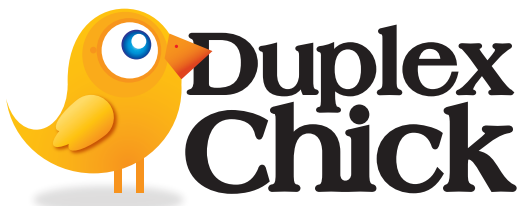


## DUPLEX SELLERS GUIDE



## DUPLEX SELLER'S GUIDE

The other day, I saw a Minneapolis duplex where approximately 15 quarts of motor oil had been sprayed on the walls and floors.

For the record, that is not a great way to stage your duplex in order to attract a buyer.

So, if you're thinking of selling, what improvements should you make to your investment property to make sure you get maximum market value in the shortest amount of time possible?

### Income and Value

One of the first, and most important moves you can make, even if you don't intend to sell for years, is to keep your units occupied at rents as close to market value as possible.

Income is one of the most important factors in determining the value of a duplex. While it's difficult to imagine that a rent increase of \$25 or \$50 a month would have much of an impact in worth, they add up; thanks, in part to investment analysis tools like cap rate and the gross rent multiplier (GRM).

Both the Cap Rate and GRM are tools Realtors, investors and other prospective buyers use as a way of comparing the income performance of your property to others. Neither is necessarily a true measure of value.

A cap rate is determined by dividing your Net Operating Income (NOI), (income less expenses) by the purchase price of the property. Mortgage payments are not included in the calculation, so another way to view a cap rate is as a percentage of return on investment if the property were entirely paid for.

A GRM, while not a measure of value, is determined by dividing the purchase price by the total amount of rent you should collect every year based on your lease rates. So, if prior to calculating vacancies and expenses your building generates \$30,000 a year, and the price of your duplex is

\$300,000, it would have a gross rent multiplier of 10.

Now let's add in a \$50 a month rent increase for each unit. This results in \$100 a month more in revenue, and \$1200 more a year. If properties in your area are selling for an average gross rent multiplier of 10, then that \$1200 would quickly increase the value of your property by \$12,000.

Ask yourself if there are other ways you can increase revenue. Can you charge for laundry? Get an additional \$50 a month by renting out the garage?

In the end, those little revenue improvements may help you net a lot more on your sale.

## Expenses And Value

Just as small income improvements in revenue can mean a world of difference in the value of your duplex, so too can monitoring your expenses.

While I don't recommend deferring maintenance, there are some other changes you can make to make your property more financially appealing.



In some areas, the first place to start is with property taxes. Falling real estate values have meant many counties throughout the country are charging property taxes based on outdated calculations of worth. Many owners have found that by simply visiting with their local tax assessor, they are able to reduce the county's perception of value, and ultimately, their annual tax bill significantly.

Next, ask yourself if there are other ways to reduce expenses. Can you install low water usage shower heads or low flow toilets without compromising the quality of service to your residents?

If you pay the heat or cooling bill, is there a faulty window you could replace to improve energy efficiency and lower utility bills?

While in the end you may not realize thousands in savings, just like with small rent increases, improved profitability will increase your bottom line when it comes to a sale.

## Gather Paperwork

When you ultimately have a buyer for your duplex, odds are he or she will ask you for a number of documents before agreeing to the sale. That's why it's a good idea to have the following completed and available when you list the property:

- Form Schedule E from your income taxes for the last two to three years. (This will help the buyer verify the property's expenses are, in fact, what you say they are.)
- A rent roll. This is simply a list of tenants, their unit number, and usually, the amount of rent they are paying and move-in date.
- Copies of all present leases.
- Copies of all service agreements you may have with outside vendors. This many include items like contracts for lawn mowing, ongoing home warranties, and so forth.

If you're facing a short sale, be sure to also gather all of your recent bank statements and pay stubs, the last several years of tax returns, foreclosure notices (if you are in default) and your recent mortgage statements.

## Give Your Duplex An Inexpensive Face Lift

Getting a duplex ready to sell isn't really much different than preparing a home, except that we can't control what a tenant's unit looks like. However, we can make some of the same exterior and interior improvements a home owner would.

The good news is none of them are terribly expensive.

If it's summer, make sure the lawn is mowed. Trim tree branches so the lowest one is above human height, and hedges so they're below the window sills. Of course, if it's winter, make sure you stay on top of snow and ice removal.

If you have flower boxes, flower beds, or a front porch that's just right for hanging planters, make sure all of the plants and flowers are healthy. If

they're looking like Charlie Brown's Christmas tree before the blanket, consider replacing them.

If weather permits, paint the front door. And, if window trim is peeling and flaking, take care of that too. FHA appraisers are paying particular attention to this right now, and as FHA loans are one of the most popular ways buyers use to finance duplexes, taking the time to address paint now can make your property a possibility for a much larger pool of buyers.

If your duplex exterior is either stucco or siding, you may want to consider pressure washing it to give it a cleaner, fresher look.

If there's trash in the yard, abandoned furniture or vehicles, give the tenants a deadline to remove them before doing so yourself.

