# Day 1 Notes:

Investors are equity (old school model)

Operations are the toughest piece of the puzzle. 90% to 95% of it.

Renewals are the most important thing for operations. Mid 60%s for renewals monthly is good.

They’ll prioritize renewal even above achieving market rent immediately. i.e. increasing rent from 900 to 950 instead of the market rent of 1000, to keep it occupied rather than pay money to turn it

Loss to lease around 6%-10% lately. This is ideal, as it relates to the above statement. Consistent increases in rents, not wildly market adjusted ones.

* They let this LTL exist with renewals so that they can tell renewals that their continuous stay matters to them and show them that they’re renewing their lease for a rent lower than new residents are moving in at. It makes the leasing agents job easier too and increase their job satisfaction as they’ll believe in the product they’re selling. (Book as “reoccurring concessions?)

Being below budget isn’t always good, was there maintenance that needed done that didn’t get done?

Run a C building like a B, run a B like an A.

Yardi auto fills most of the Monday report.

Heads on pillows is top priority.

Will move maintenance guys from other properties to help turn units over in emergencies.

How did he come up with his GPR –

1. First looked at new move ins and what the differences were between their rents on comparable properties.
2. Checked out “stoneedge” (comparable Property) and “Costar” to see what rent per square footage.

When stabilizing a property, first priority is to get occupancy to the proper number.

1. Give your property manager the tools to do so, may include reduced market rent, then aiming to climb it back up slowly.
2. Wont raise rents until occupancy is where it should be, then begins a steady and consistent raising of rents until they approach closer to market values (an consistent incline, not a rapid or inconsistent bumpy road)

Stuff to do in Denver

Rocky Mountain national park (have to make a reservation)

Larimar square

Mall on 16th?

# Questions:

## What is exposure %?

4-7% is ideal, but will depend on the property—will be higher on properties like student housing (high turnovers)

Unresolved renewals turn into exposure.

## What is “Net” GPR (Gross Potential Rent)?

LTL Burn off? (see slides provided in binder)

# Ideas for MMC

Align key indicators with weekly Monday Reports (automate a fair amount of this from property management software so it doesn’t eat up a lot of their time).

* Work orders per 10 units
* Renewal rates (emphasis on this)
* Secondary emphasis on quick turns
* Etc

SEO to maximize presence on google

* Research SEO and consolidate all companies with one company at a discount?
* Google reviews?

How do they determine market rent values for properties? Is it a method that new employees could practice (how much intuition does it require)

* Do they measure loss to lease?

# Day 2 Notes

Debt is cheaper than our equity, leverage up

Debt is 5% which is historically low

Equity is 8%-9%

Community amenities are easier to add and can be enjoyed by everyone (more than unit amenities that is)

--Don’t like masonite siding, Hardy siding is great.

Verify what is and isn't in a "flood zone".

But make sure its going to cashflow before going into this due dilligence

--get the "whisper" price to see if your offer is going to even be considered.

Does it have aluminum wiring? It was big in the past, but is flagged by Fannae and Freddie Mac as a fire hazard. It will have to be "pigtailed" (ends replaced with copper) expensive.

Plumbing:

avoid poly-uvelane & galvanized piping. One has pinhole leaks the other corrodes.

May want to camera main lines when you go to do due dilligence.

Check other income sources, Monarch chargest $100 on first late, $100 on second. What about application fees? Might be opportunity to raise income in these ways.

Is there a bulk agreement on cable or internet?-- (means the apartment complex is paying for the service in bulk and then sending out to tenants at an upcharge.)

They make money in operations, not so much in value-add. They say value add isn't their specialty, and they feel it adds risk they don’t like.

Throw the Brokers fro forma and comps out the window.

Do we have SOPs? Standard Operating Procedures for:

Hiring Process:

* Proper background checks
* Skill/Knowledge Check
* Drug Test?

On-Boarding

* Don’t just hand them a stack of work orders and throw them to the sharks
* They know what they can and can’t do

Day 2 Notes:

Financial Statements – Balance Sheet

Three Sections

* What you own (assets)
* How you got it
* Liabilities
* Equity
  + Invested capital
  + Less distributions
  + Cumulative earnings (performance)

Insurance is paid in its entirety in the beginning of the year. Recorded as an asset. Then each month records the expense.

