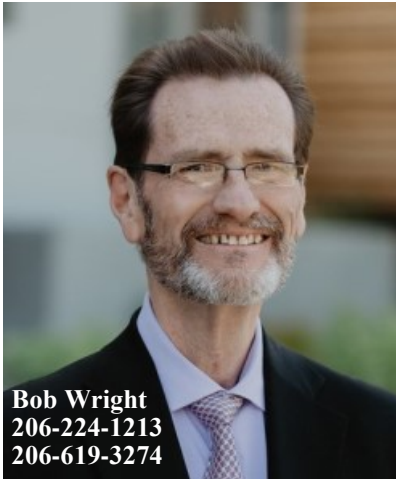


The Seattle Apartment Investment Newsletter

Fall 2019/Winter 2020



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Excise Tax in 2020

Here's the new schedule, to take effect as of the first of the year:

- 1.10% on sales equal to or less than \$500,000.
- 1.28% on sales equal to \$500,000 but less than \$1.5 million.
- 2.75% on sales between \$1.5 million and \$3 million.
- 3.00% on sales greater than \$3 million

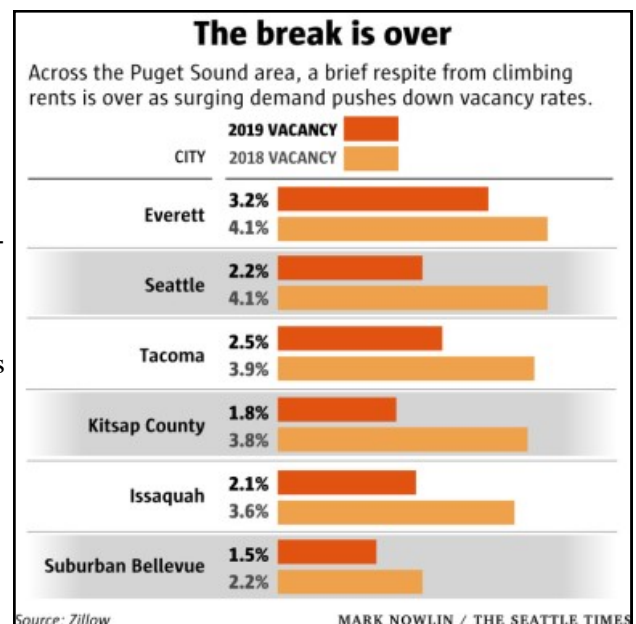
It's a graduated scale. As an example, on a sale of \$4 million the tax would be:

\$ 5,500 (1.10% on the first \$500,000)
\$12,800 (1.28% on the next million)
\$41,250 (2.75% on the next \$1.5 million)
\$30,000 (3% on any amount above \$3 million)
\$89,550

This does not include the amounts the local jurisdictions add onto it, one half of one percent for King County, which, is safe to assume, has not gone away. But the big questions is: will it have an affect on value? Probably not, but it will have an affect on the availability of inventory. Fewer buildings will sell, meaning less money will be flowing into the general fund, but somehow this reality has escaped the thinking process of our legislators.

Is the Slowdown Over?

Zillow seems to think so. Rent incentives have gone away and vacancy rates have dropped by almost half of their 2018 level, according to an article in the Seattle times by business reporter Paul Roberts, who was kind enough to provide us with the Zillow data. The average vacancy rate for Seattle during 2018 was 4.1%, according to Roberts. Not only that, but in the outlying areas rents are actually increasing once again. In his article Roberts points to the tiny town of Sultan out on Highway 2 going up to Stevens Pass where rents are up 7.7% over last years, as reported by the Sky Valley Chamber of Commerce. I am not in agreement with this, by the way. Read on.



