Complicated Business Purchase

Case Study # 3

You find an apartment building that is offered to you as an investment. The seller wants $700,000 for the building. There are 24 apartments that range from 800 sq ft to 1500 sq ft. The average rental is about $1,100/month. Here are the historic financials:

	2014	2015	2016 Thru September 30
Gross Rental Income	152,000	174,000	123,750
Utilities	2,000	1,800	1,500
Repairs & Maintenance	15,000	25,000	18,000
Property Tax	5,000	5,000	2,500
Rental Commissions	4,500	6,200	4,500
Interest	15,000	14,500	11,500
	41,500	52,500	38,000
Indicated Net Income	110,500	121,500	85,750

Upon your investigation, you find that the vacancy rate is about 52%. The apartments are in need of repairs and the owner has been putting off renovations. In addition, the grounds and landscaping have become run down. Average stay for a tenant is about 18 Months.

You decide if you are going to do the deal, the only way would be to renovate the apartments and grounds, provide some move in incentives in an effort to attract more stable tenants and decrease the vacancy rate. You decide on a plan of $150,000 over three years to renovate all of the apartments and improve the common areas and landscaping. You feel that after doing the renovations, you will be able to sell the property for $950,000.

What will you offer the seller?