Financial Statements – GPR

Kennsington sends an email out with updates about federal interest rates. Kensington-advisors.com

Chattum? (is nothing website).

Credit Unions are not FDIC insured. Therefore they can get a lot more creative with their lending.

Interest rates are moving into float. They are hiking quick and then will pull back to “reset” pushing us into a recession intentionally?

If interest rates are high, but anticipated to go lower, floating rate interest rates are good. You pay them while they’re high, then when it goes low, you lock?

# Day 3 Notes:

## Underwriting 2.0

### Two Golden Rules

Doublecheck your work

* Does everything make sense?
* Do subtotals match up?
* Is your income/noi higher than the broker? If so, do you have a good reason?

Admit when You’re Wrong

* Best time to make a mistake is early on
* Best time to fix a mistake ais as soon as you realize it
* Some of our best deals can be ones we didn’t buy

## What are areas you can screw up?

### Income Errors

Realistic Rental Income

* Have a clear path to reach your goal
* Can objective be achieved through rental loss elimination or market rent increase?

Income Outliers

* Door fees
* Bad debt/termination fees

Other/Utility Income

* Have confidence in achieving if planning significant increase here
  + Restriction of local municipalities on utility billing
  + Be mindful of differences when comparing directly with your properties

Easier to increase NOI with properties with lower occ, as there is more room to move new people in.

Review current rent roll vs. historical and projected income

Know your comps.

Pumping up the rent will cause vacancy.

### Know your Expenses

Real Estate Taxes

* Know your market

Insurance

* Be mindful of flood zones

Admin, marketing, & in-house maintenance.

* Current portfolio is usually best reference.

Contract expenses

* Combine portfolio actuals with historical. Look for outliers that would need to be assumed.
* Alarms, elevators, shuttle bus, etc.

Payroll

* Build out a realistic staffing list

Utilities

* Historical numbers are your best reference, but keep an out for variances/inconsistencies
* If they have old toilets, there can be SIGNIFICANT water bill savings with LOW FLOW TOILETS. 60%-70% even. Budget more like 40%-50%. 1.0-1.2 gallons be best, lower and things get messy.

Capex/RR

* Pay attention to unit size, age of fixtures & mechanical, similar properties in our portfolio.
* Think of flooring replacements.

## Capital Expense Budget Walking the Line

* Don’t raise too much cash. Capital is expensive. Every dollar raised from investors has to be paid operating returns. $1M in your immediate needs will cost you $90K+ per year for the life of the deal
* Don’t leave yourself with too little cash; you will be miserable
* Educated guesses.

## Immediate Needs

200,000 + 2k a unit or even 3k a unit.

## Financing Faux Pas

Lenders require AT LEAST 1.25x DSCR

* “Full proceeds” 75-80% LTV, depending on market) will almost never ba available on deal in the current purchase environment
* Make sure to also consider this when eval a short to long model

Make sure to understand pricing (spread vs. 10 year treasury) before submitting an offer. Pricing may not always be equivalent on deals even in the same market.

(10-20 bps, 50-60bps discount on affordable housing loans)

## Other Thoughts

* Your underwriting isn’t going to be perfect, especially so early in your career. The best way to get better is to learn from your own and others’ mistakes and always being open to changing your approach if new/better information or methods become available.
* Its not the worst thing in the world if we drop the deal. Even better if we have a valid reason and not something we could have done our homework on sooner
* Get your Due Diligence completed Early. If we discover something that changes the deal we have more time to:
* Seek remedy from the seller
* Adjust our underwriting.
  + - It is easer to adjust our underwriting before the deal is presented to investors.
    - Income not as easy to get as we thought, initial or ongoing expenses going to be higher than planned after seeing units, etc.

## Offering Memorandum

* Quentin Mege – Asset Manager

CAN USE OTHER PROPERTIES OMs for useful, but constant, market information.

