Jumping to BUILDINGS

Investor *Darren Weeks* discusses the finer points of how to make the investment leap to apartment-building ownership

The majority of real estate investors I come across typically own two or three investment properties such as duplexes, condos and single-family homes. I've met thousands of real estate investors over the years and only a small percentage of them own more than 10 properties. The challenges for the retail real estate investor are numerous, but many of these can be overcome by understanding four key components that can hold us back from our goals. Once mastered, these four pieces of the real estate puzzle will combine to eliminate barriers to property ownership and allow you to begin purchasing the big ones – apartment buildings!

Project – pick a size

Start by determining the size of the multi-family building you are interested in purchasing and then create a list of the areas in which you'd like the complex to be located. Next, create a list of ALL properties in your target area and begin physically taking a look at each building (makes for a fun weekend activity with your partner or a friend). Be sure to analyze the key data for each building such as rental rates, vacancy rates and class of building (A, B, or C) to become intimately familiar with your market.

Remember, the larger the apartment building, the less options that will be available in your area. However, it's also important to note that the best deals often come as a result of economies of scale, such as the 200+ unit buildings I specialize in. Buildings of this size aren't all that common in Canadian markets, so they can be a bit difficult to find within our borders. Chances are, you'll start out with small buildings, and if you choose, progress to the bigger complexes as you gain more experience. The practice of finding a niche, studying the market and educating yourself as much as possible about apartment ownership is invaluable whether you're looking at a 12-unit starter building or chasing a 260-unit behemoth.

Once you've narrowed down your list as much as possible, start making phone calls. Call the building's property manager and ask questions regarding vacancy rates, move-in requirements, needed upgrades and any other details that might be useful to your decision-making process. This process isn't learned by reading a book or

taking a course – you simply have to roll up your sleeves, make phone calls and knock on doors.

Partners

You may have been able to make small real estate deals on your own, but making large-scale deals such as acquiring apartment buildings will require partners. By partners, I'm referring to everyone involved in completing the purchase of a building. In most cases, this includes brokers, bankers, engineers, accountants, lawyers and other professionals. There are dozens of moving parts required in completing transactions in excess of $10 million and it's important to assemble the very best team of partners.

I can tell you that having partners on my side who know everything about their field is a big reason I've been able to build a company that owns and controls over $200 million of real estate. Naturally, you have your own set of skills and abilities, but don't get bogged down into thinking you need to know everything. Co-ordinate a great team of partners and rely on their collective experiences and expertise. Good partners can make a bad deal a winner, while a dysfunctional team can transform a great deal into a loser.

Before assembling the rest of your team, it's important that you first identify a mentor. I met one of my current mentors years ago and I helped him purchase a property in downtown Edmonton. It was a 160-unit apartment building that was to be converted into condos. He entrusted me to be his eyes and ears on the ground and to act as a liaison between the current tenants and himself. I relayed my mentor's plans for the building to the tenants and did my best to address the questions and concerns they had. This experience taught me so much valuable information that I will forever be indebted to my mentor for giving me the opportunity. Find a mentor who has accomplished what you want to accomplish and be willing to work for free in order to learn from them.

Management

Strong management is essential to owning a profitable apartment building. Once you have short-listed properties of interest, start gauging the strength of their management. Do they fail to return phone calls? Do they miss appointments to show suites? Do they market poorly? Is the building in a less than desirable condition due to management's neglect? The more of these questions that you answer with a 'yes,' the more likely you should consider buying the property. Where there has been bad management, there are great deals.

I learned from experience just how important management is. I once served as a property manager after purchasing a 20-unit condo complex. I was the worst property manager of all time and my tenants hated me! For this reason, I NEVER manage properties anymore. Instead, I find the industry's best to manage my properties. Staying out of the management game also provides you with more time to go out and find great deals to add to your portfolio.

All of my company's properties in the United States are managed by a good friend of mine, Ken McElroy. Ken has written a book entitled *The ABC's of Property Management*, which covers important management tips and techniques. To find a great property manager in your area, visit properties on your short list and determine which management you liked best or consult with your team of partners for references.

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Financing

Show me the money! This is my area of expertise and it's what I spend about 95 per cent of my time doing. It involves using other people's money as equity, so that the bank will look at your deals. As of today, I am responsible for raising over $100 million worth of equity and have over 4,000 active investors. My investors provide the equity and the banks provide the mortgage. For major purchases such as apartment buildings, the banks typically require a sizeable down payment of 30 per cent before they consider approving a mortgage. The interest rate and fees are also much higher for these types of acquisitions.

When attempting to acquire an apartment building, he or she who raises the most money wins. It's a very simple concept, but the inability to raise money is what separates the average investor that owns a few properties from the elite investor that owns hundreds. How can you raise the most money? Well, in order to stack the odds in your favour when it comes to attracting investors, start by showcasing your personal track record of success. People who've had success in the past are more likely to have success in the future and investors are well aware of this. It's extremely important that you market yourself as a professional real estate investor and not just someone that purchases properties as a passing interest. This involves having a company website and brand, an excellent team of partners, a detailed business plan for every project, superb presentation skills and a polished, professional appearance.

You may be thinking that there is no way you will qualify for a mortgage to cover the purchase of something as large as an apartment building. The good news is that the bank qualifies mortgages of this kind based on the strength of the project, partners and management. Banks finance apartment acquisitions based upon a pro forma and a strong team and NOT your individual credit score.

I hope that by going over these four vital components of real estate ownership, I have been able to provide you with useful information that you can use on your journey. Please remember, the more action you take, the wealthier you become!