



The "No money down" commercials are still on TV. There is no such thing! You should plan on having 20% to 35% of the purchase price for an investment for down payment and closing costs. Second mortgage financing is almost dead too but in rare cases, a seller will and CAN hold a second depending on your bank specifications

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May 2009

Volume 1, Issue 2

www.TheRichGroup.com

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THE CAP RATE CHALLENGE

If you are a seller, you probably want an 8 cap for your property. If you are a buyer, you are probably willing to pay a 12 cap for that property. So how do we close this HUGE gap in price?

First of all, what is a cap rate? If a property generates \$50,000 of cash flow after all expenses, an 8 cap would mean a price of \$625,000 (\$50k is 8% return on \$625k) and a 12 cap would mean a price of \$416,000 (12% return).

"The guy across the street just sold his building for an 8 cap and I am sure mine will to". I have heard that a time or two. This may be ok, if the buildings were identical. However, generally, the other building was just rehabbed with a new roof, new windows, new mechanicals, new kitchens etc. So an apples to apples comparison is not a fair indication of what YOUR building may be worth. In addition, your building has government tenants, and the other has all new market rate tenants. Another main issue is regardless of what you or I may think your building is worth, what will a BANK believe it is worth. Using your gross rental history we then need to deduct 5% to 7% for vacancy even if you are full. We need to deduct 5% to 10% for management fee, even if you are managing the building. We also need to deduct 5% for repair reserve, even if you do not put any money back into the building. So your cash flow for bank Purposes is going to be much less than the

cash flow you believe your building is generating. Why is this important? We may get a contract on your building only to find out it will not appraise for the bank and we will be back to square one.

For buyers, a good commercial realtor is going to add these deductions to the cash flow statement a seller provides so you should know what the real cash flow is at least for bank purposes. Will you be able to get that building for a 12 cap? Probably not likely, simply because Rochester does not have many properties that sell for that low unless it needs a significant amount of work or may be a small city unit with government tenants. So expectations need to be a bit more around 10 although a good cap rate deal does come around from time to time.

What else should you look for. Comps are helpful especially for the same general area. What are the rents and can they be increased. Is it perhaps being poorly managed and can you increase cash flow due to better management? What kind of deferred maintenance schedule will you be facing. Will the building qualify for any city or state grants to assist with any maintenance or upgrades. Grants are great because you do not have to pay back the money!

Next is to find a motivated seller, analyze a deal, and make an offer. Sometime it is not always price but terms. We can help!



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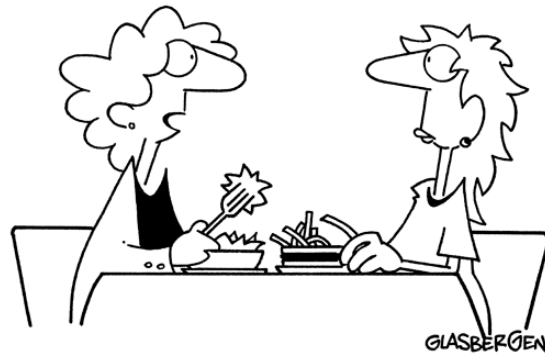
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"I finally got my boss to notice what a good job I'm doing. I bought the company!"

WHERE IS THE "TARP" MONEY FOR COMMERCIAL LOANS???

I spoke to Mike Bates, Commercial Loan Officer for Cobblestone Financial Group about the current lending climate for commercial loans and the following are a summary of his comments. Commercial lending has been described as frozen since last fall. This is a misrepresentation derived from the media and is certainly false. Realistically, deals are tougher to get done than a couple of years ago, but many lenders are still actively looking to grow their commercial portfolio.

The sub-prime and stated market have been eliminated and the days of 90% LTV and "Low DOC" loans are gone. Responsible commercial investors can expect to come up with a minimum of 20% down, have a decent credit history, and present a subject property with a history of positive debt service. Qualified investors can expect rates in the 6- 7 % range, fixed for 5 to 15 years, and amortization schedules up to 30 years. On the owner occupied side, SBA loans are still available.

This market should only improve with the signing of the American Recovery and Reinvestment Act of 2009, signed in February by President Barack Obama. Rochester is not unaffected by the national recession but historically proves to be a strong commercial market. Mike can be reached at 585.223.1006 – 800.817.1012

