around, it looked like a maze had been dug into the sheetrock. These men had removed almost every bit of electrical wiring in the unit and were in the process of stripping it down for the copper. So, I found myself standing between them and the exit. I politely said hello and told them to have a nice day. Then I left and called the police. Unfortunately, they were already gone when the police arrived. The lesson learned here is to always be careful when walking a complex by yourself!

Electrical Wiring

Copper Wiring or Aluminum Wiring: Does the complex have copper or aluminum wiring? Copper is the preferred type of wiring. It is safer for use and traditionally is cheaper to insure. I've had insurance companies require "pig tails," be put on aluminum wiring before they would write an insurance policy.

Electrical Breaker Boxes

Do the breaker boxes have breakers or glass twist fuses? If glass twist fuses are currently being used, upgrade to more modern breakers during the renovation or plan on deducting the cost to upgrade from your selling price.

Electrical Meter Packs

Have a licensed electrician inspect meter packs and confirm with the power company that meters can be set for any vacant units. Meter packs can cost anywhere from \$800–\$2,200 each, plus the cost of running lines to the pole and rewiring the unit if necessary.

If a unit hasn't had power for more than a year, or a specific period, you will be required to have a licensed electrician pull a permit and inspect the unit. Check with your local building inspector for exact time.

CRITICAL TIP:

Check if the meter packs are stamped with a utility company name. Most meter packs installed during the 60s and 70s are property of the utility company, and the utility company is responsible for their upkeep.

On two complexes I purchased, the utility company had to replace \$80,000 and \$50,000 of meter packs. In return, I signed a document, which stated that moving forward the meter packs belonged to the complex.

Elevators

Does the complex have any elevators? Have the elevators been inspected per state code?

Environmental: Phase I, II, and III per Wikipedia.com

Phase I Environmental Site Assessment is a report prepared for a real estate holding that identifies potential or existing environmental contamination liabilities. The analysis, often called an **ESA**, typically addresses both the underlying land as well as physical improvements to the property.

Phase II Environmental Site Assessment is an "intrusive" investigation which collects original samples of soil, groundwater or building materials to analyze for quantitative values of various contaminants. This investigation is normally undertaken when a Phase I ESA determines a likelihood of site contamination. The most frequent substances tested are petroleum hydrocarbons, heavy metals, pesticides, solvents, asbestos, and mold.

Phase III Environmental Site Assessment is an investigation involving remediation of a site. Phase III investigations aim to delineate the physical extent of contamination based on recommendations made in Phase II assessments. Phase III investigations may involve intensive testing, sampling, and monitoring, “fate and transport” studies, and other modeling, as well as the design of feasibility studies for remediation and remedial plans. This study normally involves the assessment of alternative cleanup methods, costs, and logistics. The associated reportage details the steps taken to perform site cleanup and the follow-up monitoring for residual contaminants.

When looking at environmental assessments, find out if there are any current or past issues. Have any business been located by the property that could have caused issues, such as dry cleaners or gas stations? Ask the current owner if he/she has had any environmental studies completed in the past.

CRITICAL TIP:
Environmental Issues: Another Nightmare

Any time you purchase a property, you are purchasing any and all liabilities that come with the property—whether you know about them or not.

Banks traditionally require a Phase I before loaning money on a property. If the Phase I results in any red flags, then a Phase II will be required. A typical Phase I will cost between $1,500-5,000, but I've paid as much as $8,000 because of the property size and quick turn-around needed.

When you are paying cash for a property or owner financing a property, this can be very dangerous grounds. A Phase I isn't required in this type of transaction; but if you don't get a Phase I, you are assuming all environmental issues.

This happened to me on a complex for which I paid all cash. After closing, I was notified by the NC Department of Environmental and Natural Resources (NC-DENR) that there was a potentially serious Issue on the property.

More than 15 years had passed since a dry cleaning store had been torn down that was located across the road. The dry cleaning solvent was flagged as having potentially contaminating the soil. Once the bank discovered this issue, they put the package on hold until the issue was resolved. It took more than 12 months for NC-DENR to drill holes, run tests, and clear the property. Thankfully I was in the property right and this didn't cause much trouble other than time. Had I been on a bigger deal and had an issue with NC-DENR testing, it could have caused a lot of financial problems and stress.

Exterior Lighting

Is the exterior lighting in place? Does it work? Who pays for it? If the lights are working, they are either being paid by the complex or by the city (if they are on city property). If they aren't working, there is a 50/50 chance the lights are maintained by the local city but nobody has reported them as being out. If the lights aren't on city property, then call the local power company to see if they maintain them. If neither the city nor the power company maintains the lights, then find out the cost of maintaining them and what the cost of power will be each month.

Evictions last 12 Months

Evictions tell the story. The last 12 months of evictions will tell you how often the units are turning over. With that information in hand, compare it to the rent roll and create a spread sheet marking when a unit went vacant and when someone else moved in. If you want to cover yourself well, go back two to five years for a crystal-clear picture of how stable or unstable the complex has been.

CRITICAL TIP:

The function of due diligence is to verify, verify, verify… and then to verify again. You can't verify things too many times. Remember, this isn't a game or a hobby. It's real money, with real guarantees, with real consequences.

Fire Code

Contact the local Fire Marshall to see if there are any issues or complaints on the property.

Fire Extinguishers

Are fire extinguishers required? Are fire sprinkles required? If so, are there any issues with current system?

Fire Hydrants

Where are the fire hydrants located? Who pays for upkeep? Before purchasing a 56-unit complex on 13 acres, I assumed that all fire hydrants were maintained by the fire department and local government. Well, that isn't true. After closing, I was told that all fire hydrants were on private property and thus my responsibility.

Since the road in the development wasn't maintained by the city, neither were the fire hydrants. The road was paved and even had a name, but since the fire hydrants were installed on private property, the waterline and the fire hydrants were the financial responsibility of the complex. Without working fire hydrants, the insurance company wouldn't have insured the property.

Fire Hydrants can cost $1,000 to $6,500 to replace, plus any water lines and permits that have to be pulled.

Flood Zone

Is the property in a Flood zone? You can visit www.floodsmart.gov to learn more by entering the property address. This government website will tell you the cost of flood insurance as well. If just a small corner of the property is in a flood zone, most banks will require flood insurance on the property. If you don't research this in advance, then you wouldn't know this until after your due diligence time is up and your earnest money is no longer retractable.

Flooring

What shape is the flooring in?

Over the years I've used vinyl squares and laminate wood flooring. Both are good products but not the best for rentals. Vinyl plank flooring is a bit more expensive but worth the extra money.

Gas vs Electrical

Does the heat pump and stove use gas or electric? What is the cost of maintaining the gas pipes? Does this increase or decrease the tenants utility bills?

GFI

Check the bathroom and kitchen. Do they have GFI plugs? If not check with your electrical contractor. Your insurance company could require GFI plugs.

Health Code

Health code violations normally don't apply to apartment complexes unless a tenant is running a catering business illegally out of their unit.

Hot Water Heaters

You will need a licensed plumber and electrician to replace a hot water heater. The cost to replace a 40-gallon hot water heater can average about $1,200 each.

HVAC Systems

HVAC means Heating, Ventilating, and Air Conditioning. HVAC is your central heating and air. Make sure that you have a licensed HVAC contractor inspect all units. You will also want to discuss the type of Freon currently being used and if any upgrades or replacements are required. If so, what type of Freon will be required?

Housing Complaints

Call or visit your local housing authority and request the last 12-24 months of housing complaints. If you don't know how to do this, you can either ask the seller to provide them, have your broker request it or hire a consultant to help you. Without these complaints, you will NOT have a full picture of what's been going on at the complex.

Here is an example of what you can find. If over a 12-month period the bottom units have complained numerous times about their toilet or bathtub or both backing up with sewage, then you can assume one of two things. Either a tenant is flushing things down the toilet and stopping it up OR there is an issue with the sewage pipes. The first one is costly but can be fixed by changing out the tenant once you identify the source. The other could cost you a few thousand dollars to tens of thousands of dollars. If your complex is sitting on a foundation and the pipe has collapsed under a unit, which means you will have to remove a portion of the foundation and replace the pipe. If it is collapsed in several places, you could have to replace the entire pipe. And during the time period the work is being done, you will have to move the tenants out—which means lost rents.

In the meantime, you will also identify the problem tenants. If a tenant has his or her front door kicked in by a "visitor," you as the landlord are required to fix it. You can bill them for the damage, but you have to fix the door first or the city will cite you and/or levy a fine. Look through the complaints and see who has had physical damage to their unit. Broken doors usually signifies a unit whose tenants have frequent fights. Replacing flooring and door jams due to damage most likely means a dog is often left in the unit unattended.

To recap, these complaints will give you a clear picture of two things:

- Condition of the units or lack there of
- Type of tenant base

Insurance

Just like getting points on your driver's license, a property is tagged with insurance claims. The more claims a property has, the higher the insurance will be. During your due diligence time, you need to get quotes from insurance companies. If the current owner has had several claims within the last 12 months, it could make the policy cost increase. When you are getting a quote, the insurance company will request three to five years of loss runs: reports provided by insurance companies that document the claim activity on past policies. Past claims can drastically increase premiums.

Ask the current owner who is insuring the property. How much is the annual premium? What is the deductible? Make sure you request a quote based on the deductible your bank will require. A deductible is the amount the owner is responsible for when making a claim. Let's say your deductible is $25,000 and you file a claim for a total repair cost of $50,000. This means that the first $25,000 is covered by the owner and the insurance company will cover the remaining $25,000.

When buying insurance, the lower the deductible the higher the cost. Shop the policy and find the best rate because damage **will** happen.