Everything you need to know before you put your money in a deal

* The property
* The market
* The strategy/operating plan
* The risk/opportunity/assumptions
* The sponsor
* The legal aspects

To be convincing you need to know about it all

The offering Memorandum is a “marketing” tool

* Make it pleasant to read
* Illustrate with pictures. Show the investor where their money is going
* Make it professional
* Spell Check. Proofread. Make a coworker proofread
* Professional language
* Accuracy of information

Most investors are familiar with us and have seen OM but make it understandable by a new investor

* Often completed within a tight deadline
* Start as soon as you know you will have a deal
* Get input from your AM or other analysts

### Overview

General

* Deal summary
* Location, property info, amenities, year built, construction, unit mix
* Current operations. Stable or underperforming?
* Monarch Strategy summary

Location

* Dive deep into “town’s purpose for existence” and how the property fits in the town. Why do people want to live in this city, and why do people in the city want to live at this property?
* Geography, employment, attractivity, growth
* Cover submarket, market and region
* Mention other Monarch properties if applicable. Past success in market and a stable staff create confidence.

Operations Plan

* Underwriting assumptions that are not obvious or still a work in progress at the time of the Offering Memorandum (new other income streams, significant expense reductions from current owner, immediate needs budget, etc.)
* Current operations and what we will do better than the current owner
* How we will execute the operations plan

Real Estate Taxes

* Explain the assumption used in the underwriting
* If necessary, detail different scenarios and impact on the underwriting

### Ownership structure

* You should have an org chart by now. Is it a portfolio deal? Are there Tenants in common (TICs)? Are we buying the entity or the real estate?

### Executive Summary

Fill in the blanks!!!!

* Accuracy is key here. Don’t leave info from a previous OM you may be working off of.

Location and Aerial Maps

* If using broker’s maps, make sure to clean them up (e.g. replace “subject property” by the property name)
* If using Google Maps, clean up your previous searches (log out)

### Investment Information

Fill in the blanks!!!

* Learn to locate possible mistakes. Understand what is included in this section!
* Make sure the return threshold is up to date
* Include the 2-page legal disclosures

### Underwriting

* You have been working on this for months and everything is clear to you. Make sure that it is understandable for somebody looking at it for the first time.
* Clean up unnecessary notes, comments, borders, Organization Fee percentage, unused lines or columns, call for offer dates, low and high price, etc.
* Investors are mainly interested by returns, If presenting different returns (10, Amo, including principal reduction), make sure that they are clearly identified.

### Market Data (need to fill out from slides page)

* All the supporting information for your “general” and “location” section
* You can use a combination from CoStar, broker’s OM, market analysis, news clips, economic development publications or studies…
* Make sure to delete wrong or irrelevant information. Broker’s OM PDF can be edited.

The Sponsor

* Use the latest revision found in the “Monarch General” folder
* Make suer that the formatting is correctly translated into your document.

### Be Ready to Answer Questions

* #1 question (90% of the questions): Is it a good deal?
* Comparison with other Monarch properties in the area
* If you underwrote 4% rent growth but the CoStar report shows 2% over the last 2 years, be prepared to explain
* Questions about employers are more common – especially if there was a recent WSJ article about the employer or the industry. After you complete the OM, stay on top of the economic news in the area.
* Who can invest?

### Offering Flyer

* Condensed version of the OM with all the key information (cover page, overview, executive summary, investment information, underwriting).
* Bob can ask for different reasons:
  + Gauge interest from select investors in new market
  + Fill in deal that is mostly taken by 1031 or other source of money
  + Tight timeframe
* If put together for a new market, needs to be a lot more detailed and pretty much a full analysis of the area. Compare with other existing Monarch locations and explain why it would work as well.

## Collections

Collections begin before even moving the tenant in. Proper screening and information collection.

SOP – Application Packet & Process and Resident File Checklist

Application Packets will include:

* Rental application criteria
* Rental application(s)
* Property brochure/Floor plans/Price List
* Pet Policy Criteria
* Income Verification
* Landlord Verification
* IC (Tenant Income Certification), Worksheet Housing (Site specific)
* Application Cover Sheet or Folder (Optional)
* New Move-In Worksheet

Resident Application has lots of legal requirements, including informing them about what they’re being screened on.

### Move in Best Practices for Collections

During Move-Ins:

Review lease with new residents and answers any questions they may have about the lease agreement.

After new resident(s) sign lease, review the lease

Cont. from slide page

Early Bird Rent Payer Specials for troublesome months (January 1st)

## Staffing

Staffing is the hardest part of operations.

Efforts to ensure you’re hiring the right people

* Skill/Knowledge Check
* Proper background checks
* Interview process

Using a recruiter can lead to the greatest chance of success.