Quiz. How Well Do You Know Your City? Answers on Page 5

- 1) Real Estate Agents were invented by Julius Caesar.
- 2) Attorneys were also invented by Julius Caesar.
- 3) Seattle's original name was New York.
- 4) The safest place to be in an earthquake would be if you happened to be driving through the new tunnel dug by Bertha.
- 5) There are more pets living in Seattle than there are children.
- 6) Seattle's Pacific Northwest Ballet has the highest per capita attendance of any ballet in America.
- 7) The Kingdome wasn't paid off until 2015, 15 years after it was demolished.
- 8) Jenny Durkin is Seattle's first female mayor.

Definition of Terms

Cap Rate (Capitalization Rate): Net Operating Income divided by Sales Price, in other words, the percentage return at the end of a one year period assuming an all cash sale.

GRM (Gross Rent Multiplier): The ratio of the sales price divided by the gross scheduled income, a way of measuring value by gross income. Gross income is more of a stable figure, whereas net income depends on a number of controlling factors not necessarily related to the market—vacancy, expenses, rent levels, etc.

Cash on Cash: The first year cash flow as a percentage of the down payment, not to include tax savings. The difference between Cap Rate and Cash on Cash depends on the amount of debt that encumbers the property and its corresponding annual payment, principal and interest. If the property is purchased debt free then the Cash on Cash will equal the Cap Rate.

Debt Coverage Ratio: In simple terms, it's the amount of cash flow that covers the debt, expressed in decimals. As an example, if we've got an NOI of \$140,000 and an annual loan payment of \$100,000, that's a 1.40 debt coverage, 140,000/100,000. It's an important ratio in the world of multi-family lending. Most lenders today, in underwriting a property, use a debt coverage ratio (DCR) of 1.20. So with this example we would divide \$140,000 by 1.20, which would give us \$116,667/yr, or \$9,722/mo, since we are dealing with monthly amounts. Then the lender just figures backwards, plugs in the payment amount of \$9,722, the interest rate, and the amortization period, and voila, we get the loan amount.

Non-Recourse Loan: This is a loan where you are not required to sign personally and do not have to place other real or personal assets at risk.

Best Time to Buy/Best Time to Sell

People are always asking me, when is the best time to buy; when is the best time to sell? Real estate goes through ten year cycles, seven years of growth followed by three years of stagnation where the market is correcting itself and the income side is growing, positioning itself with an oversupply of tenants able to afford the new levels of rent being set by the free market.

So the answers are:

The best time to buy is at the bottom, during the three years of correction, at the beginning of the next seven years of growth.

The best time to sell is at the top, during the three years of correction, at the end of the last seven years of growth.

And of course it's during these three years of correction that the "experts" pop out, writing their books and giving their lectures, warning of impending economic doom, decrying that this will be the end of all things good, that we will never ever see another cycle of growth. Will they be right this time? They never have been in the past. So far I've seen six of these cycles, and during every one of them the experts have gotten rich, and the people who believed them and took their advice have suffered damage.

Or, there's another way to look at it. There really is never a bad time to buy, or a bad time to sell, as long as the great engine of free enterprise is alive and chugging along, giving opportunity to everyone under the sun.

Cell Tower Contact Info

Do you have a cell tower on your property? Or maybe you're thinking of buying a property with a cell tower on it? Here's some contact info. Save it, because when you need stuff like this you can never find it:

T-Mobile Technology Property Management
propertymanagement@t-mobile.com
12920 SE 38th Street
Bellevue, WA 98006
1-877-373-0093

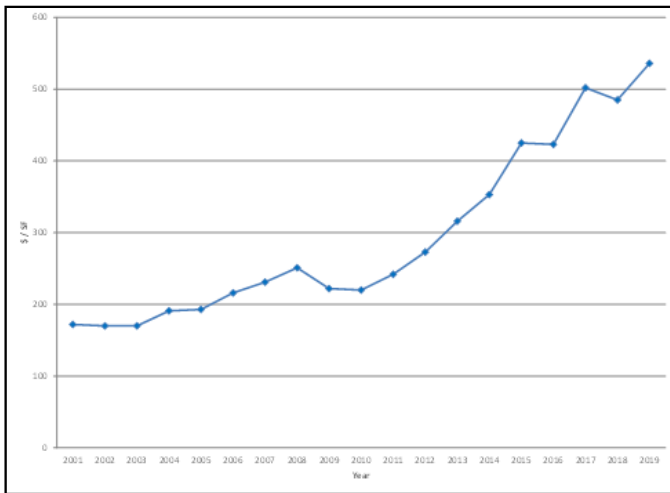
Sprint/Nextel Regional Property Services
landlordsolutions@sprint.com
Site #WA0141
800-357-7641