CRITICAL TIP:
There will be damage to the complex that will have to be covered out of pocket. For example, a tenant may cause a fire while cooking in the kitchen resulting in about $5,000 in damage. Even with a low deductible of $10,000, it wouldn't be wise to turn this claim into your insurance company. You would make the loss runs with a claim, but the insurance company wouldn't cover any of the expense.

Kitchen

Examine the condition of the cabinets, countertop, sink and faucet. This area is one of the most expensive areas to renovate. Open up the cabinet under the sink and visual inspect for water damage. If there is water damage you need to determine if it has reached the floor or wall.

CRITICAL TIP:
One of the top reasons that a tenant doesn't rent a unit is because the kitchen and bathroom(s) aren't clean and or renovated.

Laundry Facility

Where is the closest laundry mat? Most complexes don't have washer and dryer hookups. Most prospective tenants will want to know where the closest laundry facilities are.

Leases

Leases are critical for many different reasons. But the most important reason from a flipping standpoint is where in the lease is the tenant? Most leases are 12-month leases, and during this time frame you can't go up on rents. When purchasing a complex, tell the owner upfront that you prefer they NOT go out and get every tenant to sign a new lease. If your goal is to raise the rents, this will be unattainable until the current lease expires.

Need a lease? Visit Docs.NathanTabor.com to learn more.

Lis Pendens

lis pen·dens (lis ˈpendenz)

Noun: a pending legal action, or a formal notice of this Lis Pendens are used by those who having pending litigation against the complex, by housing authorities to show open complaints or city fines owed or by utility bills owed. Title companies will generally not provide title insurance on properties that have Lis Pendens recorded against them. But discovering this information lets you peer into the past or current issues at the complex.

You can obtain this information through several means:

- A report from the seller
- Register of Deeds office
- An Attorney pulls the records
- Paying for the title policy before due diligence is over (not recommended)

Mailboxes

Are there any current mailboxes on site? Who pays for upkeep? What's the cost to repair? Every complex has some type of mailbox, perhaps similar to this aluminum mail box. I've never owned a complex where I wasn't responsible for providing them. These multi-unit mailboxes can be VERY expensive! The local Post Master with the United States Postal Service (USPS) will maintain both the locks and keys on the mailboxes. When a tenant vacates a unit, the USPS will charge $15 dollars to change out the lock and $5 per additional key. So we made this cost part of the lease, and the tenant is required to set up their mailbox lock and key with the local post office.

Maintenance Materials

Are maintenance materials stored on site? If so, are they part of the purchase agreement?

Market-Related Research

When purchasing a property, you have to consider the surrounding market. Specialized companies can provide you with this specific market research.

You can also opt to perform market research on your own. If so, be sure to cover the following areas:

- Property location
- Surrounding property conditions
- Stop in local businesses to ask what they've heard about the property.
- Check out other apartment complexes in the area.
- What have other complexes sold for in the last 6-12 months?

- Are businesses opening or closing in the area?
- Speak with the local housing inspector because they will have one of the best perspectives on the property.

Mold Issues

Whether you see mold or not, I recommend testing for it. The fastest and most economical way to test for mold is a $10 mold test with a $40 lab fee. You can purchase the test online or at any hardware store. Simply place the test in a unit for 24-48 hours, and then mail the test to the designated laboratory. If it comes back positive, your next step is to call a mold expert and get a quote on the cost to remediate.

Playgrounds / Swimming Pools

Playgrounds and swimming pools are a much-requested amenity by tenants. In flipping Class C complexes, I found that having these items only cause your insurance to go up due to potential liability. But this cost and liability didn't allow me to raise the rents. If something costs you money and doesn't allow you to raise rents then why have it? You may want to remove the amenities and encourage tenants to use nearby public facilities instead.

Police Reports

What type of complex are you buying? Unless you plan on spending several weeks there night and day, it's really hard to get a feel for the complex. However, you can get the real truth by pulling police reports. Most police reports can be found online, but you can always call or stop by the police department to obtain that information. By reviewing the police reports, you can truly see what type of complex you are buying.

CRITICAL TIP:

One of the best security measures you can incorporate is to allow a police officer to live at your complex rent free. One stipulation is they must drive their police cruiser home. If you are working to stabilize a complex, an established police presence is a great way to accomplish it!

Property Taxes

Always ensure that the property taxes are current. If taxes are not paid to date, there may be fines or penalties assessed. Check with the tax department to confirm when the last assessment was made. Most tax departments reassess property every 5-9 years. If the property is up for reassessment and the taxes go up $3,000 a year, your property is worth $30,000 less, based on a 10% cap rate.

How? Because a $3,000 expense decreases your cash flow by $3,000. If your property taxes are lowered $3,000, then your property is worth $30,000 more based on a 10% cap rate.

Rent Roll

Did you know that a current rent roll ONLY means that a tenant has signed a lease stating they will pay a certain amount?

It does NOT mean they are actually paying that amount!

CRITICAL TIP: Rent Roll Nightmare

I purchased a complex that—per the rent roll— collected over $28,000 a month. I did all of my due diligence and closed on the property. Boy, was I in for a shock! The first month the complex only collected $7,000 dollars.

What happened? The rent roll listed the information found on the lease - tenant's name, address, rent, date signed, and maybe a few other things. The rent roll does NOT mean that money is being collected. So while the rent roll said $28k the complex truly only collected $7k a month.

This threw my budget completely out of whack. And this happened because I didn't know what I was doing and I didn't understand the documents I was reviewing.

Range Hoods

Are the range hoods vented? If not, does local code require them to be vented? It would stand to reason that if the range hoods are already installed, then they are compliant. That isn't always the case. Always make sure they are compliant during your due diligence.

Roaches

Roaches can quickly infest a unit and the surrounding units as well. And you won't be able to rent a vacant unit if these pests are present. When walking the occupied units, pay attention to the tenant's kitchens. Are they clean? Are the sinks and counters piled with dirty dishes? It only takes one tenant to help establish a roach colony—and it can cost hundreds if not thousands of dollars to treat it.

Roads: Local and State

Are there any projected road improvement programs? Any planned median additions? Expansion of roads taking away frontage? Is there an interstate planned? The likelihood of this happening may be small, but you never know. And what you don't know will always cost you money.

Roof Structures

What type of roof does the complex have? What condition is it in? Is the roof under warranty? How many layers are on the current roof? Roofing is an expensive item.

Have a roofer inspect the roof before your close. If there is more than one layer on the current roof, you will have to remove all of the layers to replace the roof. This is an added expense. You also want a roofer to walk all of the roof structures to check the decking. If the decking is bad, you will definitely need to repair or replace it.

CRITICAL TIP:

The roof only has a warranty if you have the documentation to prove it or the shingles have a barcode

Security Deposits

Verify the amount on both the leases and rent rolls. Make sure this amount is included in your closing documents.

Sewage

Sewage issues, such as stopped-up toilets can cost hundreds of dollars to unclog. If the toilet overflows, it can cause damage to a lot of other things as well.

After purchasing a complex, I immediately renovated the two easiest units. They were vacant, the flooring was replaces, and the units were easily renovated.

At six o'clock that evening, I had the final walk through and found standing water in both units. The toilets backed up and water was free flowing throughout both units. I immediately turned the water off and called my plumber. I also called maintenance, and they immediately started extracting the water and removing the flooring. I called the manager who had to call the tenants. I had just lost over $2,000 between the cost of removing and replacing the damaged flooring. And I had also lost $1,200 of rent because I didn't have units to put those tenants in. That was $3,200 down the "toilet."

The plumber ran the snake all the way down the line and just 10 feet short of hitting the city connection, his snake stopped. The next day, they dug up the spot and found a single tree root that had penetrated the sewage line. Water could flow until things like toilet paper got caught on the root. When this happened, the water would back up.

Obviously you can't snake every line during due diligence because it would cost thousands of dollars. What else can you do? How can you determine if a unit or building has a toilet(s) that are backing up?

First talk with the owner, tenants, and maintenance personnel. They might be honest or they might not. The second and best option is to pull the city complaints over the last 24 months and see if any tenants have complained about toilets backing up or have had standing water in their bathtubs. This simple step could save you a few hundred dollars or tens of thousands of dollars.

If a main sewage line is crushed, collapsed or has tree roots growing through it, your budget will be blown—especially if the sewage line is under a concrete foundation.

Sidewalks

If the complex has sidewalks, what condition are they in and who is responsible for maintaining them? Both the housing authority and insurance company will inspect them. If the owner is responsible for sidewalk upkeep, then make sure they are in good condition. If they are not in good shape, then negotiate with the seller regarding the cost of fixing them.

Signage

Is there a sign ordinance? What size signs are allowed or not allowed? Don't spend thousands of dollars on signs only to learn that you have to take them down.

Is a permit needed to put your signs up? If you don't pull a permit and put them up, then you will have to still pull the permits and possible pay a fine.

Tenant Applications

How can you verify this? Request copies of all applications for current tenants. This application should include proof of income, a credit report, references, and a signed application. Don't be surprised if these items don't exist. Just be prepared to deal with it at a later date.

CRITICAL TIP:
Tenant Screening Process: Why It's Important

Move in the right tenants, and you make money! Move in the wrong tenants, and you lose money! And sleep and friends... and did I mention money? It is critical you do NOT just move in a tenant because they have a security deposit and the first month's rent. I've made enough mistakes regarding tenant selection—and I've also paid the price. During your due diligence, make sure the management company or manager has pre-screened any current tenants. If prospective tenants have not been pre-screened, then you have to assume that these tenants have no vested interest in protecting their security deposit or credit.

Termites

If you see termites or suspect termite damage, call a termite company. Have a technician inspect the property and suggest what work needs to be done to exterminate and repair the damage. Termites are a pesky and expensive problem. It's worth having someone inspect your property for any termite damage. Find a company that will do a free inspection and provide you with a quote.