When you have high employee turnover:

* **You** are not hiring the right people
* Perhaps their initiation isn’t proper

In this labor market:

If they meet the minimum criteria, and they get along with your team, you hire them.

**35%-45% Employee turnover is the industry standard (annually)**

**Monarch sees 53% (annually)** Only about 11% are fired. The large majority voluntarily leave.

* The primary reason is “Poor Management”.
* Highest is within Maintenance.

Do NOT underestimate LABOR costs today. And project them out 6 months.

**Jobvite** is to recruiting what YARDI is to Property Management.

## Phase 1 & PCA Red Flags

(PCA = Property Condition Assessment)

Red Flag Issues

* Can be latent or active
* Indicator of potential issues within your building
* Recognized problems within the industry
* Could result in large-scale failure of a building system or a life safety issue
* Are often the subject of recalls or class-action lawsuits

### The BIG issues

#### Polybutylene Piping

* (Look like gray pipes with copper binding looking things, flexible)
* Installed in properties built between the late 70s and mid 90s
* Non-rigid piping that can be gray, white, blue, or black
* Metal or plastic compression fittings “PB2110” or “ATSM D3309” Label.

PB Piping failure begins to leak and in multiple places at once.

### Galvanized Piping

* Installed most commonly in properties build before 1960
* Steel piping with threaded connections
* Corrosion occurs on the inside of the pipes leading to loss of pressure, discoloration of water, and leaks. Rust in water.

Effective age of the material is at the end of its industry accepted useful life

The occurrence of leaks will only accelerate, advisable to replace

### Electrical fuses

* Installed most commonly in properties built before 1960.
* Edison base – metal threads with sacrificial metal strip.

Corrective actions:

Two options:

* At the end replace with breakers $$$
* Serviceable with retrofit $
  + Tamper-proof receptacles and fuses.

### Problematic Gypsum Board

In buildings between 2001-2008

Predominantly in Southern States (AL, FL, LA, MS, and VA)

Off-gassing of drywall xidizes the copper and select other metals

* Typically just needs tested to see if its problematic.

### Fire-Retardant-Treated Plywood – FRTP

Utilized in Roof decking and attic fire wall assemblies

Issues generally on install from 1985 to 1995

Look for brittle and crumbly decking that is brown or black – as though it has been burned or charred

Look for dark coloration and sagging, wavy or uneven roof coverings.

Not seen a lot, but when seen, recommend roof to be replaced (its probably time anyways)

### Virginia Graeme Baker Pool & Spa Safety Act

Proper drain vents in pools to prevent drownings.

### Aluminum Wiring

Single-strand aluminum wiring expands and contracts at a greater rate copper, causing connections to become loose.

Loose connections lead to arcing and fires.

Popular in 1960s.

Solutions:

* Rewire the building with Copper $$$
* Provide copper pigtails using copalum connectors
* Provide copper pigtails using alumiconn connectors.

### Federal Pacific Electric (FPE) Stab-Lok Panels

* Installed between 50s and 80s.
* Breakers have a high failure rate-- 33%

Solutions:

* Replace the panels (will typically allow to be done over course of loan)

### Sub-60 amp service

* No longer to code. No real fire risk or overloading issue or anything like that. It just wont be able to supply enough electricity simply.

Solutions:

Have a licensed electrician or engineer to perform load calculations

Load > supply = replace and potentially rewire

Load < supply = maintain and monitor.

Accessibility

* Americans with Disabilities Act (ADA) Title II – Places of Public Accommodation
* 1991, 2010 ADA standards for accessible design

Federal Fair housing Act (FFHA)

* There is no one referenced standard for FHA compliance; generally, use the HUD fair housing act design manual.
* First occupancy after March 13, 1991
* 4+ dwelling units

Some States have more laws.

Asbestos Containing Materias

Pipe insulation

Vinyla floor tiles

Drop tpo ceilings or something.

# Day 4:

## Flooring Best Practices

Flooring accounts for 22% of annual maintenance spending

Flooring Basics- Carpet

Fiber – Easiest to clean, but can get mushed down and not go back up. Making high traffic

* Polyester
* Nylon
* Smartstrand

Dye Method

* Solution Dye – colored all the way through
* Continuous Dye – colored on the outside

Color Description

* Solid
* Tonal
* Fleck – hides a lot more staining and ware than solid.