If interior or exterior light fixtures are dirty or broken, clean or replace them. Make sure all light bulbs inside and outside the building are in good working order, and provide adequate lighting for showings.

Repair or replace anything else that's broken, both inside and outside of the building.

Tell your tenants you are considering selling. As this is frightening for many, reassure them that if you

a more favorable impression on buyers and their agents.

While we can't control every facet of what the interior of a tenant's unit looks like, some residents are willing to help the property show better (especially if they're offered a discount on rent in return).

Encourage them to eliminate clutter if you can. Ask if they can free up traffic paths, remove items from surfaces that weren't meant to have something on them, and put things away they are no longer using.

If they are either smokers or pet owners, ask if they can try to mitigate smoke and animal odors. If they have cats, encourage them to keep the litter box clean, and if they're dog owners, to keep they yard clear of waste.

Believe it or not, these little things go a long way toward making an impression in a buyer's mind. By en large, banks aren't doing anything to freshen up the look of their properties (hence the motor oil), so these little flourishes will make your duplex stand out.



do, they are protected by their lease, assure them that and while you and your Realtor will do all you can to provide ample notice of showings, it will be within the terms of their lease or state law. (In Minnesota, notice for business purposes is "reasonable attempt to notify", not 24 hours. If your lease, state, city or county says something otherwise, those are the regulations you must follow.)

Ask your tenants to clean their windows on the inside, while you wash the outside. This is a subtle thing that isn't immediately visible, but it does leave

## Visit Money Specialists

Before you sell, it's a good idea to sit down with your tax advisor, and, depending on your goals and financial circumstances, perhaps even your financial planner and loan officer.

If you're thinking of getting out of the rental business, you may be facing capital gains and depreciation recapture tax consequences. It's a good idea to know this going in so you can plan ahead.

If you are considering doing a 1031 or Starker Exchange, where you are allowed to reinvest the money without incurring tax consequences, your tax advisor will also be able to guide you as to how much you need to reinvest.

Financial planners are not always fans of real estate investing. However, most understand the need to diversify in order to plan for retirement. He or she may be able to offer you some suggested minimum rates of return on your next investment property in order for you to stay on track with your retirement goals.

Finally, if you do, in fact, plan to continue investing in real estate, speak with a banker or loan officer to make sure you not only qualify for a loan for your next property, but learn how much that loan can be. This will also give you an opportunity to learn if there are any errors on your credit report, and remedy them if they appear.

## Selecting A Realtor

If you're selling a duplex or investment property, it's important not to underestimate the value of choosing a Realtor who's experienced with those types of properties.

All too often I have seen duplex owners hire agents who believe value is calculated by the number of finished square feet a property has, only to place the property on the Multiple Listing Service at a grossly inflated value. This causes it to linger, which often causes buyers to think there's something wrong with it.

While getting the word out through marketing is an important component of selling a duplex, it's just as important to remember that just as no amount of expensive advertising will make someone pay \$10 a gallon for milk when it's selling for \$4 a gallon down the street, no one will pay you more than your duplex is worth.

Time and again National Association of Realtor studies reveal the longer a property stays on the market, the less it ultimately sells for.

That's why pricing is the single most important element in selling your duplex. And an agent who specializes in duplexes and investment properties will have the best understanding of how to properly value and market your property.

Ask other duplex and investment property owners for recommendations, or contact Duplexchick.com and ask for us to introduce you to a qualified agent in your area.

When you meet, ask the agent the extent of their experience with income property. Have they sold many? Have they owned any?

See if they have an Internet presence. As more than 90% of all real estate buyers consult the web before they ever contact a Realtor, make sure your agent has more than just a Facebook page.

Be careful not to choose the Realtor who feels your duplex is worth the most. This is called "buying a listing", and many agents will enthusiastically over-price a property with the intention of hammering away for price reductions later. By the time the duplex price is finally reduced to the value it should have been listed at initially, it has grown stale and therefore, flawed, in many buyer's minds. This almost always translates into a lower offer.

And if your duplex is either worth less than what you owe, you are in default or facing foreclosure, it is absolutely imperative that the agent you select either has a Certified Distressed Property Expert (CDPE) designation or extensive experience with short sales and foreclosure. (It is absolutely critical that you consult your tax advisor in this scenario.)

Of course, if you're planning on doing a 1031 Exchange, an experienced agent may also be able to help you find the ultimate replacement property!

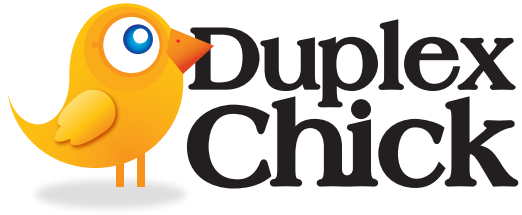


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- National Association of Realtors

## And Finally, Remember...

If you're thinking about selling, buying, or simply have a duplex or investment property question you don't know the answer to, go to [www.duplexchick.com](http://www.duplexchick.com). We're always happy to try to help answer your questions, steer you to a resource for the answer, or help you find a Duplex Chick agent in your area.



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