Toilets

Two things you need to do here. One, visual inspect the toilet and determine if it needs to be replaced. Second, sit on the toilet! Close the lid first! Is the toilet stable? It could just be the toilet needs to be tightened OR the floor could be rotten.

Vacant Units

The owner should have a list of repairs needed for any vacant units. During your walk-through, compare what the current owner says needs to be fixed to what you see needs to be fixed. This gives you a good indication of how the owner views the property and there record keeping.

Vendor Contracts

Normally when you buy a property, you are bound by all existing contracts. This can be very dangerous and costly if you don't verify all contracts and make sure the seller signs off that no other contracts exist. Your agreement should state that if other contracts exist, then the seller is responsible for any termination fees. Some contracts can get expensive, such as cable contracts. The complex may be providing free cable in the rent structure and paying the monthly bill. Landscaping contracts providing year-round services can also be expensive.

Water Damage

When walking the units, look for water stains on the ceilings. Determine what caused the stains. Is there a current or previous leak? Has the water caused mold or mildew to grow?

Work Orders

Obtaining 12 months of past work orders is a great way to see what's going on at the complex. If the current owner says they haven't kept them, then either they are disorganized or they don't want you to see the issues. So, to find out what's going on at the property here is what you do.

Zoning Letter

A zoning letter is a legally recognized document which informs commercial property owners, lenders and prospective buyers of zoning laws related to the particular property. You will hear "this complex is grandfathered in" meaning the property doesn't meet current zoning laws. Getting a letter from the zoning department confirms IN WRITING that the complex is legal to operate as a complex. If you can't secure a letter BUYER BEWARE!

CRITICAL TIP: My Nightmare!

If it looks like a duck, walks like a duck, quacks like a duck, then you can assume it's a duck. Right? I wouldn't! I would want a licensed vet to verify that it's a duck and give me that verification in writing. Why? Because what if you buy that duck and it turns out not to be a duck? Well, that happened to me. I purchased a 24-unit apartment complex that the surveyor, appraiser and attorney all verified was a 24-unit apartment complex. I walked the complex more than two dozen times—and it had 24 units every time!

But when I went to pull my building permits after closing, I was informed the complex had lost its grandfather due to the way the property was split up, and the current building would have to be brought up to current code. What? Huh? But? It didn't matter what I said or who I talked to. The code is the code.

It took me 18 months and more than $150k to solve the problem. It was an absolute nightmare! The worst part is I could have avoided it by simply called or going to the zoning board and requested a written verification

Before you submit an offer on a complex, check with the zoning department and verify compliance and get it in writing. If there is an issue down the road, you have documentation from the zoning department!

PERSONAL STORY: What You Can't See…

Most of the mistakes I've made in my life were my mistakes of my own doing. I honestly didn't mean to step into the middle of something, but in hindsight I also didn't do everything I could have to avoid stepping in the middle of it. So while I didn't mean to create a problem, I also didn't avoid it to the best of my ability.

This was certainly true my sophomore year in college. I had grown up driving a truck in a muddy field from the time I could steer and reach the pedals. My granddad would take us to the farm and turn me lose! Most of the time, he would get out of the truck and sit on a stump and watch. It was a blast.

Then in the early 90s, I owned a brand new Chevrolet Z71. It was January in Laurinburg, North Carolina, and it has just rained. The picture was perfect. A few of my buddies jumped in my truck and off we went. Mud flying everywhere! Spinning around and around, and just having an awesome time!

The next morning I awoke to a loud bang on my door. When I opened the door, two of Laurinburg's finest were standing there with the most serious look I think I've ever seen.

> "Mr. Tabor, do you drive a burgundy Chevrolet Z71? And were you mudding yesterday?"
>
> "Yes, sir. That was me."
>
> "Mr. Tabor, you need to come with us."

About 30 minutes later, I found out that I had done around $1,500 dollars of damage to a farmer's winter wheat field. I had thought that it was just an empty field because there wasn't anything visible but dirt. But underneath the ground, the seeds had started to sprout and would be ready to harvest mid-spring.

I felt horrible. I had grown up on a farm, and I probably should have known better. I apologized and made restitution to the farmer. However had I been where I was supposed to be, this wouldn't have happened. I really didn't have an excuse.

The same rings true if you purchase an apartment complex and don't do your due diligence. You need to dig deep to find what's under the surface.

Documents to Request from the Seller (if applicable)

- Bank Statements
- Expenses
- P&L
- Zoning Letter
- Statement of Policies Governing HUD Communities
- Site Layout
- Floor Plan of Units (with square footage)
- Tenant-Screening Process
- Tenant Application Packet
- Model Lease
- Facility Condition Reports
- HVAC Maintenance Reports

- Roof Warranty Paperwork
- Last 2 Years of Financials
- Current Rent Roll
- Tenant Payment Ledger
- Last 12 Months of Evictions
- Vacant Units (with repairs needed)
- City Complaints
- Last 12 Months of Work Orders
- Copy of All Leases
- Copy of All Current Tenant Applications
- Security Deposits
- Executed Vendor Contracts

This is a comprehensive list of documents, issues and topics but each deal is unique. Please make sure you request any and all documents you may need. Walk every unit, examine every contract, turn over every stone – do everything you can to verify.

Need a list of due diligence questions?
Visit Docs.NathanTabor.com to learn more.

Chapter 17

Managing the Renovations

Renovation Costs

Working with a contractor and vendors will make the process of determining your renovation costs a lot smoother and more accurate, but it could also cost you more. Managing the work yourself could save you money, but will require a significant amount of your time. Either way, you will need to know the costs of your renovations.

Here are the three major categories to consider:

- Cost of Materials
- Cost of Labor and Building Permits
- Carrying Costs

Cost of Materials

Be thorough and detailed about the materials you will need and the work to get the best possible price. If you aren't organized, then three things will happen.

- You will spend a significant amount of time running back and forth to the store.
- You will not get the benefit of buying in bulk.
- Your budget will not be accurate.

I work with one major big box company to purchase all of my materials. When I undertake a renovation project, they measure for the cabinets and countertops. They measure the units and calculate how much paint and flooring will be needed. They count doors, hardware, outlets, fixtures, and everything else needed. This helps me tremendously. And it also helps them to secure a purchase.

This process also helps me save money! Being a repeat customer helps me save an average of 27% off retail price. If I am purchasing $100,000 in materials, that's a savings of $27,000! Adopting this method gives you both purchasing power and leverage. I encourage you to run your numbers, talk with vendors in your area, and establish what is best for you and your company.

Cost of Labor and Building Permits

A licensed general contractor must go through a process with the state government to pass a test, be insured and bonded. A licensed GC is considered a certified professional. If they don't handle jobs in a certain manner, the state will revoke their license.

A contractor or handyman can do general maintenance work on your property as long as a permit isn't required or the job doesn't require a licensed general contractor.
A licensed tradesperson is required any time you need work with anything electrical, plumbing or HVAC. They will have to pull permits and have the job inspected.

DISCLAIMER: Check with the local building inspector department. If necessary check with an attorney about local statues and state law.

Pulling Permits

Check with your local building inspectors for any permit requirements. If you are replacing windows, is a permit required? What about the roof? Or the toilets? In North Carolina, when replacing a toilet, you are required to pull a permit because the seal is being broken. The only person who can pull a permit is a licensed plumber.

> **CRITICAL TIP**:
> If the inspections department catches you doing work without permits, it won't be good for you or your project. When you don't follow the permitting process the building inspector will be examining your jobsite with a fine-tooth comb. And quite often, the unpermitted work will need to be torn apart and redone—this time, with a permit!

Getting Better Pricing on Materials

Build a relationship with a select number of vendors. Yes, you might get better pricing if you shop for each individual item from several places. But you will waste both time and energy—and you won't be focused on the bigger goal. I found that having a few select vendors overtime saved me money and time. I was able to negotiate better pricing but also received benefits like faster delivery, assistance with measurements and calculations. I became more than just a customer who bought materials. I even received some unexpected perks, like tickets to sporting events and paid trips.

So develop these relationships. Work them and nurture them. Bring an occasional breakfast to the commercial desk doesn’t hurt either! Remember, they are human beings with feelings. And when you need help or advice, you need them to think of you fondly.

For example, Lowe’s Home Improvement has QSP pricing. Every major big box retail store does this. Traditionally if you order more than $2,500 dollars of product at one time, they will give you a discount. This discount will be greater than the 5% you receive with your business credit card.

It may also help to have two vendors bid against each other. Often competition produces the best pricing. You’ll find that some companies can beat pricing on a few items but they can’t beat the others. Don’t worry about the smaller items. Instead, focus on the bigger picture: who can give you the best price for the best product and allow you to make the most money.

Protecting Materials

The weirdest things have happened over the years with materials. Materials will "grow legs and walk off" if you aren’t careful. They would sometimes disappear—never to be seen again. Until I discovered that some workers would use jobsite materials to complete their own home renovations, use them on another job or return them to the place of purchase for credit or a gift card. What would someone do with a store gift card? Sell it or use it themselves.

On three different occasions, I had workers arrested for stealing materials from the jobsite and returning them to the place of purchase for credit. Most places will return an item without a receipt as long as the item is currently still on the shelf. They will refund the product based on the current sale price and will return the funds to a gift card or an in-store credit.

Since my insurance deductible was $5,000, the only thing I could do was press charges. They would be arrested and go through the court system. Restitutions would be ordered, but to this day I've not received a dime.