Here's what you need to send them when a property changes hands, in order to get the payments redirected:

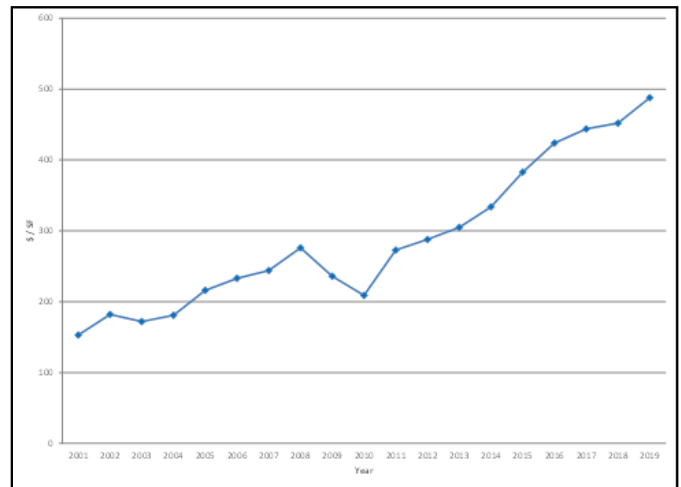
- 1) Site ID and Property Address
- 2) Recorded Deed of Sale
- 3) Certificate of Formation, if an LLC or Corporation
- 4) Articles of Formation
- 5) Copies of the Escrow Settlement Statements
- 6) W-9 filled out (Can download it from the IRS)
- 7) Letter of Direction outlining where the payments should be sent.

Best to get this letter prepared and ready to be sent out on the day of closing. It can take awhile. You wouldn't think so, but sometimes the biggest of companies are the slowest and least organized. So keep after them.

