

# Business Success Today

*Business Insights Brought to You by Your Real Estate Professional*

**Everest Commercial Real Estate Services**

## Successful Real Estate Solutions

*The Everest Group was recently involved in several notable transactions.*

- ▲ John Thompson and Chris Nachtrab represented the Landlord in leasing the 29,900 SF former Circuit City building located at 3321 Alamo Avenue in Oakley, Ohio, to the Fresh Thyme Farmers Market for 10 years for a lease value of \$5.53 million.
- ▲ Frank Torbeck, SIOR, represented the Seller in the sale of a 70,448 SF office/warehouse building located at 715 Riverside Drive in Loveland, Ohio.
- ▲ Mark Richter represented the Seller in the sale of the Kemper Meadow Business Center located at 11820-11840 Kemper Springs Drive in Forest Park, Ohio. Kemper Meadow Business Center is two multi-tenant office/warehouse buildings that total 35,790 SF on 3.25 acres.
- ▲ Chris Nachtrab represented the Purchaser in the sale of the 34,935 SF office building located at 6120 Parkland Drive in Mayfield Heights, OH, for a selling price of \$3.95 million
- ▲ Jeff Wolf, SIOR, CCIM, represented the Seller in the sale of the 11,000 SF industrial building located at 11086 Deerfield Road in Blue Ash, Ohio.
- ▲ Mark Freiberg, CCIM, represented the Landlord in leasing 3,600 SF of office space at 4250 Ivy Pointe Boulevard in Cincinnati, OH.
- ▲ Karen Duesing, John Thompson and Chris Nachtrab represented the Seller in the sale of the Eastgate Station, a 157,235 SF retail community center located at 700 Eastgate Drive in Cincinnati, Ohio, for a selling price of \$4.7 million.
- ▲ Adam Simon represented the Tenant, Midwest Roofing Supply, and Frank Torbeck, SIOR, CCIM, represented the Landlord in leasing 25,000 SF of office/warehouse space for five years at 4100 Rev Drive in Cincinnati, Ohio.
- ▲ Mark Freiberg, CCIM, represented the Seller in the sale of a 2,640 SF office building located in Sycamore Township, Ohio.
- ▲ John Thompson represented Dunham's Sports in leasing space at the Harrison Center, a 132,622 SF neighborhood retail center located at 10516-10561 Harrison Avenue. Dunham's Sports leased 38,000 SF for seven years with a lease value of \$1.064 million.
- ▲ Adam Simon represented the Tenant, Abrapower USA, in leasing 40,000 SF of industrial space at 8055-A Dixie Highway in Florence, Kentucky.
- ▲ Chris Nachtrab represented the Buyer in the purchase of a former 7,000 SF Advanced Auto Parts building located at 1911 Bypass Road in Winchester, Kentucky, for a selling price of \$1.5 million.
- ▲ Jeff Wolf, SIOR, CCIM, represented the Buyer in the purchase of five acres of industrial land at 6431 Centre Park Drive in West Chester, Ohio.

## REAL ESTATE

### Is This Buy a Money Maker? Here's How You Can Decide

Thinking of investing in apartment buildings? Consider the following scenario:

The owner of a 20-unit apartment building is selling for \$550,000. Overall space is 22,160 sq/ft. It's well maintained, in a good location, 100% occupied and professionally managed. Service contracts on the property are fair. Yearly operating expenses total \$57,170. Units rent for \$525/month. Tenants pay their own utilities except water and trash removal.

#### Income:

*Gross income*

$\$525 \times 20 \text{ units} \times 12 \text{ months} = \$126,000/\text{year}$

*Vacancy rate (estimated)*

$\$126,000 \times 10 \text{ percent} = \$12,600/\text{year}$

*Effective gross income*

$\$126,000 \text{ minus } \$12,600 = \$113,400/\text{year}$

#### Expenses:

An 80% Loan to Value loan at 6.5% amortized over 30 years would be a \$440,000 loan and monthly payment of \$2,781/month.

Yearly debt service on the building would be  $\$2,781 \times 12 = \$33,372$ .

**Net operating income (NOI):**  $\$113,400 - \$57,170 \text{ (operating expenses)} = \$56,230$

**Annual cash flow:**  $\$56,230 - \$33,372 = \$22,858$

**Cash on cash return:**  $\$22,858 \text{ (annual cash flow)} \text{ divided by } \$110,000 \text{ (down payment)} = 21\%$

**Cap rate:**  $\$56,230 \text{ (NOI divided by sale price of } \$550,000) = 10.2\%$

#### The bottom line:

You will need to put down \$110,000 to earn \$22,858/year which is a return on your investment of 21% a year. Definitely a buy in anyone's book.

## Due Diligence Is Critical in CRE Transactions

Financial due diligence is the process of verifying all statements of fact (or “finding where the bodies are buried”) for a property you are considering purchasing.

Proper due diligence is not a simple matter and normally takes weeks or sometimes months to complete.

One of the most crucial aspects of due diligence is determining the financial health of the property.

This indicates whether the building is currently showing a profit, and if not, what actions you can take to make it profitable.

### Income and expense statements

Statements of income and expenses are by far the most important part of your financial due diligence. These statements show what the seller collected in income from the tenants as well as what was spent to operate the property. At the least, you should obtain annual income and expense statements for the past five years.

### Rent rolls

A rent roll is a list of all the units/tenants in a property and how much each is paying in monthly rent. It shows each tenant’s name and unit, the price per square foot and the total amount of rent paid. It also shows each tenant’s move-in date, lease terms,

expiration date options and whether the tenant has made a security deposit and, if so, how much.

Once you obtain this information, make sure the rent amounts stated on the reports match those shown on the leases, and compare all this information with the income and expense statements you received.

### Tax returns

These may be harder to obtain as most sellers do not wish to disclose their tax returns to strangers. However, this information is essential in determining if the income and expenses shown on the tax return match those on the reports you were given. If they don’t, then either the seller has been misstating the income or some other mistake has been made.

### Lease agreements

You should have an attorney review all the lease agreements on the property to determine the tenants’ rights as well as your right to either terminate leases or raise rents. You should also use an estoppel letter to verify the leases. This is a request-for-information letter that you send to tenants to ask them for information on their leases. It will help you determine whether the document you were given is true and accurate and represents all the agreements between the seller and tenants.

### Utility bills

This information should be listed on the expense reports, but you should compare it with the actual utility company bill and confirm the figures. This includes costs for electricity, gas, water, sewer, trash removal, telephone, cable and Internet services.

### Property tax bills

Again, this information should be listed on the expense reports but you still should verify it with the taxing authority.

Financial due diligence is critical in determining whether you are buying a property with a positive cash flow or one that is going to cost you money every month. It’s well worth the time and effort.

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