Steps you can implement to protect your materials:

1. Rent a secure storage unit like a tractor trailer or portable storage unit. It has one in and out and is easier to secure than a unit.
2. Create an inventory sheet that is verified each morning and each evening.
3. Make sure your insurance policy covers your materials if they aren't installed.
4. In negotiating with your contractors and sub-contractors, make them responsible for all related materials. If something is stolen or lost, it comes out of their pay.
5. Install a security system with cameras. There is certainly an investment involved here, but it may not be as expensive as your materials.

I found that when materials are secure and an inventory list is maintained that materials stayed on site.

Hiring a Contractor

Should you hire a contractor or Do It Yourself (DIY)? Hiring a contractor or project manager is typically a good idea unless you can be on the jobsite every day and oversee all work.

Before purchasing a complex, you should have a licensed general contractor walk the property and provide quotes on a cost to renovate. This upfront analysis will help you get your budget right, and it will help you show the bank that you are serious about doing your due diligence! It also helps you to learn the business and avoid mistakes.

Every detail and every issue needs to be bid on by a contractor with detailing the length of the project and the cost of materials and labor. Make sure the quote remains valid through the closing process and there is enough time to be completed after closing.

CRITICAL TIP:
Miscommunication is the root of most disagreements.
The only way to avoid potential misunderstandings
is to have every detail in writing.

Vetting Your Contractor

We have all heard horror stories about contractors, right? I have experienced a few bad contractors myself. It's no fun! Here are five things to keep in mind:

First, if a contractor isn't willing to sign a contract, then don't hire them.

Second, if a contractor wants money upfront, then don't hire them. One option to protect both sides is to place money into an escrow account and allow the funds to be dispersed as individual phases are completed.

Third, ask the contractor for three references—and call each reference to see what they say. If nobody returns your call, then you can assume that these references aren't legitimate or that they don't want to get involved.

Fourth, check with the state licensing board to make sure your contractor is in good standing and if there are any complaints against them. You can also check their BBB rating, Internet reviews, and social media pages.

Fifth, use your gut and common sense. If something upfront doesn't feel right, make sure it is addressed. If not, it will only get worse over time.

Paying Contractors

I don't ever recommend paying a contractor until the work is done. The risk is too great that they won't come back and complete the work after you have paid them. I've paid contractors upfront, and then they never came back. They have told me sob stories about having an emergency only to never show up again. Then I had no other choice but to pay another contractor to do the work that I had already paid someone else to do!

If the job is going to take more than a week, then set some payment points. You can pay the contractor after each unit is complete. Or if the contractor is working on multiple units or a larger project, you can pay after certain phases are complete.

For example, if three units have been gutted and need to be completely restored, you can pay the electrician when the electrical rough inspection is done. Then you can pay another subcontractor when the sheetrock is hung, taped, mudded, and prepped for painting.

How to Structure Contractor Pay

A contractor can make or break you. If they don't show up on time and complete the project on time, it will cost you money, hurt your reputation, and slow your project down.

First, define the payment structure. The easiest way define your payment structure is to tie the payment to completion of renovations. This way, everyone is on the same page and there are no arguments.

Second, define specific fines for work not completed on time. Meaning, if the contractor doesn't complete the work on time, the contractor is fined each day until the work is completed. Typically a good fine amount is 1-2% of the payment due. So, if you owe your contractor $10,000 then it would be a $100–$200 fine per day for each day the project isn't completed. This will put a fire under the contractor to ensure that work is completed on time.

IN ALL FAIRNESS…

1. Exterior work can be delayed due to weather. For each day of bad weather, the completion time is extended that amount.
2. Flip the terms and also allow the contractor to fine you daily if you don't pay on time, don't deliver materials on time, etc.

Contracts: Fixed Cost vs. Cost-Plus Option

You can use these two methods to control your project. A Fixed Cost contract includes the cost of the materials and labor along with indirect costs known as overhead. A Cost Plus contract means that the price of construction is the cost *plus* an additional fee, normally designated as profit.

Change Orders

Written job change orders cover both you and the contractor. Requiring a change order means that no work will be done that isn't included in the signed contract, unless the contractor has submitted a written quote and you have signed it.

What you can't see has to be planned for, and this is a method to protect both you and the contractor from future misunderstandings and disagreements.

CRITICAL TIP:

When creating your contract with your contractor, the more detail you have in your contract the better. Do NOT assume something is included if it isn't in writing.

For example, if you are replacing a door and door jam, does the price include caulking the door jams? Does it include installing the hardware (e.g., hinges, door handle, etc.)? Does it include adjusting the door so that it closes properly? You would assume that all of this would be included in the 'replacement' of a door, but if your contractor assumes it isn't then you have a problem. A VERY simple issue that could have been addressed in the contract now becomes a large problem. The best case scenario is that you waste a few hours talking it out. The worst case scenario is that your contractor quits because he feels he isn't getting paid for his work. Or he may file a lawsuit or a complaint with the Department of Labor.

Visual Inspection

Do NOT pay a contractor unless you or someone you trust has seen the finished work. Why? Here's a story from my own personal experience:

I knew this contractor really well and trusted him. Between other jobs and a few business trips, I couldn't make it to the jobsite for three weeks. During this time, he sent me invoices, pictures of work completed, and updates on how things were progressing. I paid him each time. To the tune of $40,000. When I returned, I was horrified to find that NO work had been done, all of the materials were missing, and the contractor was MIA. Apparently, this contractor that I had trusted sent me photos of another job and passed it off as the work he was doing for me.

CRITICAL TIP:

Flipping requires getting in and getting out. The faster you can complete the renovations, the faster you can lease the units. The faster you lease the units, the faster you stabilize the complex. The faster you stabilize the complex, the faster you can make money.

Should You DIY or Hire a Contractor?

My recommendation is always hiring a Contractor. See the section on Hiring a Contractor. You'll have more control and more protection when hiring a contractor versus doing all of the work yourself. However if you do want to be a contractor, then you'll need to get your own General Contractor's (GC) license and act as a contractor, not a flipper. It's usually best to become an expert at one thing, and not at multiple things.

Renovation Issues

When you first start doing renovations, it can make your head spin. It can be overwhelming because of all the little things that you don't necessarily consider or the entire infrastructure that is needed

For example, replacing a sink can cost around $80 dollars. On your renovation spreadsheet, you calculate that there is $2,400 needed to purchase 30 sinks. Then you input the labor for installation. But wait! The sink is ready to be installed and the contractor wants to know when the faucet, supply lines, inserts, p-trap, and plumbers putty are going to be delivered.

By the time you purchase all those items, you have spent another $1,000 or more! Big deal? Maybe not. But if you make this mistake 10, 15 or 20 times with “little” things, then you are losing tens of thousands of dollars.

Infrastructure is what keeps you from pulling your hair out or going crazy! To avoid these miscalculations, you have to create the infrastructure:

- Materials purchased and delivered when needed
- “Little” things accounted for
- Contracts executed and organized
- And everything else in this book done

CRITICAL TIP:
Cutting corners on renovations will cost you in the end. It’s always best to do things the right way the first time around. That way you build a reputation as a good buyer, and not someone who doesn’t care about the tenant or the neighborhood.

Carrying Costs

Your carrying costs—mortgage payment, insurance, taxes, utilities and anything else that has to be covered until cash flow is stable—are critical. When in the process of doing your renovations, make sure that you calculated your carrying costs.

If your rent collection drops below the money needed to cover your operating expenses, then you will have to cover the shortfall from your own pocket.

What's the plan if you don't have it in your pocket?

These carrying costs would be part of your renovation budget, but it needs to be thought out and planned for. For example, if the complex is going to be 100% vacant for three months, then ALL of the expenses have to be multiplied by those same three months. Then you have to calculate projections on how long it will take to rent enough units to cover your expenses.

PERSONAL STORY: Uncle Willy

Growing up, I always heard the stories of my Uncle Willy. I never met him, but stories were told that Uncle Willy was so focused on money that he would stop on top of the mountain to let the chickens lay eggs so he could then sell both the chickens and the eggs at the market. It was told that he would pay his children 25 cents to go to bed without supper and then charge them 25 to eat breakfast. Uncle Willy had made quite a bit of money over the years, but he also made life uncomfortable, if not miserable, for others around him.

And Uncle Willy actually died because he was cheap. His death was sudden and tragic. He drove a truck without doors—not because he had to, but because he didn't want to spend the money on buying doors for his truck. One cay someone crashed into the driver's side of his truck and killed him instantly.

There is a time to save money. There is a time to be cheap. But if saving that money makes others miserable because the job can't be done right or in a timely manner, then saving money isn't the right thing to do.

There is also a time to spend money. If spending money today protects your investment in the future, then it is a good thing to do. If saving money exposes you to losses, then you need to look at the program again.

Need a renovation checklist?
Visit Docs.NathanTabor.com to learn more.

Chapter 18

Developing Your Team

Over time I was able to develop a team of contractors, sub-contractors, property managers, maintenance managers, and lenders—and it made my job easier.

A learning moment for me was that paying people a fair and a strong wage helps you in the long run. When your company has a revolving door of workers, you will save money up front but you will lose time and money in the long run. You will always be spending time and money training new people and getting new people on board. It's better to treat the people you have now the right way. Develop your team and realize that the more vested someone is in your company—and you—the more likely they are to help you succeed. Why? Because you are helping them succeed, too.

Treating Others Well

What defines you? What do others have to say about you? The perception that others have of you can either help or hurt you—both in business and in life.

For years, I had the reputation of "getting things done." On many occasions, I was told that I should have been a lawyer, and for many years I took this as a compliment… badge of honor, of sorts.

Then I realized that the way I treated others was a direct reflection on the type of person I was and had become. My main focus had become making money, making more money, and making even more money.

One way to make more money was to cut labor costs by negotiating better contracts. Anything wrong with this? No. It's legal and ethical by all U.S. laws.

But then it hit me that I was the only successful one. What value or worth was I instilling in others? Why would anyone want to be loyal to me or help me out of a bind if all I saw in them was a way to cut costs?

