

# How To Sell Residential Income Property for **Maximum** Profit



## The Ritchey Team

Residential Income Property Specialists

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**COLDWELL BANKER**

**PREFERRED,  
REALTORS®**

If you are considering selling your residential income property you should have goals of:

- 1) getting the highest price possible
- 2) in the shortest period of time
- 3) with the least amount of hassles

I am writing this booklet to share some ideas that I have acquired over 35 years of listing and selling well over 1000 rental properties in the Bakersfield area.

First we need to know who we are trying to attract to buy our property.

## TYPES OF BUYERS

**Owner Occupied** - Concerned more with the physical aspects of the property - location, exterior and interior amenities. They usually purchase duplexes, triplexes and fourplexes. Usually they purchase with an FHA loan which will cash out the seller. They are like house buyers and look at everything available in their areas and price range. They are concerned with schools, shopping, transportation, and safety. They are cognizant of the rents on the units they will not occupy.

**Investor Type A** - A person who is looking for a property already performing at or near its peak. These people don't want to fix up or take on management problems. They prefer property in above average locations.

**Investor Type B** - A person who is looking for a property that is distressed or has been mismanaged. They want to purchase well below market, put time, effort, and money into the property and develop some sweat equity. This type of buyer will want to purchase the property at a price that allows them to make a profit on their effort.

**Investor Type C** - Charlie the Thief - Looking for desperate sellers that he can take advantage of. Usually tries to use creative financing with nothing down so he has no risk. Some will offer all cash for a greatly discounted price. Buyers may then resell the property (FLIP) or look to place another buyer into the escrow and make a profit by (WHOLESALE) the property.

You will get the best price if you have a property that is attractive to owner occupied buyers or investor Type A buyers. You can still get a fair price if your property is well maintained and managed in an average area. If you want to sell your property in less than good condition, you must be willing to discount the price to meet the requirements of the Type B buyers.

You should try to completely stay away from TYPE C Buyers.

You will have the greatest opportunity to reach the three goals mentioned at the beginning of this report if you chose a knowledgeable professional residential income property specialist to represent you in selling your property.

## **WHY INVESTORS ARE BUYING AND NOT BUYING PROPERTY**

Investor motivations have changed in the last several years. In the late 1970s and early 1980s buyers were purchasing investment property for two reasons:

**Tax benefits** - An investor could get excellent depreciation on property that would offset large amounts of their personal income. Also when property was sold, there were great capital gains tax advantages.

**Appreciation** - Properties were going up in value at a tremendous rate due to inflation and supply and demand.

In 1986, a new tax law was passed that caused a change in depreciation and capital gains rules that made real estate less appealing. It caused investors to change their motivation to only one thing - yield - return on investment. Today's investor will usually not purchase property just with the hope it will go up in the future or for the limited tax benefits he can receive.

## **INTEREST RATES**

Interest rates play a big role in the market. The higher the interest rate, the higher the payment and the less the cash flow. A seller needs to be keeping track of what is going on today and in the future to take advantage of the best time to sell.

**Example:** You own a 4-plex that generates \$600 per unit per month. The yearly income would be \$28,800. Let's assume the yearly expenses except for loan payments are \$12,960. This leaves \$15,840 for cash flow and loan payments. Let's say that the buyer wants a positive cash flow of \$200 per month which is \$2400 for the year. This leaves \$13,440 or \$1120 per month to service the debt.

If the interest rate is 6% and the term is 30 years, the buyer can get an **\$186,600** loan. If the interest rate is 7%, the loan amount is reduced to **\$168,300** and if the interest rate is 8%, the loan amount goes down to **\$152,600**.

**You can see that It is a great advantage to the seller to sell in a low interest loan cycle rather than when the interest rate is higher.**

## **TYPES OF LOANS AVAILABLE**

Investment properties are divided into two types as far as lenders are concerned, which has a significant effect on demand.

Single family homes to four units - Lenders are encouraged to make loans on these properties by the government. Owner occupied buyers can get FHA, VA, Cal Vet, and conventional loans with high loan to values. Non-owner occupied buyers can get conventional loans up to 80% of value. Properties that appeal to owner occupied buyers have a good chance of cashing out. If the property appeals only to investors, the seller may have to carry some paper.

Five or more units - Lenders define these as commercial loans. Usually the highest loan to value is 75% and may even be lower. This requires the buyer to make a larger down payment. The terms are not usually as good as the 2-4 unit loans. Interest rates are higher and amortization periods can be shorter. A lot of these loans involve variable interest rates and therefore are more risky. These properties are more difficult to sell because most buyers don't have enough cash for the down payment. If this type of property already has a good assumable loan or the seller is willing to carry paper to benefit the buyer, the seller may have a better chance of selling the property for a higher price.

### **FACTORS THAT AFFECT YOUR PROPERTY'S VALUE THAT YOU HAVE NO CONTROL OF**

- 1) Physical features - location of the property, neighboring properties, makeup and size of the units, floor plans and architectural style.
- 2) Market conditions - buyer demand, prices of recently sold properties, interest rates and availability of financing, condition of the economy, tax laws and tenant laws.
- 3) The competition - the number of similar properties for sale, their prices, financing, terms, location, and physical condition.

### **FACTORS THAT AFFECT YOUR PROPERTY'S VALUE THAT YOU DO HAVE CONTROL OF**

- 1) Condition of the Property, Inside and Out - In MY book "HOW TO MANAGE RESIDENTIAL INCOME PROPERTY FOR MAXIMUM PROFIT," I explain how to make your property more attractive to tenants which increases rents, gets you better quality tenants, and reduces vacancy and maintenance costs. A well maintained property will always get a higher price than a poorly maintained one.