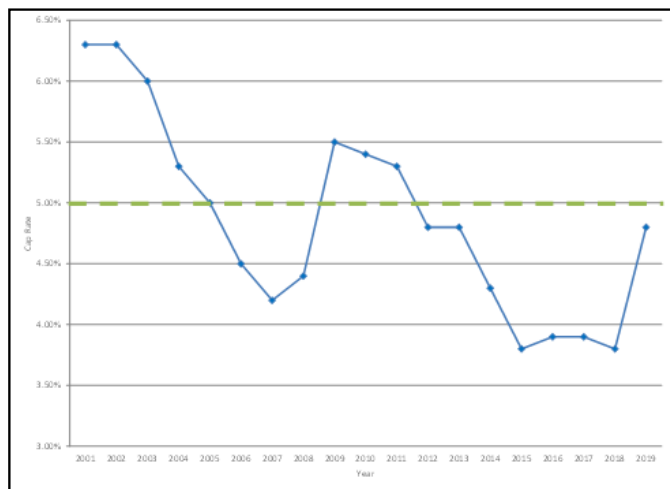
Capitol Hill Values Price/SF 2001—2019



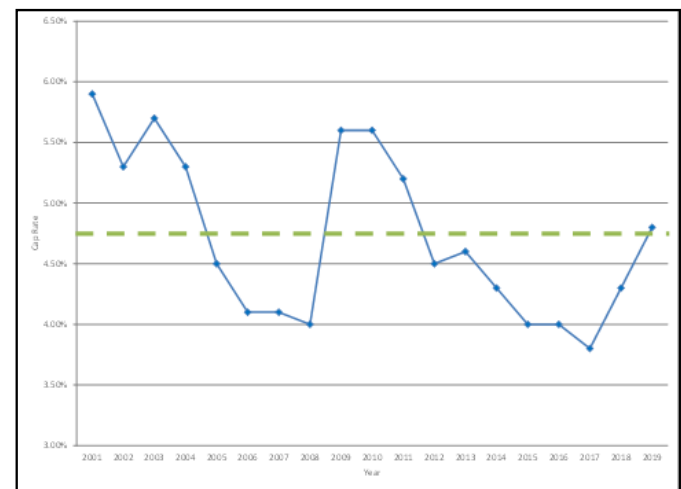
Queen Anne Values Price/SF 2001—2019



Capitol Hill Cap Rates 2001—2019



Queen Anne Cap Rates 2001—2019



Using IRA Proceeds as Down Payment Funds

Yes, it can be done. Like with a trade, you can't touch the money; it has to go to a facilitator, but they don't call it a facilitator; they call it a "Custodian." The custodian with which I am most familiar is Entrust in Chelan. Mark Hodges. 800-503-1031. There are certain rules you need to adhere to. I'm certainly not the expert, so don't take these for fact without first checking with a licensed custodian:

- 1) You can't funnel IRA funds into a property you already own.
- 2) You cannot use IRA funds to buy a vacation property that you only occasionally use.
- 3) Your IRA investment needs to be uniquely titled.
- 4) If financing is involved the loan must be non-recourse.
- 5) All income generated by the investment must be channeled back into your IRA.

"Men and women are like right and left hands; it doesn't make sense not to use both." Jeannette Rankin, first woman elected to Congress, 1917.

Foul!

I usually make it a part of my listing presentation to give a client a heads up that they'll probably be receiving a letter (or phone call) from a certain well known national firm about two weeks prior to a closing. I have no idea how they can find out. Sometimes it comes after a closing. *"...congratulations on your upcoming closing,"* is how it begins. Or if it comes after closing; *"Congratulations on your recent closing."* Then it goes on to say something akin to the following: *"Looks like you're leaving a few dollars on the table. Let us know if you'd like us to evaluate the asset."* It all started years ago with a fellow by the name of Victor Waumett. He's writing science fiction novels now, and doing quite well. It used to drive me batty, but I don't stress about it anymore, because it really doesn't really hurt me. I do my homework, and am able to back up my positions with hard data.

"You never know what's around the corner, unless you turn the corner," Bud Ewing, founder of Ewing and Clark.

Seven Things Your Agent Will Never Tell You

After Boston Manor closed up on Queen Anne my phone began to ring. “Hey, how come you didn’t tell me about that deal?” everyone wanted to know. The answer was a simple one. Ralph Moorman had been waiting in the wings for that building for years. And when it finally did come time for Randy Epperson to sell, before he called Ralph he called me, and asked me to represent him, because he had no idea where values were and didn’t want to make a mistake.

It could be any one of a number of reasons why you’re not called, when an opportunity comes along. It could be nothing more than disorganization on the agent’s part—he or she got busy and just forgot—but then again, there could be other reasons. Could the reason possibly be one of the horrible seven?:

- 1) The investor has a reputation of filing frivolous lawsuits. There is a real black cloud over the heads of these folks, like Joe Btfspk in the old L’l Abner cartoons, with his rain cloud that follows him around. (That dates me.) Agents are afraid of death of buyers and sellers who file lawsuits without good reason. Fortunately these folks are rare.
- 2) The investor ties up buildings under false pretenses. Like the time Peter (last name deleted) walked into my office and told me he had a boat load of money when in fact he had none, except the hundred thousand he used for non-contingent earnest money, then wanted to sue me when he was unable to syndicate the deal and couldn’t get the EM back. Much better to just be honest with your agent in the first place. I might have been able to actually make it happen. I’ve done it before, helped buyers buy property when they didn’t have any money. But it’s not easy, and can be dangerous for a seller, so one has to be careful, and there needs to be a ton of disclosures involved.
- 3) The investor is known to tie up buildings for long periods with tricky addendums that keep pushing the closing date forward, in hopes of wearing down a seller and getting the price lowered. Like a certain California buyer making the rounds (the agents reading this all know who I’m talking about).
- 4) The buyer is fond of tossing out the question, “What’s the seller’s motivation?” It may be a completely logical and benign reason why a buyer is asking, but what the agent is hearing is, “Is the owner desperate enough to take a below market offer?” A better way to phrase the question might be, “What do I need to know in order to make my offer work?”
- 5) The buyer has a reputation of attacking commissions.
- 6) The investor loves to use the phrase, “You’re the only one making any money in this deal.”
- 7) The buyer is known to have gone around an agent, and the word has spread. That happened to us once with a buyer on one of Ray Russo’s and Jean Sommerville’s buildings, but when he tried to do it Jean brought us back into the deal. It was several months after the transaction had supposedly died. Jean called me and told me straight out, “Your guy just called me and apparently he wants to buy the building after all.” The deal closed and I got my full commission. Thank you Jean and Ray. You went to the top of the list that day. Then there was the time Scott Johnson went around me. It was during the holidays. He called me the day after Christmas and wanted to buy me breakfast. I almost didn’t go. He told me, while sipping coffee and between bites of waffles, that he had a terrible Christmas, couldn’t sleep, then he passed me a check across the table for \$40,000 (made out to the company of course, an amount equal to the full commission).

The Evolution of Shoreline

The year is 2015. My cell phone barks. Barks literally; it’s a recording of my dog. Being displayed on the screen is a San Jose area code. I recognize the voice instantly. It’s a long time client and good friend who owns a 57 unit in Shoreline on 145th. He keeps getting these letters from agents and builders who want buy to buy the place, he says. “How come,” he wants to know. I tell him it’s because Shoreline is builder friendly, and is in the process of creating a comprehensive plan, the goal of which is to beautify and make the city a safer place, and to attract good people and encourage and support new and existing businesses. Drive up through Aurora and 99 and notice what happens when you pass 145th. Suddenly you have clean streets, gleaming asphalt and pretty little red brick sidewalks. Part of the goal, as it affects his property, is to widen 145th to properly fit it with the light rail stations soon to come on line. Drive north on I-5 and you can see it all coming together. It almost seems like they’re making a road parallel to I-5. He wants to know what the chances are of getting an up-zone, from his present R-48 (48 units to the acre). “Probably not high-rise,” I tell him. “But mid-rise for sure.” He thinks about it, and decides he wants to go for it, and retains us as his representative. A zoning change is usually a failed effort, unless the targeted rezone is a part of that particular municipalities comprehensive plan anyway, which in this case it was. For those that are curious, here’s what you have to do. It varies a bit from city to city, but these are the basic hoops you’ll have to jump through.

- 1) Draft a Pre-Application letter and pay your fees, which are expensive and non-refundable, even if they say no.
- 2) Host a neighborhood meeting where you will explain the request and answer any questions and address any concerns. It’s important that you have a sign in sheet and keep a written record of all comments and concerns.
- 3) Submit a report to the county historical board, explaining why the building/buildings do not have historical significance.
- 4) Fill out a Water Availability Certificate
- 5) I had a survey done. Not always necessary, but a good idea. It could cinch the deal, if questions of lot lines surface.
- 6) Put up a sign on the property notifying the public of the hearing date, during which neighbors can voice any concerns. The public hearing is held, then a date is set for the “hearing examiner” to consider the request.
- 7) The “hearing examiner,” reviews the proposal, listens to any concerns then makes a recommendation to the city council.
- 8) The city council then meets and makes its decision, and the either approves or disapproves.

And yes, we did get it done.

The Future of Real Estate? High Tech Agent Apps?