One of the most successful privately held companies in America is Hobby Lobby. I was shocked to learn that they pay a minimum of $15.35 per hour. Why? Because they want their workers to know they care about them and want them to be able to take care of themselves and their families.

My challenge to you is simple. While you are making money, make sure to take care of those around you—not as charity, but as part of your team and your success. In the long run, it will pay out so much more than you could ever image in both your personal and business life. When you do these deals, make sure you do them right.

PERSONAL STORY: James Leis Proves What Goes Around Comes Around

James Leis contacted me in 2009 and wanted to purchase a property from me. After talking for a bit, I learned he was new to real estate and was trying to make his first deal happen.

I also learned that he was a Veteran who had served our country! He had fought to protect my freedoms and yours.

I connected with James on a human level and spent almost a year with him going over deals and answering questions. Over time, we lost contact and my real estate life went on until mid-2016 when I heard a familiar voice on the other end. It was James. He was rocking and rolling with real estate deals and had connected up with a company called Renatus. Renatus provides real estate educational training to investors.

Over the next 20 minutes, we caught up. Then James asked if he could introduce me to the CEO of Renatus because they were looking for a Fix & Flip educational instructor. I said yes, and the rest is history.

But here is what I learned, and so did James. You never know what will happen in the future because of what you do today. I helped James, and in turn he has been helping others ever since.

My challenge to you is simple. Take the time to help others. Be kind, be gracious, be human. You never know when you might need help. And you never know when the person you help might be able to help you.

You Need a Sounding Board! My Sounding Board is …

Type-A personalities have problems of thinking they can conquer the world and still have time for everything else. Our temperament is characterized by excessive ambition, aggression, competitiveness, drive, impatience, need for control, focus on quantity over quality, and an unrealistic sense of urgency.

Boy does that define me to a T! But my wife is my sounding board.

This wasn't the case at the beginning. I was on a mission, and nothing could stop me—not my mistakes, and not even her voice of concern or objections. As time went gone on and experience and wisdom replaced flying by the seat of my pants, it has become critical for my wife to see the vision and sign off on the project with me.

She is the pessimist and realist, and I'm forever an optimist. She sees the dangers and perils of a deal, while I may only see the upside and potential. At first, this drove us both crazy. But now, using our strengths and combining them allows us to see a deal from all sides. It allows us to see the upside and the downside together.

If you don't have a sounding board, I highly recommend you find someone. Please don't rely on a "yes" person, who believes every idea you have is amazing. You need someone who will challenge you on your thoughts, concepts, and numbers—and make you defend them.

CRITICAL TIP:

Never put anything before your integrity ...
if you do you will pay for it!

Chapter 19

Managing the Property

Think of apartment complexes as a wagon wheel with numerous spokes. The stronger the spokes, the stronger the wheel. But if you have too many weak spokes, cracked spokes or missing spokes, what will happen? The wheel will break apart. It can happen slowly over time or it can just fall off right away.

There are three major options to manage your property:

- Hire a professional management company (verify they are legit)
- Self-manage with no help
- Self-manage, but hire a manager under you

> **CRITICAL TIP:**
> Check your state laws for what is required to manage your property. In the state of North Carolina, if you own the property, you can only self-manage or hire a manager who isn't a licensed real estate broker.

All options have their pros and cons. Let's examine a few different scenarios.

The Cons

I've hired management companies who have failed to do their job, but still charged their regular fees. Everything in the contract was ignored, violated or done wrong. It was a nightmare.

I've also self-managed where I was over the complex. I collected rent, handled maintenance, filed evictions, and everything else that needed to be done. I had no time to do anything else.

I've also self-managed by hiring someone to manage the property and report directly to me. Everything was great until the manager decided to "borrow" $18,000 without permission. He was a thief and did it in broad daylight. I had him arrested. He pled guilty and was ordered to repay the monies. This happened in 2010 and so far only $202.50 has been repaid.

Embezzlement will happen. People steal. It's a fact of life. Why they steal varies from selfish interest to helping a loved one. Either way, it happens and you need to protect against it.

The Pros

The property has to be managed. And the property has to be managed in a manner that is both effective and efficient and stabilizes the property. You will have to decide which options works best for you, your complex, and your business model.

So, what works? This is how you decide. Be diligent and through. Be honest with yourself about your time and talents.

- Write what you expect from your management.
- Write what you want and need to achieve.

- Work daily, weekly, and monthly to meet these expectations, which will help you achieve your goal! What is your goal? TO MAKE MONEY!

Do NOT let your pride affect your decision. Do NOT let your disorganization or procrastination affect your decision. Remember this is a business. If you need to fire yourself, then do it. Then bring in someone who is better at that job so you can focus on your talents.

One of the hardest things to do is to make a change—especially when you know what you are doing isn't working. But if things aren't going right and you have tried numerous ways to correct the situation, then it's time to implement a new plan. The longer you wait, the harder it will be to get to where you want to go. And the more money it will cost you!

Hiring a Property Manager

Whichever "manager" you choose, realize this person is the face of your property and essentially the brains of the operation. A great property manager can make you successful and happy. A poor property manager can turn you and your property upside down.

CRITICAL TIP:
Over the years, I let many people stay on and kept trying, hoping, and praying that things would get better. They didn't. The longer it takes to address an issue, the bigger the problem becomes.

Here are some critical things to consider in management:

- Accept/maintain everything in writing. This simple principle will pay off greatly.
- Leases, maintenance orders, work orders, material lists, contracts, and everything else you can think of should be in writing.
- Every time something new is added, you need to have a system of scanning this information and storing it.

Management Software

Management software can be costly, but I've managed properties both with and without it. Managing a property with software is so much better. You can manage your website and online marketing from one place. In addition, you can manage your leases and all other tenant-related documents.

Does saving money cost you more?

In business there is a mentality that sneaks in that says, "I can do it cheaper and save money." My advice is to kick this thought to the curb every time it occurs. Then follow these self-management tips

- Use a virtual assistance company that takes calls 24/7. Tenants talk with a person and you get an email immediately letting you know what's going on.
- Market the property through services like Craigslist and other websites.

- Create a referral program. Offer and promote a $100 referral fee to anyone who refers a tenant who signs a lease. Pay the fee after the tenant moves in. Make sure the tenant writes down who referred them. Why? Because I've had as many as seven people say they referred a single tenant.
- Develop relationships with organizations like the Salvation Army, United Way, and other local groups that refer potential tenants.

Evictions

Evictions are a hard part of the apartment leasing process. Sure the tenant hasn't paid, but the process of kicking someone out of their home is hard to handle at times. There will be tenants who are good people who have hit hard times and they just can't pay. They have run out of help from local organizations and ministries, and they just can't make ends meet. As a human being, it is hard to evict someone when you see they are trying—especially if they have kids.

Then there are tenants that know the law and process better than you ever will! This is where having written, organized documents are critical. Fail at an eviction and you will either have to wait and file again or hire an attorney to appeal and take it to a higher court. Neither option is fun, and both end up costing you more money and time.

Screening Tenants

Just because someone can move in doesn't mean you should let them. They might have their security deposit and first month's rent in hand, but what is their rental history? What is their credit history? Do they currently have a job? How long have they been employed? Who will be living with them? Make sure you fill in this part on the lease.

You should always charge an application fee. If a person isn't willing to pay $30 dollars to apply, do you think they are going to pay their rent on time?

Part of the application fee should be spent on pulling their credit and criminal report. What is their criminal record? If a person has been cited or arrested for dealing drugs numerous times over the past few years and the last arrest was 60 days ago, what can you assume? You can assume they are still dealing drugs. If the drug arrest was 20 years ago and nothing has occurred since then, you can assume that the person is no longer dealing drugs.

CRITICAL TIP: Make sure you research the Fair Housing Act.

Rent Ready

Have you been car shopping and found a car that you really liked? The dealership facilities are very nice and the salesman was friendly and competent. But when you got into the car, it wasn't clean, the rear view mirror is missing, and the battery is dead. At some point, all the minor problems are just too much, and it's not worth the risk.

Perception is reality. Tenants who are considering your apartment complex have the same mindset. They are looking for a place to call home. The unit should be clean, all issues repaired, and it should be ready to move in. If the unit isn't ready, then I would wait to show that unit because overcoming a first impression is almost impossible.

Dealing with a Problem

When you discover a problem, deal with it immediately.

Have you ever had mold or mildew in your house? I learned a few years ago that if you just ignore the mold or mildew, it will eventually go away. Yep, you just stop looking at it and act like it doesn't exist and it will go away! If the appearance bothers you, just get paint and paint over it.

I hope you know I am JOKING! Mold and mildew don't go away on their own. It takes effort and time to remediate the damage.

Covering up the problem isn't fixing it. Think about the times you have tried to deal with a problem. When you immediately handled it, you felt like a burden had been lifted. You need to find the root of the problem and fix that. Until the root cause is fixed, the problem can't be fixed. The best time to fix this problem is immediately.

Record the problem. Go over the pros and cons, and then develop a plan. Once you have the plan in place, start the process and solve the problem. Follow this process will make everything else go much smoother.

Preventive Maintenance

Preventive maintenance is an important task when owning apartments. Items that will need to be addressed are HVAC air filters, smoke detector batteries, and other items like checking under the faucets for leaks, painting exterior items like doors, and having HVAC systems serviced. Having a plan in place helps keep your property in tip-top shape, and it shows a buyer that you take great care of your complex.

Want to scare off a buyer or obtain a lower price? Let him see an HVAC filter that hasn't been changed in months or years. What this says is the HVAC systems have been overworking themselves and they don't have as much life left as they should.

Being Friends vs. Being Friendly

What type of relationship should your manager have with tenants?

