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Top 10 mistakes when selling or buying multifamily property

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Buyers and sellers of multifamily properties have varied interests and motivations.

Buyers often fall into one of two categories: one who buys and holds properties for the income stream and long-term appreciation and another who buys properties to boost rent rolls and sell quickly for a higher multiple of the rental revenues.

On the sell side, there are owners who want to unload a building before making expensive but required repairs or upgrades or simply want to liquidate their asset and get out of the landlord business.

Regardless of the type of buyer or seller, these transactions can be complicated and rife with challenges. The following are the top 10 mistakes made by buyers and sellers of multifamily properties and how to avoid them.

FAILURE TO HAVE PROFESSIONALS INSPECT THE PROPERTY.

Professionals, including engineers, architects and contractors, are a buyer's best friend. Good professionals can tell the difference between a minor repair and a major capital project. They can advise a buyer how extensive a problem is and how much it will cost to correct. This knowledge will help before submitting an offer, during negotiations and in budgeting after the closing. Failure to have thorough inspections and reports from skilled professionals puts a buyer in a vulnerable position. Acquiring a property without a clear knowledge of the building's capital or financial needs places the new owner at risk.

NOT CRUNCHING THE NUMBERS.

This mistake can manifest itself by failing to receive a detailed accounting of the costs of operating the building, failure to verify those costs, failure to determine the cost of immediately needed repairs or improvements, failure to account for closing costs, and failure to accurately calculate post-closing debt service. Stated simply, a buyer who does not know what the actual costs of ownership will be on day one is in big trouble.

NOT HAVING A FUNDING SOURCE.

Before looking for a multifamily property, buyers must know how much they can afford to borrow and how much debt they will qualify for. No reasonable seller will give a buyer unlimited time to find financing. Financing a multifamily building purchase is not as simple as qualifying for a mortgage. There are far fewer funding sources. It is advisable to have a mortgage broker on speed dial to help walk the buyer through the process.

NOT HAVING A PLAN TO OPERATE THE PROPERTY.

Before the closing, the new owners should know whether they will be operating the property themselves or hiring a professional property management company. Like most occupations, property management is not as easy as one may think. Dealing with tenants' complaints, municipal code inspections, hiring contractors, supervising repairs and vetting prospective tenants is more than a full-time job. If managing property is a potential second career and the buyer's day job allows the time for it, it might make sense. But hiring a management firm only after disaster has struck is an expensive mistake.

NOT KNOWING THE VALUE.

Longtime property owners may think they know what their property is worth, but unless they buy and sell properties regularly, they are unlikely to be able to assign an accurate current market value. A good commercial broker will know what comparable properties have sold for and can help negotiate terms. A good commercial broker is worth the commission he or she earns.

NOT MAKING THE PROPERTY CAMERA-READY.

A multifamily property is a valuable asset. To maximize its value, it should look its best at all times. There should be no visible leaks, water damage, peeling paint, nonfunctioning detectors, dead shrubs or other visible problems. Buyers want to know they can purchase the property and seamlessly take over the operation. Failure to maintain the property or make repairs before putting it on the market will result in lower offers, a slower sale, reduced purchase price and the need for escrows to correct defective conditions.

NOT KEEPING CURRENT WITH MARKET TRENDS.

Most sophisticated buyers look for a property which visually appeals to prospective tenants willing to pay higher rents. Even if the tenants don't cook, they want showy kitchens. Most tenants also prefer newer, more spacious bathrooms. Sellers who treat multifamily property like museum curators miss the opportunity to collect higher rents and therefore realize a higher purchase price.

NOT MAXIMIZING INCOME.

Buyers of multifamily housing are paying for the income they can make. The higher the rent roll, the more the buyer is willing to pay.

BEING UNREASONABLE ABOUT THE PURCHASE PRICE.

One seller refused to budge off their asking price – for 12 years. At the closing table they proudly told their attorney they "got their price." Similarly, one buyer adamantly refused to buy unless they could "steal" the property. They passed on numerous lucrative deals to the point where brokers stopped dealing with them. In both cases, being obstinate had its price and the results were not worth it.

NOT WALKING AWAY.

Often buyers or sellers consummate a bad deal simply because they feel that they have invested too much money, time or emotional energy. If the numbers make it a bad deal, walking away is a better solution. Paying too much at the beginning makes it difficult for the transaction ever to become profitable. Similarly, unless circumstances have forced the sale, closing a bad deal makes little sense.

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