Geekwire came out with an article a few days go predicting that the future of real estate would see the disappearance of the real estate agent, to be replaced by an app on your phone. Maybe so, if all we were salespeople. People who sell cars are salespeople; people who sell real estate are problem solvers. Here are two examples of a couple of deals that would never have happened had it not been for a real estate agent. I could give you twenty, but all I have space for is two.

- 1) The Northshore Apartments. It was 1985, the year of the tax law change. The deal had to be closed and recorded by 4:30, because the next day was a new year and a new capital gains law. I was cold calling through the yellow pages for attorneys the night before, because all the escrow companies and attorneys were booked. I got some guy out of bed at 10:30 who wasn't even a real estate specialist. "All I've got planned for tomorrow is a golf game," he said. "I'll close it for you. Be at my office at 7:30 tomorrow morning. Apps don't cold call for attorneys. But that wasn't the end of it. One of the owning partners had given the other a power of attorney, which the title company would not accept, because the magic word "convey" was not included. I argued with their legal counsel, without success. So at 2:15 in the afternoon—it had to be closed by 4:30 remember—I ran across the street to the offices of Transnation (no longer in business). I blew past the receptionist to the office of the head underwriter – happened to have been John Jones, who is a guy who thinks and operates on logic, rather than the strict letter of the law. John looks at it and says, "Well, it's true that word is not there, but there are seven pages here of intent, so we'll go ahead and insure it." John got me a new title report in 45 minutes. With closing docs in my hand I ran down Fifth Avenue where there was line outside the door, and at 4:25 tossed the docs through the air to Jeannie Cook, who had been waiting in line. She snatched it like Richard Sherman just as the county closed the door. She was the last one through. That's why today, twenty years later, I always use the title company where John Jones works. Would an app have done that? Don't think so.
- 2) The famous Ron Danz closing and the non-conforming unit. This was back in the early days when I was pretty wet behind the ears. Ron had his pen ready to sign, when we found out that the 13th unit was non-conforming, and said with a comforting smile: "Relax Bob. It's OK. Nothing to worry about," and scratched away with his pen. Then after signing he wrote below the signature: "To be recorded upon notification that unit 13 has been established for the record." I'd never been down this road before. But that's what being a problem solver is all about, solving problems. You can't go to school for solving these problems, because each one is a little different. Each one has its own unique twist. I called the seller, who was vacationing in Mexico. He told me it was my problem, told me that's why he hired me. "Go figure it out," he said, and hung up. So I knocked on the tenant's door and held out a bottle of Champaign and a gift certificate to the Four Seasons. "Merry Christmas," I said. I rented a backhoe and dug out the window well, hired a contractor to bust through the concrete, and another contractor to install the window. (We needed to enlarge and lower the window for egress.) Thankfully the city was sympathetic and pushed through the paperwork in two weeks. Ron wanted me to be partner in the deal. I should have done it. The building has quadrupled in value since then.