It's human nature to want others to like you and to become friends with them. However, remember this is business and friends don't pay your bills. So if your friend/tenant isn't paying their rent, then you can't pay your bills.

My thought is simple. If this tenant was a true friend, they wouldn't take advantage of your friendship by not paying their rent. Remember, people cause problems—not property!

Evictions and lockouts are critical to the success of your complex. The most important thing to do when evicting someone is to have documentation for everything.

Top 10 Things Your Property Manager Will Handle

Whether your property manager is hired directly or part of a management company, here are the top 10 things your property manager will deal with.

1) Evictions are one of the most critical things a property manager will do. Evictions must be done in a timely manner, without errors in paperwork, and they must be won. If you can't evict someone, it means they get free rent and will tell others how they can get free rent too.

2) Your property manager will handle any law-related incidents ranging from trespassing and domestic abuse to drugs and vandalism and anything else involving breaking the law or causing issues at your complex.

3) Unscheduled move outs will happen. Tenants will leave in the middle of the night, owing rent and possibly trash your unit.

4) Managing the tenant/friend relationship can be difficult. Recognize the conflict and create a plan that

works for you.

5) Rent collection is difficult when the tenant has a "story." I always tell my managers that they could help the tenant by using their own paycheck to pay the tenant's rent, and then collect their money back from the tenant at a later date. Incidentally, not one property manager ever did this.

6) Communication with maintenance is essential for the best upkeep of your property. When maintenance requests come in, the property manager needs to be involved from start to the finish.

7) Housing Programs like Section 8 involve a tremendous amount of paperwork and ensuring that you receive payment each month. If your unit isn't compliant, Section 8 won't pay you. In North Carolina, you won't receive back pay beyond two months. So, if your unit isn't compliant for six months, then you will lose four months of rent. Make sure your property manager stays on top of these issues.

8) Property upkeep. Make sure your property manager cares how your property looks. If there is a problem with trash or any other maintenance, make sure a plan is in place to address it.

9) Vendor Relations can save you both time and money. Give your property manager the authority to find or negotiate better deals. Don't get caught in the thought that it must be done a certain way because it's always

been done that way. That's probably one of the worst business mentalities.

10) Profit vs. Loss is something your property manager needs to understand. Yes, this is a job that has a paycheck attached to it, but it's critical that your property manager buys into your vision.

Best Tenant Excuses Ever

Over the years, I've heard it all and seen it all. I want to share some of the best tenant excuses with you so that you can be prepared. One of the hardest issues to deal with in flipping an apartment complex is the people. Determining who really is telling the truth versus who is trying to tell you a 'story' is almost impossible. The best thing to do is to conduct every transaction by the book. Make sure every tenant knows their lease and what is expected of them.

In addition, you can educate your tenants regarding what is expected of you and your company.
Here are some tenant excuses you may hear along with some appropriate responses.

- **Family member died or is in the hospital.** This is a hard one to deal with but after hearing the statement numerous times, I started to keep track in our management software of who said what and when. With everything documented, I noticed that some people had seven or more grandmothers or grandfathers who had either died or family members who were in the hospital at all times. To curb this issue, we started asking for obituaries or hospital paperwork. Not once did we ever receive paperwork, and eventually this excuse stopped.

- **Lost debit card or misplaced checkbook.** Sometimes a friend had even borrowed their card. We told them they needed to go to their bank and do two things: withdraw their rent money and report their debit card as being lost or stolen.
- **Change in paycheck schedule.** A pay date change can alter the ability to pay on time. But that isn't an excuse for not paying your rent because an employer is required by law to provide advance notice of changing pay dates.

CRITICAL TIP:

One bad tenant will, like one rotten apple, affect your complex in ways you won't imagine. I've once had a stable complex go shaky because one tenant told others they had duped me. Remember, you aren't a charity. You are a business. Collecting rent pays your bills and protects your investment.

- **Lost job.** Always verify this claim with the employer. If the tenant won't let you speak with their employer, then they either don't have a job or they haven't lost their job.
- **Car trouble.** Their vehicle broke down, so they used their rent money to pay the mechanic. Ask to see

the receipt. If they can't produce a paid invoice, then the story is probably a falsehood.

CRITICAL TIP:

When a tenant gives you an excuse, simply ask for verification. If verification can't be produced, then it likely didn't happen.

Does it matter what the issue or problem is? No. Rent is due. If you don't collect the rent, you don't make money. It's really hard to press this matter when a parent is saying their kid is sick or their hours have been cut back at work.

Here's one more…

- **Flaky memory.** The moment an eviction was filed, the tenant suddenly had 101 issues in the unit. These 'issues' were never brought to the manager's attention until the tenant found themselves in front of a magistrate.

Make sure you have a policy in place that requires tenants to submit maintenance requests in writing. This helps you in many different areas from tracking expenses, serving tenants in a timely manner, and taking these requests or lack thereof to eviction court.

Oddest Stories

A tenant who doesn't want you in their unit usually has a reason you aren't going to like. Something is going on in the unit that you need to know about, and the faster you address it the better. If this happens during your due diligence period, assume the worst. Count on a full renovation: everything thing in the unit needs to be replaced from the electrical wiring to the kitchen cabinets.

- Once I found a catering business being run out of a unit. The tenants had a full commercial kitchen set up in the unit.
- A tenant desperately wanted a flat screen TV, but couldn't afford to buy one. Instead, they cut a hole in their bedroom wall and placed a normal television in the hole. The back side of the TV was sticking out in into the other bedroom. Not only was this dangerous due to the electrical wires, it was dangerous because the TV could have fallen onto their children.
- After closing on a 56-unit complex with three buildings, I learned that the tenants had cut holes in the ceilings and floors so they could move about the complex without going outside. They used these holes to avoid the police and sell their drugs. This is a BIG problem, but the BIGGER issue was liability. Sheetrock has a fire rating, but when it's missing there's no fire protection.

Maintenance Reserves

Maintenance reserves are used for short-term and/or long-term projects needed to maintain the current property value. Maintenance reserves can also be used for unexpected issues, such as a kitchen fire or tenant vandalism.

For example, if the roof is 16 years old and will need to be replaced in 14 years, then building maintenance reserves makes this possible. The roof will cost $30,000 to replace in 14 years (or 168 months). If you deposit $178.57 dollars in an account every month, you will have $30,000 in 14 years to replace the roof.

A tenant may leave dinner cooking on the stove, forgets about it, and starts a fire. The damage to the unit is $1,500 to replace the cabinets, countertop, and flooring. Your insurance deductible is $10,000, so the only option is to pay for it out of pocket and write it off on your taxes. You can go after the tenant but if they don't pay you, the damage still has to be fixed. The only option you have is to pay for the repairs out of your cash flow or maintenance reserves.

Numerous other things can go wrong from a stolen HVAC unit to frozen water pipes, damaged hot water heaters, and the list goes on and on. Maintaining your maintenance reserves will protect your cash flow and investment. The amount to save per unit is subjective to property value, location, tenant base, and numerous other variables.

Your typical Class C property across the United States will run about $300 a door per year.

30 units x $300 per door = $9,000
$9,000/12 = $750 a month

This means you should plan on putting $750 a month into a maintenance reserve. Even if you are planning on flipping the complex, it's a good practice to have in place. If you are planning on keeping the complex, then it's a must. Having this plan in place is an amazing selling point. It shows that you know what you are doing and it gives a buyer confidence.

Chapter 20

Flipping the Property

Flipping the Deal: Money, Money, Money

The reason you are involved in real estate is to make money! But if your focus is only money, you will have issues. So let money be your end goal but let the process be your focus. Learn the nuts and bolts, pay attention to the minor and major details, and don't let any unresolved matters linger.

How to Sell Your Property

The methods you used to find the complex are the same methods you can use to sell it. You can sell the property yourself through various websites like LoopNet and Craigslist or you can list the property with a broker. Both options have pros and cons. Listing the property yourself takes time and energy but you don't pay a broker's fee. Listing the property with a broker can save you time but you will pay a broker's fee.

You will have to determine your own abilities of selling a property. Are you a patient person? Are you a detailed person? Are you a people person? If not, list the property with a broker and focus on what you are really good at. A good broker will have a list of investors looking for your type of property. The advantage of selling quickly and getting into another deal is an added bonus.

Paperwork

When you purchased your property you depended on paperwork provided by the seller. When you received this packet what was your first impression? Was the property well managed? Or was the paperwork a mess? If the paperwork was a mess, then you assumed that the property was also a mess. Now, this doesn't always hold true but first impressions are critical.

I've owned a buy-here-pay-here car lot since 2005. I quickly learned that the car could be mechanically sound but if the door handle was broken or the rear view mirror was missing or any little small issue was visible, it could hinder my ability to sell that car. That's because the seller assumes that if the door handle is broken then there MUST be bigger issues with the car.

Perception is reality.

So if your paperwork is a mess, your rent roll is incomplete, your leases aren't all executed, and your P&L appears to have been written by a chicken, then the potential buyer is going to be on high alert.

Make sure your records are detailed and presented in a professional and timely manner. Don't make a buyer wait for records. Most likely they are reviewing several properties and you want your deal to be a piece of cake to analyze.

Be able to explain your numbers. If you don't understand all the ins and outs of real estate financials, then work with a broker or real estate consultant to learn. Do NOT be afraid to ask questions about the process or something you don't understand. It is better to be honest upfront then learn of a horrible mistake afterward.

Increase Property Value

After you purchase a property, you want to increase the value. If you aren't thinking about value and it isn't part of your plan, then it's time to start. Whether you are flipping the real estate or keeping it long term, if you increase the value, you increase the cash flow! This can be done by cutting expenses, increasing rents or both.

