

Factors in multi-unit valuation

By Thomas Beyer (from the REIN forum)

How do you determine value? Some items to consider are listed below.

Note that your particular goals will influence the relative importance of each. Certain people might buy strictly for cash-flow and ignore future upside, while others see the future upside and are willing to pay more even if cash-flow is poorer to start with. Others might look for condo conversion potential or prefer high leverage or prefer low leverage with less upside but better cash-flow.

So.. All and all... a complex and not always easy answer why we pay X for a certain property... Or ask for a price reduction or don't buy or do buy!

1. price/door
2. CAP rate (or yield) - going in .. CAP rate being NOI / price (NOI being net operating income, i.e. rent minus operating expenses like taxes, utilities, management fees, insurance, R&M allowance)
3. CAP rate after improvements
4. rent control laws in the province/state
5. price per sq ft
6. GRM (gross rent multiplier)
7. suite size
8. balconies
9. condition of interior
10. condition of common areas
11. condition of exterior
12. condition of major elements like: roof, boiler, windows, elevator
13. elevator premium
14. tenants pay utilities or not
15. condo conversion potential
16. upside of area
17. upside of city
18. manageability
19. rental competition in the area
20. CAP rate compression or expansion in the future
21. interest rates
22. interest rate outlook
23. CMHC loan-to-value insurance fees
24. transportation improvements
25. employment today in the region
26. employment outlook in the region for the next 3-6 years
27. potential for add'l construction on "free land" that comes with property
28. environmental Phase 1 and occasionally phase 2 reports

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Prestigious Properties Group specializes in acquiring, managing, and turning around under performing multi-family apartment buildings. As of 2009 he currently oversees operation of approximately 85 million dollars of real estate assets, with a total of over 1,150 units in AB, BC, SK, MI and TX. He can be reached through phone at 403-678-3330, through email at tbeyer@prestprop.com