Answers to Quiz

- 1) True. It could have been earlier, but that's as far back as recorded history can take us. A young man by the name of Sextus Probus made himself enormously wealthy from commissions earned during the liquidation of the estate of Cleopatra. He opened a money lending business called the Probi House.
- 2) False. In the days of Julius Caesar attorneys were not allowed to charge any money for their services. Three emperors later Claudius abolished the ban, but did put a ceiling of 10,000 sesterces on what an attorney could charge. (Hard to say how that would translate into today's dollars, but I'm guessing it would be pretty close to ten thousand dollars.)
- 3) True. More accurately it was "New York Alki," because New York was the state of origin of many of the early settlers, and "Alki" is a Chinook word meaning "eventually," or "by and by." Of course we all know the rest, that the city was later renamed Seattle after the Duwamish Indian chief who happened to have been Doc Maynard's best friend (Chief Si'ahl, if you want to be true to the Duwamish language).
- 4) False. The safest place to be in an earthquake is still the Space Needle, having been designed to withstand a 9.1 earthquake. The SR99 tunnel runs a close second. Engineers claim the tunnel, with its flexible rings, can safely withstand up to a 9.0 shaker. The Space Needle, by the way, can also handle winds of up to 200 mph.
- 5) True, according to the last census. We love our pets, for sure. (I don't think they included cats in the survey; I think it was just domesticated canines.) Remember John Nahon? He owned the Pittsburg and a handful of other buildings on Queen Anne, Capitol Hill and Tacoma's Stadium District. He had this enormous black lab named Einie (short for Einstein, so named because Einie was smarter than most people, or so claimed John). Anyone who visited John would be obligated to throw the gloppy ten year old tennis ball Einie would drop at your feet. Don't know what ever happened to John. I think he moved back to New York after Einie died.
- 6) True. We are a cultured bunch. When my daughter turned 13 she wanted to go to the ballet as her present. I said fine, and we'll go to any restaurant you want, your choice. The sky's the limit. She chose Dairy Queen.
- 7) True. Incidentally, the Kingdome was designed by Seattle investor and retired architect Dick Gemperle.
- 8) False. Bertha Knight Landis was mayor of Seattle from 1926 to 1928. She was elected because of her promise to clean up the city. She fired the police chief and closed down the speakeasies, the dance halls and the taxi stands. Taxi Stand ladies were the early twentieth century equivalent to bikini baristas.

Closing Gotchas

- 1) Some loans have 30 to 45 day notification periods for payoffs. You don't want to miss this one. A good closing agent will catch it way ahead of time, but some don't. You don't want to be at the closing table then all of a sudden get a surprise email from the lender saying they can't accept a payoff quite yet, and you run out of time on the other end with your interest rate lock on the buyer's new loan. Hunt Mortgage is one such lender (used to be Centerline).
- 2) For end-of-month closings, be sure to have your introduction letters ready for posting immediately when recording numbers are received, and a plan for those tenants who send rents to the old owner.
- 3) Insurance binders sometimes take two weeks, so remember to get this going way ahead of closing. Some insurance companies will require "loss-runs" before issuing the binder, which can take time, only because it's not of immediate importance to the out-going insurance company, though it is for you.
- 4) If you're paying all cash no one will insist on an insurance binder, or even remind you of getting one in place. Escrow doesn't care. The only reason escrow requires it is because the lender requires it. But you of course are going to wish you had it in case an asteroid falls on your building the day after closing and doesn't burn up on entering the atmosphere. Believe or not, I've had very sophisticated buyers let this little detail slip through the cracks. Fortunately no asteroid or fire happened in that situation.
- 5) Bring your drivers' license or some form of ID to the closing table.

Bats in Your Belfry

If you have bats in your attic or your walls just seal up all the openings. Right? Bad idea. Eventually all that screeching and scratching will be replaced by an odor so foul you'll have to practically renovate the entire building in order to find it and get rid of it. Experts say the first thing you want to do is to make sure you chase the varmints away before sealing up the openings.

Insanity Reigns Supreme

Now they're talking about banning cars from a six block section of Capitol Hill. Steps to apply for City Council:

- 1) Make application in person to the city clerk.
- 2) Sign a statement and affidavit. The clerk will explain.
- 3) Have voters sign a petition of support (Clerk supplies)
- 4) Return the completed petition to the clerk.
- 5) Pay the filing fee and you're on the ballot!.

That's all there is to it. Then just "Go! Go! Go!," as Jeanette Rankin would say, the nation's first Congresswoman (1917).

Anyone?

Examples of Proper Signature Titles

There's no hard and fast rule when signing on behalf of another person or a legal entity, as long as it's clear who you are and who you are signing for, but here are some suggestions from Rainier Title:

Power of Attorney:

When Bob Jones is buyer/seller and Joe Smith has been given the power of attorney:

Bob Jones, by Joe Smith, Attorney in Fact
(initials: *BJ* by *JS, ATF*)

Trustee: Bob Jones, Trustee:

When Bob Jones is the Trustee for the Jones Family Trust

Bob Jones, Trustee (initials: *BJ*)

Probated Estate:

When Bob Jones is the personal representative of the estate of Ann Jones

Bob Jones, Personal Representative (Initials: *BJ*)

Limited Liability Company (LLC)

When the LLC is the Jones Company, a Washington Limited Liability Company, whether it's a single member with only Bob Jones or is inclusive of partners.