Face Weight

* 25 oz
* Sub FHA 18 oz

A picture containing funnel chart

Description automatically generated

Flooring Basics – Sheet Vinyl

$1.02 per square foot. Pricing has gone up recently.

Flooring Basics- LVP

Most commonly purchased by Monarch

Plank dimensions 6” wide is most common

Thickness

2mm-8mm

Flexible or Rigid

Flexible – less expensive (is very flexible)

Rigid- Masks subfloor imperfections I1777 has rigid)

Installation Method

Glue Down- Directly glued to subfloor

Floating/Click- Ability to install over more surfaces.

Doing install yourself will lose the manufacturer warranty.

## Water

The Good, the Bad and the Ugly

### Hard Water

Internal line sediment build up

* Low pressure and volume

Corrosion from the inside out

* Pinhole leaks
* Broken seals at joints

Treatments/maintenance

* Salt
* Non-salt filters
* Ion exchanger systems (and magnetic systems)

PEX is good for re-piping. Its flexible rubber garden-hose-like lines.

The guy says the PEC at home depot and lowes fails. There is PEX in Europe that has lasted 40 years.

### Leak Prevention/Detection

**Toilets and Faucets**

* Regular checks when in any unit
* Conservice notifications

**Hot Water Heaters go bad**

**Supply Line Breaks**

* Corrosion at shut offs
* Cold Temps
* Exterior Grounds with muddy/wet areas in good weather

**Leak Detection Companies**

50/50 depending on whether they’re a rip-off or not

Keep an eye on water bills to find leaks.

### Irrigation Lines

Irrigation Sources

* Municipal Utilities
* Wells, Lake, or River sources

Maintenance

* Partner with Landscapers, but don’t hand it all to them
* Cost saving measures
* Rain Meters/Timers
* Sprinkler heads
* Regular Inspection

Know what your rights are if you’re pulling out of a well or stream or lake.

There are Rain Meters that attach to sprinklers that measure rain fall and don’t turn on sprinklers if enough rain has fallen

* Just ensure they’re being upkept otherwise they do nothing.

## Roof and Gutters

Different Roofs, Different Issues

* Pitched
* Mansard
* Flat

Eves and Fascia

* Poor gutter maintenance causes damage
* Drip edges/flashing
* Ventilation

Gutters and Downspouts

* Clean Gutters keep the roof drip edge and fascia from being damaged
* Down spouts need to also be clear and allow water to properly displace upon exit

## Siding

Siding Rot

* Water gets behind and invisibility ruins siding from inside out
* Improper Drip edges can cause rot at corers and trim areas

Vinyl Siding

* Wind Damage opens gaps that allow water penetration
* Hail Damage causes holes that allow water penetration

Regular Maintenance

* Caulking
* Paint

## Foundations and Erosion

Clogged Gutters will overflow and erode ground below at building edge

Clogged downspouts fail to direct water properly

* Erosion around entry stoops and walkways
* Water pressure builds underground against our building walls or retaining walls
* Water needs to be moved at least 8-10 ft from building into landscaping
  + Be careful of weak buried extension tubes
  + Be careful with pop up exits

Grading and landscaping helps

French drains and sump pumps to finish the job

## Other Water Issues

* Hot water/boiler systems – circulator pumps
* Hot water heater pans and drains
* Air conditioning condensation lines
* Poly-Butylene Plumbing
* O&M – Moisture Management

Use a Drone for your property to inspect gutters.

## Water Saving Projects

Which properties are ideal candidates?

Cost Benefit Analysis

* Typical Costs run $300-$350/bathroom
* Typical Savings is about 20-25%
* Look for local utility rebates
* 2-3 years = Worth it
* 5-10 years = prob not worth it

Third Party Vendors

* There are companies where this is all they do.
* We don’t want to do this in house

## Capital Needs Planning and Cash Management

### Special Projects

* Likely more than 5k
* Not part of regular operations of th property
* Code all items for a large project to the same account
* If accountants are raising SP concerns, they are likely right
* Income generating and part of a consistent program

### Capital Needs

When is your loan term?

What will need to be replaced/addressed in that timeframe?

What is the likelihood of bad surprises happening?