- 2) Rents - If your rents are not at market, your property is not worth as much. Buyers use the rents and cash flow to determine value. Even if they see that your rents can be raised after they purchase the property, they will discount the price because of the possible loss of tenants and vacancies that can occur from rent increases.

Example - If you have a fourplex with rents of \$800 and the market rents are \$825 and the average gross rent multiplier\* for the area is 7, your property is worth:

*\*Gross rent multiplier = Sales Price divided by Yearly Income*

\$25 X 4units X 12months X 7 gross rent multiple = \$8,400 less than if the property was at market rent.

- 3) Listing Price and Terms - In order for a buyer to buy a property and a seller to sell, they both have to be getting the benefits they want; it has to be a win - win situation. The benefits that some buyers are looking for are 1) cash flow 2) price and 3) terms including leverage.

## **WHY YOU MAY WANT TO CONSIDER CARRYING SOME PAPER**

- 1) More buyers can afford the down payment.
- 2) You will probably get a higher price.
- 3) You usually will pay less taxes. (Installment sales spread gain over several years)
- 4) You may get a higher interest rate than a savings account, T-bill, or money market account.

## **EXPOSURE**

Even if the property is priced right and there are good benefits for the buyer, your property has to be exposed to the market properly. Marketing income property is different from houses. Residential income buyers need different information and look for it in different ways than home buyers. When a potential buyer calls, the agent answering the phone needs to be knowledgeable and experienced in order to know how to answer the questions and search for the benefits that the buyer is interested in.

## **FACTORS THAT DO NOT AFFECT YOUR PROPERTY'S VALUE**

- 1) What you paid when you purchased the property.
- 2) What the tax assessor says your property is worth.
- 3) The cash proceeds you want or need from the sale.
- 4) What a certified appraiser says your property is worth. Chances are that if you had 3 independent appraisals done on your property, all three appraisals would come in with a different value.

## **WHAT IS YOUR PROPERTY WORTH?**

Your property is only worth what a willing and able buyer says its worth. Buyers engage in comparison shopping. A buyer will not pay more for one property than he would have to pay for another, similar property.

## **A COMPARABLE MARKET ANALYSIS DONE BY A KNOWLEDGEABLE REAL ESTATE AGENT SHOWS WHAT BUYERS ARE WILLING TO PAY IN TODAY'S MARKET.**

A competitive market analysis demonstrates what buyers have actually paid recently for comparable properties (SOLD LISTINGS). It also shows what buyers have not been willing to pay under current market conditions (EXPIRED LISTINGS), and focuses on other properties which are now competing for buyer's attention (ACTIVE LISTINGS).

## **WHAT HAPPENS IF YOU HAVE TO SELL YOUR PROPERTY**

I have come across dozens of sellers who for various reasons are extremely motivated to sell their property and "stop the bleeding."

Their reasons include:

1. Their property is being mismanaged, either by the owner or by a professional management company and they can no longer afford the negative cash flow.
2. They have deferred maintenance that needs to be corrected immediately and they do not have the money to make repairs.
3. Their loans have negative terms such as high interest rates or balloon payments.
4. They are going through a divorce or moving out of the area.
5. The real estate market has turned south and they have less or even negative equity in their property and don't want to keep it any more.

What I have learned over the years is that for an distressed owner:

**\*It is better to bite the bullet early and take your losses than to procrastinate and get yourself into a bigger mess.**

## **Marketing Strategy - Selecting the Right Realtor®**

We're sure you have friends or acquaintances that are licensed real estate agents. You may even feel loyalty toward them, but are you willing to lose thousands and thousands of dollars because they do not have the expertise to do the best job possible for you?

### **Selling a multifamily property is completely different than selling a single family home.**

Working with an agent that doesn't specialize in residential income property is like going to a regular M.D. and asking them to do brain surgery on you.

I hate to disclose this but my years of experience have taught me there is a big difference between being **licensed** to sell something and being **qualified** to sell something. There are just a very few agents in our area that are qualified to sell residential income property. Unfortunately, those that are not qualified will not tell you because they are more concerned about earning a commission than telling you that they don't really know enough to do the job correctly and suggest you find an agent that can do a proper job for you.

The Ritchey Team with Coldwell Banker Preferred Realtors® are qualified. We are Residential Income Property Specialists – that's all we do!

- 1) We know the values. We are looking at residential income properties every day so we will know the current market value of properties.
- 2) We know how to accurately analyze a property. We know what the current market rents, vacancy factors, and expenses for properties are so that you can get more accurate information.
- 3) We know where to obtain the best financing available. As an investment specialist we are constantly looking for new and better sources to save you money. We are also experts in creative financing that still allows security for the seller.
- 4) We know how to market your property effectively. Every dollar we spend on advertising and marketing is to find buyers of residential income property. Our website and our seminars are designed to attract qualified buyers for us to work with.

5) We know how to negotiate. Our experience will allow us to get you the benefits that you are looking for. We can get you the best price and terms.

6) We work for you full time. We don't sell owner occupied houses, condos, mobile homes, farm land, commercial property or business opportunities. Every day we spend our time only looking for buyers and sellers of residential income property.

(7) We have "the most innovative and effective strategies, tools, and techniques for marketing and selling residential income property!"

**We can and will sell your residential property for the most profit and with the least amount of hassles.**

The Ritchey Team has developed additional educational information that explains in more detail how to successfully invest, manage, and sell residential income property.

**THIS REPORT IS BROUGHT TO YOU BY:  
The Ritchey Team**

**Contact Us if We Can Be of Any Service**

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