Let's look at ways to increase your property value:

1. **Raise Rents**

There's an art form to renegotiating lease increases. The tenant must feel they are getting the best deal possible and even some perks to the deal. Discuss with the tenant about having timely maintenance and the desire to work together. Run an incentives program for those who pay on time. As you renegotiate the terms of the lease, make sure the tenants know the quality of renovations and how their new apartment is going to look.

2. Cutting Expenses

For every $1,000 that you save a year, you have increased the value of the property by another $10,000 (10% cap rate). Review every expense for the complex and determine what can be cancelled or trimmed. Then renegotiate contracts with vendors.

3. Laundry Facilities

I owned a 56-unit apartment complex that didn't have washer and dryer hook-ups. So, I converted one unit into a laundry facility. I ran my numbers and knew that I would either break even on the laundry facility or possibly lose up to $100 a month. I went to each tenant and asked if they would they sign a lease increase of $25 a month if a laundry facility was provided. On the first round, over 80% of the current tenants signed a lease addendum stating they would pay $25 more a month once the laundry facility was open. That was a $1,100 increase in rents per month, which meant over $13,440 a year. Let's assume my numbers were off and I lost $300 a month. That would be $3,600 a year loss, but I would still have more than a $9,800 gain per year. On a 10% cap rate, that made the property worth $98,400 more!

Some laundry companies will put the machines in for you and service them. You can search on the Internet for a company near you. Mac-Gray is the company I've used numerous times.

4. Cable Television

Cable companies will give you bulk pricing if you contract for all units to have cable. Cable companies will charge a flat rate to activate cable services in all units. This can help you increase rents IF you have negotiated it with the tenants. However, if you add it and make it available then try and raise rents, your conversion rate will not be great.

5. Quality of Appliances

For years, I went back and forth on buying used appliances for $400 a set to buying new appliances for $900 a set. The money I saved up front, I usually lost in replacing broken appliances. However, when I had new appliances installed, I always rented the unit for more money.

6. Updated Kitchens/Baths

Where you cook your food and wash your body is very important when making a decision about where you are going to live. Make sure you renovate the kitchens and bathrooms to the best quality that match up to rents. If you cut corners here, it will reduce the rental amount for your units for and it will decrease the value of the complex.

7. Landscaping/Flowers

Your apartment complex is someone's home! When you approach a business and an opportunity to make money, you look at the surroundings. The person living in your complex or potentially looking to move in views this as their place of residency… a place where they will entertain family, raise their kids, and invite friends to cook out.

Invest money on the outside of the apartment complex, and it will pay off in the type of tenants you attract. Plant some perennial flower beds and some flowering trees. Keep the beds mulched and weeded year round for the best appearance. Always keep any grassy areas mowed and trimmed regularly so that the landscaping is appealing when tenants arrive home. Pride in the outside of the property will also build pride in the inside.

CRITICAL TIP:

Selling the Complex Ties Directly into What to Replace

When a potential buyer walks the complex what will they think? Specifically, what will they see that could cost them money? Because everyone who's involved in buying and selling real estate has the same objective — to make money!

If they see a lot of older cabinets, dented doors, and bad flooring, they will calculate how much money it will take to fix these issues.

What does that mean for you as the seller? If the potential buyer submits an offer, you can guarantee they will require a price reduction.

Here is exactly what I would do. If renovating the kitchen cabinets and countertops cost $3,000 per unit and 10 units needed to be done, I would ask for a $45,000 to $50,000 credit. See the problem this creates? The buyer knows that it will take time to do the work; it's an inconvenience to the tenants, and numerous issues that can occur during the process. The subflooring could be rotten under the sink. And the flooring might get damaged while removing the old cabinets. The point is simple. Renovate properly… because perception and reality both matter.

Chapter 21

The 9 Laws of Fixing & Flipping Apartments

1. Be Knowledgeable: Know and learn the business or hire someone who can help you.

This applies to anyone and everyone that will be involved with the complex, from your property manager to your contractor. The desire to control everything and have your fingers in everything isn't a good desire. The ability to delegate is a learned trait, one that is critical to your success. You don't know everything nor can you learn everything, but you can find others who do and manage them. Don't let your pride and arrogance or stupidity get in your way.

2. Be Thorough: Due diligence and a renovation budget are critical.

Mistakes will happen. That's life. However, there are ways to avoid mistakes and costly errors. Taking the time to do your homework is a must, or you will pay for it later. Recently, I spoke with a gentleman who purchased an eight-unit complex. He missed the fact that water and power were included in each tenant's rent amount. It was a $1,000-a-month mistake that ultimately killed his cash flow and decreased the value of the property by over $120,000.

3. Be 21st Century: Technology is your friend, from databases to social media.

Too often, we fight using the tools that are available to us because things have always been done a certain way, or the programs are too expensive. Many amazing programs can track materials used, tenant information, post ads, and do all kinds of great things. You also need to be aware of what others are saying about you online. If someone searches your complex on the Internet, what will they see?

4. Be Structured: Have systems in place that are reliable, transferable, and highly structured.

Have a business plan, a marketing plan, a maintenance plan - basically a plan for everything! It has to be in writing and has to address the issues that will come up. Don’t let any agreements be verbal because you will find that words and ideas get misremembered or misconstrued. A person can hear you say something but they interpret it their way. By keeping records of everything and maintaining organization, when it’s time to sell the complex, buyers can have confidence in their choice.

5. Be Involved: The multi-family business is not a hobby or a part-time business. It is a 24-hour-a-day business.

You apartment complex is a business that needs to be run accordingly. It has to have your attention. You have to be fully engaged in all aspects of the business. It doesn’t mean you have to do the work yourself, but it means you do have to know everything that is being done (or not being done) at your complex. As you grow and expand, you will need trusted people in key positions as well. Ignore this law and you will pay for it dearly. People will embezzle and steal from you. Deal with any issues in a timely manner.

6. Be Capitalized: Having little or no cash on the balance sheet is a recipe for disaster.

Going into this without money or access to money is dangerous. Things will come up that you didn't plan for. The bathroom floor will be rotted or the sewage pipes will be damaged. There will always be something. It is a must that you have a rainy day fund. Going back to the bank or your investors isn't something you want to do. It hurts your credibility and future deals. Besides what do you do if they say no?

7. Be Unshakeable: People will cause issues.

A small kitchen fire, a clogged water pipe, a stolen HVAC system or a vandalized unit should probably not be turned into insurance because of the deductible. It's usually best to pay for these issues out of your pocket. If you aren't prepared, it will cause you great financial and emotional stress.

8. Be Scalable: It takes as much time to do a 10-unit complex as it does a 100-unit complex.

It takes the same amount of time to get appraisals, surveys, write an investor packet for a 10-unit complex as it does for a 100-unit complex. When you start down this road, plan accordingly. Don't think small, dream big! Then put your dreams to paper and make a plan.

9. Be Prosperous: Fixing and Flipping will make you money if done the right way.

The reward is worth the risk as long as you have followed the law of order. Do things the way they are supposed to be done and you will be prosperous and succeed! Do things the wrong way and you will fail; if you do succeed, you won't be able to duplicate the model again. Doing things the right way takes longer and takes more dedication, but the reward is worth the time and effort.

As a real estate consultant, my only interest is helping you make money, avoid headaches, and bring as much objectivity to the table as possible. When you are making a financial commitment, you need to make sure you have addressed all the pros and cons.

Chapter 22

Your Mindset and Motivation

Don't ever let anyone tell you that you can't do something!

Consider the following:

- Despite being one of the most important and renowned physicists, as well as achieving a Nobel Prize, Albert Einstein was deemed to be mentally challenged by his parents when he was younger. He didn't speak until he turned four years old and he didn't read until he was seven years old. He performed poorly in school and was he even told that he wouldn't amount to anything!

- As a child, Steven Spielberg dropped out of junior high school, was persuaded to return, and was placed in a learning-disability class. He attended film school three times but was unsuccessful due to his C grade average. He is now one of the most successful filmmakers in history and financially, one of the most successful motion picture directors of all time.

- Oprah Winfrey was fired from her television reporting job as she was deemed "not suitable for television." She became, as some might say, the undisputed queen of television with her own personal talk show and is one of the most iconic, successful, and richest women in the world.

What do all three of these people have in common?

The same thing we all have in common! At some point in our lives—maybe even right now—we have been told we you can't do something, that we don't have the smarts to do it or that we will never succeed.

The difference between those who succeed and those who don't succeed is simple. Those who succeed have a plan and a mission. They keep trying until they reach their goals and they don't listen to those who try and hold them back. What I've found over the years is the naysayers are simply jealous of others who are chasing their dreams! See Chapter 5: Create your Business Plan

Be Successful and Achieve Your Goals

The definition of *successful* is "accomplishing a purpose." The definition of a *goal* is "setting a desired result."

Would you get into your car and start driving with no plan? Would you do it with no wallet, no cash, and no prepaid hotel? No. When you take a trip, you make sure that you have the needed resources. You have a plan; essentially you have a goal.

Have you taken the time to write down your goals? What do you want to achieve? If not, this should be the first thing you do.

Failure Happens for Two Reasons

Reason one: The person doesn't try, care or show up. They have a fear of failure that controls them. If you don't try, then you will fail. And if you don't ask, the answer is always no.

Reason two: The person tries, cares, shows up, and takes a chance while working hard, but it doesn't work out. They fail, but they tried! They seek wisdom and knowledge from others. They own it and analyze it. They use this experience as a way to learn and better themselves. It is a conscious and deliberate action!

How can you overcome failure?

First step: Acknowledge that YOU are your biggest obstacle!

Second step: Implement the Law of Order. The Law of Order simple means there is an order to doing things. If you follow these steps, you will be successful. If you deviate from them, you WILL fail.