* Think of every single item that you’re not replacing right away, whats the expected life span?

EUL/RUL (Estimated Useful Life / Remaining Useful Life)

* Windows 30 years
* Kitchen appliance 12 years
* Cabinets 10 years
* SEE “PARTNER” REPORT IN BOOTCAMP BINDER WITH REPORTS ON ALL ITEMS USEFUL LIFES

Are we completing preventative maintenance?

### Cash Management and Distributions

* Do we have the money we need to address the capital needs?
* If not, what strategies can we put in place?
* Distribution
* Supplemental
* Sale
* Monarch Loan

### Liquidity Group

* High: More than 12 months of AMO debt service
* Medium:6-12 months of AMO debt service
* Low: Less than 6 months of AMO debt service

Always make decisions with your cash position (liquidity group) in mind. Put a plan in place if you are not satisfied with the current liquidity situation of your property.

### SP Budget

* Seemingly finally learning from past mistakes
* Most common area missed:
  + SP Plumbing, SP unit upgrades, SP roofing, SP furniture/equipment
* All except plumbing and some roofing should be somewhat easy to budget for

### Replacement Reserve and Escrow

Currently $300 to $350 on most deals. Most underwriting are $325 to $350

Actual SP is $700+

Actual RR is about $300

Some lean deals will see their escrow balloon

Watch for Schedule 6

Most deals have $3,500 of reserves and 10-12 year loan. Only 4 to 5 years worth

Have a plan for the remaining years!!!

### Bidding Process

Easier to bid specific scope of work than just a “project” -> RFP

* Work with a known vendor first
* Use rover or supervisor to clearly outline work
* Use GC for large/difficult projects

Contract

Use Monarch Contractor Agreement

Be as detailed as possible

Ask for W9 (PULL MORE INFO FROM SLIDES)

Protecting your investment

Keep track of what was completed

Make sure to get final lien waiver and all warranty paperwork

(CONTINUE HERE)

How can you help your AM

Prepare or help prepare RFP

Summarize proposals

If not apples to apples, offer valuation of difference

Offer suggestion and reasoning

Costs – Roofs

Underwriting:

I use $2,000/unit as a starting point if roofs will be needed

Evaluating size:

[www.freemaptools.com/area-calculator](http://www.freemaptools.com/area-calculator)

Shingles

* $375-$600 per square
* Factors affecting price:
* Shape/height of roofs
* Tear off
* Plywood and other wood work
* Gutters, downspouts, ice and water shield
* Size of project

Flat roof:

$800-$1,300 (CONTINUE)

Asphalt:

Overlay $3-$5 per sqft

Factors affecting price:

Thickness

(CONTINUE)

Seal coat:

Concrete:

Driveways:

* $6-$10 per sqft
* Factors affecting price:
* Prep needed/substrate
* Thickness/reinforcement
* Size

Sidewalks:

$7-$12 per sqft

Factors affecting price:

CONTINUE

Elevators

Uderwriting

$300,00 per shaft

CONTINUE

Boilers/Hot Water Heaters

* Consider solution used
* Is reducdancy needed?
* Will code impact the project greatly?
* Do you want to keep domestic hot water and heating together?

Boiler:

CONTINUE

Aluminum Mitigation  
Underwriting

Use $800/unit

CONT

Pools

Use $250,000/ pool

CONTINUE

Costs – Other Normal Unit Turn Items

Paint - $300

Carpet - $500 to $2000

HVAC

* Condenser $1,300
* Heatpump - $1,550

Water ehaters

* Electric $560
* Gas - $550

Appliances

* Refrig - $550 to $850
* Gas range $625
* Electric Range - $570
* Dishwasher $450
* Washer $500
* Dryer $500

DO BULK BIDS

Marketing

91% of consumers trust online reviews

77% of consumers ‘always’ or ‘regularly’ read online reviews when browsing for local businesses (up from 60% in 2020).

There are reviews on FB, rentcafe, yelp, the BBB (which we have to respond to or our score goes down), google.

About 84% of consumers believe that reviews older than 3 months aren’t relevant, and 48% of consumers only pay attention to reviews written within the past 2 weeks!

Using Keywords in our reviews help with SEO. In fact, according to local SEO experts, online reviews are the second most important thing to pay attention to in local SEO.