

Norris & Stevens

APARTMENT INVESTORS JOURNAL

Creating Value in Investment Real Estate®
Brokerage and Management for Apartment Investments

The Importance of Competent Brokerage

When most people experience a serious health problem, much thought and research is put into choosing a specialist in the appropriate field that will help obtain the best results possible. *However, many investors – especially new investors – don't research investment brokerage options.* This leaves some investors with unnecessary loss of equity on a sale. How did this happen? In Oregon, to qualify as a broker, an individual must take appropriate courses and pass the state and national real estate exams. The majority of that coursework – an estimated 90% or more – is geared toward single family residential real estate practices of all types. *In the other 10% of the coursework, you are taught just enough about commercial real estate to be dangerous!*

However, once the exam is passed, a new broker can participate in *all* real estate transactions. *For those that choose to have their career in commercial real estate, substantial additional time is spent learning and*

taking classes that focus on commercial transactions – this is required by all reputable firms that specialize in commercial real estate.

Most brokers will choose a specialty and focus in that area. They are truly experts in a specialized field. It is extremely important to understand how properties are valued, what the trends are, what is happening in each sub-market, and what lenders require to finance that type of property.

With the stock market's lackluster performance, it's no secret how "hot" the real estate market has become in the past five years. Being first time investors, many "don't know what they don't know." Often, they pick up the phone and call their local residential firm. *Many do this because they don't know who else to call or believe that a commercial brokerage firm wouldn't handle a small client.*

Commercial transactions differ from residential transactions in many ways. When someone buys a house, it's a combination of an emotional



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decision (perfect kitchen, great yard for the kids, right school district, master on main, etc.), and one of affordability – does the individual qualify for a loan.

With commercial transactions, many other considerations come into play. What is the cap rate, and va-

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cancy factor? Is there an “up side” in the rents? Are there environmental issues? What type of loan will the property qualify for, and what type of investment return/cash flow will this property provide the investor? *Commercial transactions are based on business decisions verses emotional decisions.*

In addition, the Purchase and Sales agreements are very different. These forms address the due diligence period as well as a financing period. The lending process is also very different. All multifamily properties with greater than 5 units are underwritten differently than a single family home. Although an individual or LLC must qualify, the majority of the loan decision is based on the financial performance of the property and if the financial performance will meet the required debt service ratio.

At Norris & Stevens, we focus on helping investors meet their wealth building goals. This process takes time and understanding. We are here to help those just entering the investment market as well as helping large, sophisticated investors manage their real estate investment portfolios. I look forward to helping you meet your investment goals.