THOUGHT: if I put my underwear on over my pants and then taught a real estate investing class, how would you perceive me?

If you don't follow the laws associated with this business, you will not be successful. If you do achieve some type of success, then you won't be able to duplicate it or maintain it.

I've asked this question hundreds of times over the years. What's the first thing you do when you build a house? 99% of people say build the foundation. We have been programmed that this is the first step. However, building a house on a piece of land you don't own isn't a good idea. So it's important to build that foundation in the right place.

The same concept tells us that we wouldn't build the roof first. Doing things in order makes sense. But most of the time, we don't realize that we are doing things in the wrong order. And when we aren't diligent in our efforts, we eventually make mistakes.

PERSONAL STORY: Peanut Brittle and Clabber Girl

Money, money, money… It's a popular song from 1973, which happens to be the year I was born. Money is important to all aspects of our lives, society, and culture. It can make us happy for moments, and the love of it can make us evil!

I grew up in Owens Cross Roads, Alabama, as the son of a circuit preacher and house painter. We didn't grow up with money and didn't know anyone who had a lot of it. We had fishing holes and rivers to float down and horses to ride.

My parents did what it took to pay the bills and feed the family. My mother would make things like peanut brittle and take it to the mall and sell it at the entrance. But while growing up, there wasn't a huge focus on money and material things as there is in our society today.

I remember my parents praying in the morning for God to meet their daily needs and in the evening thanking Him for doing just that. One year while my father was in

Birmingham studying for his theology degree, I remember my parents praying for God to meet our daily needs. Being only about the age of six, I knew times where tough. But looking back now, they were probably pretty grim. Canned sausage and crackers weren't really a complete healthy meal, but it was what we often ate.

Then one evening my parents were ecstatic! It was as if we had won the lottery! That would have been hard since my parents didn't gamble. So, what had happened? That afternoon, a neighbor arrived on our door step with a Clabber Girl baking powder can filled with quarters. She didn't know us, but knew my father was in seminar. She and her husband had prayed and felt led to give this can to my parents—all $135! That's almost $500 in 2017 dollars.

After I graduated from grad school, things changed in the money department. I started to make money—and the more I made, the more I spent. I wasn't financially savvy with my money. I enjoyed having nice things and fast cars. Then I got married, and the things I bought changed but the spending didn't.

If you have ever been in this situation you know it's horrible. No matter what you are doing, your mind is constantly thinking about money. It doesn't matter how much you have or how much you can make, all you think about is how much you are spending and the anxiety and stress that comes with it.

Everything has a season. This is a principle I wished I had implemented many years ago. Your life has seasons and your business has seasons. Everything has a season. Pay attention to your surroundings and how you are feeling. If money and business is keeping you from spending time with your family or making you a different person then quickly change your focus!

The More You Know…

When you are buying a property, you need to know everything you can from everyone you can get information from: tenants, vendors, utility companies, the housing authority, managers, maintenance personnel, neighbors, business owners, blog articles, the Internet, and anything else you can find. The more you know about the property, the better the deal you will make. The better the deal, the bigger the profit! Good luck!

Chapter 23

The Law of Order

Ignore It and Create Chaos. Apply It and Find Balance

The Law of Order is a proven, systematic approach to how everything must be done. It applies to all aspects of our lives: personal, professional, physical, financial, and spiritual. It simply requires the prioritization of doing every task in the proper order.

When the Law of Order is applied, things get done—and done right—which creates balance. When the Law of Order is ignored, it creates chaos and affects ourselves and those around us.

For years, I did things the way I wanted to do them. Unfortunately, I never seemed to make all the pieces of the puzzle fit. I found I was miserable, and I was making those around me miserable. My mission now is two-fold: to daily implement the Law of Order in my life and to challenge others to do the same.

There are four steps everyone must take when applying the Law of Order: Admit, Identify, Create, and Implement.

How to Apply the Law of Order

- **First:** Admit You Have a Problem

It's like they always say – the first step to every problem is to admit you do have a problem.

- **Second:** Identify What Is Causing the Problem

Symptoms are easier to identify than root problems. They distract us and keep us from taking the time to dig in and identify the root problem. Now is the time. Don't procrastinate any longer.

- **Third:** Create a Plan that Addresses the Problem

Confusion and disorder arise from lack of communication, understanding and direction. Creating a written plan elevates most of these issues. Take the plan from mental thought to written document.

- **Fourth:** Implement the Plan

Implementation and consistency are critical to your success. Applying, versus simply knowing is what gets you to where you want to go.

Application Thought: What is the first thing you do when building a house? Build the foundation right? Nope. Think about ALL the things you better do before you break ground! That is the Law of Order.

How Nathan Tabor Can Help You!

No matter your real estate goals—buying, selling, renovating, securing funds or flipping—as an experienced and knowledgeable consultant, I will help bring opportunities into focus and develop a plan of action. You'll gain the experience, know-how, and strategic planning to help you avoid the many pitfalls of the real estate business. And you'll take away actionable items that you can implement in your business today!

- **Real Estate Academy:** The Real Estate Academy offers the opportunity to learn more through online courses and webinars. Visit Apartments.NathanTabor.com to learn more.
- **Brainstorming session:** This is a one hour session with Nathan designed to answer and/or discuss any topics. Ranging from where you should start or how to deal with a specific issue.
- **Coaching:** Nathan will walk you through a series of exercises from setting your goals, developing your business plan to expanding your business.
- **Consulting:** From finding a deal, engaging a real estate broker, structuring a deal, approaching an investor, submitting a loan request to any part of a real estate deal Nathan can assist you.
- **Analyzing Deals:** This involves all aspects of the deal ranging from reviewing the purchase contract,

rent rolls, comps, expenses and leases to analyzing the P&L's, comps and cap rate. Nathan will then provide you with a report identifying any areas of concern. Finding an error or correcting an error can swing your deal by tens of thousands if not hundreds of thousands of dollars.

- **Flipping Deals:** Nathan will help you package your deal to take to market. First impressions matter the most. The strength of your packet sets the tone for negotiating the sale.
- **Finance/Refinance:** There are numerous options available: Construction Loans, Acquisition Loans, Cash Out Refinance, Renovation Loans and many other options.
- **Due Diligence:** Don't have the time to walk every unit or worried you might miss something? Nathan can help you will a particular part of due diligence or he can do all of the due diligence for you.
- **Worksheets, Checklists and Documents:** Cap Rate Worksheet, Due Diligence Checklist, Renovations To Be Done Checklist, Income and Expense Worksheet, Personal Financial Statement, Promissory Note, Letter of Intent and Tenant Lease. More added as developed.

Find out more by visiting Services.NathanTabor.com

About Nathan Tabor

Nathan Tabor is an entrepreneur, author, business consultant, executive coach, and speaker. He has founded and operated more than two dozen businesses since 1999, grossing over $150 million in sales. His experience spans the areas of commercial real estate acquisition and redevelopment, automobile sales, direct product sales, web-based marketing, and strategic partnership facilitation. Since 2006, Nathan has purchased, renovated, and flipped over $52 million dollars of apartments. Yes, he's had some amazing successes, but he's also had some epic failures!

Over the years, his companies have been honored with many awards and rankings. In 2012, 2013, and 2104, his parent company was ranked by *Inc.* magazine's Inc. 5000 as one of the fastest-growing small businesses in the United States. In 2014, 2015, and 2016, his real estate management company was listed as one of the largest in the Piedmont Triad.

In 2011 and 2012, *Business Leader Magazine* ranked Nathan as one of the 50 Top Entrepreneurs in the Piedmont Triad.

In 2011, *Business Leader Magazine* ranked his company as one of the top Movers and Shakers in the Piedmont Triad, while the *Triad Business Journal* identified his company as one of the Triad's 50 fastest-growing privately held companies, the 7th-best small business in the Piedmont Triad, and the 70th-best small business in the South.

During Nathan's time as part owner and VP of Sales and Marketing, Physicians Pharmaceuticals (Soy.com) received the Fast 50 Award from the *Triad Business Journal* for being one of the 50 fastest-growing companies in the Piedmont Triad region in 2001, 2002, and 2003. In 2004, *Entrepreneur Magazine* ranked Physicians Pharmaceuticals as one of the hottest businesses in the functional foods category.

In 1999, Nathan became a member of the National Religious Broadcasters. He served on the NRB internet committee for seven years and was Chairman of the Internet Committee for three years, from 2012-2014. He was a board member from 2013-2015, and served as the founder and chairman of the NRB's Digital Media Summit.

Nathan has been a featured guest on Fox News, Fox and Friends, Laura Ingraham, Glenn Beck, C-Span, and many other radio and TV programs. He earned his Bachelor's degree in Psychology from St. Andrew's Presbyterian College and his Master's degree in Public Policy from Regent University. He is also a member of the John Maxwell Team.

As a teacher and speaker, Nathan has had the honor of presenting to organizations, such as FreedomFest, CPAC, Federation of National Republican Assemblies National Convention, National Religious Broadcasters, the North Carolina Society of Surveyors, Leadership Institute, Center for Christian Statesmanship, numerous Chambers of Commerce, and many other organizations.

Nathan is committed to enjoying a true balance between working hard and enjoying life. He is married to his best friend, and they have a busy young daughter who keeps them on the go. His hobbies (Yes, hobbies!) include shelling deserted islands, building furniture, raising toys for the Christmas Toy Drive, reaching inner-city kids with The Story Bible, and cultivating his personal relationship with Jesus Christ.

After years of struggling to keep all of the balls in the air, he learned that there are laws and processes that, when implemented, will deliver the desired results.

Nathan currently travels the country teaching and speaking on how to invest in real estate and how to apply *The Law of Order*.

Interested in having Nathan to speak to your group? Visit NathanTabor.com and submit a request.