Bob Jones, Managing Member (Initials: *BJ*)

Corporation

When the corporation is Jones & Associates, a Washington Corporation

Bob Jones, President (Initials: *BJ*)

Reporter, to Ross Perot during the 1996 Campaign:
"What kind of experience have you had in government?"
Perot: "None. I've never had experience running a company that loses money."

One Man's Opinion

More and more we've been seeing buildings coming to market with "\$-0-" in the price column. It all started in 2008 after the sub-prime crash and no one knew where the market had settled. It made sense then, because buyers and sellers had both gone into their caves and were not speaking to one another, and successful agents had taken a hiatus. There were no comps. No yardstick existed by which to measure value. But that isn't true today. Back then the market took a fast and immediate plunge, like it leapt off a cliff, a totally unique situation. Sure, we're in the midst of a recession now, if you want to call it that. I call it a correction, where the market has reached a point where it can't go any higher, for a time, until the correction goes full circle, but sales are still happening, and we do have that yardstick. And not to give it to a buyer is only asking for offers to come in at the lowest possible level. It's only human nature, that a buyer is going to reach for that low point, when left to his or her own designs.

Capitol Hill & Queen Anne Sales so far this year

Capitol Hill Sales - 2019									
Address	Units	Size	Rent	Rent/SF	Age	Price/SF	Cap Rate	Price	Date-of-Sale
Yale Apartments 2234-2236 Yale E	8	1,144	2,383	2.08	1996	470	3.4%	\$ 4,300,000	1/15/2019
Price Manor 1210 E John St.	11	614	1,281	2.09	1958	614	3.7%	\$ 3,050,000	1/16/2019
Capitol Hill 8 418 12th Ave E	8	768	2,254	2.93	1968	620	4.4%	\$ 3,810,000	1/15/2019
Footprint Cal Park 1806-1812 12th Ave	80	415	1,143	2.75	2014	449	5.2%	\$ 14,500,000	1/24/2019
Footprint Capitol Hill 422 11th Ave E	54	279	1,105	3.96	2014	611	4.9%	\$ 9,200,000	1/24/2019
Footpring Eastlake 2371 Eastlake Ave E	35	303	1,078	3.56	2014	443	4.8%	\$ 4,700,000	1/24/2019
Killarney 3008 Harvard Ave E	22	783	1,578	2.02	1926	382	4.5%	\$ 6,575,000	1/31/2019
Reverb 1023 E Alder	85	587	1,825	3.11	216	622	4.2%	\$ 31,000,000	2/13/2019
Roanoke Terrace 2600 Eastlake Ave E	16	970	1,487	1.53	1968	438	2.6%	\$ 6,800,000	3/5/2019
Pike Motorworks	260	609			2015	612		\$ 128,500,000	4/24/2019
DeLaire 825-829 13th Ave	9	607	1,464	2.41	1908	568	3.5%	\$ 3,100,000	6/12/2019
LaVanch 956 10th Ave E	20	564	1,629	2.89	1930	607	3.9%	\$ 6,850,000	7/9/2019
Average	51	764	1,566	3.26		536	4.1%	\$ 18,532,083	

Queen Anne Sales 2018									
Address	Units	Size	Rent	Rent/SF	Age	Price/SF	Cap Rate	Price	Date-of-Sale
Bertona Steps 3402 14th Ave W	8	905	2,343	2.59	2018	442	5.3%	3,200,000	1/25/2019
Townview 1222 Taylor N	9	769		0.00	1959	449	4.4%	3,100,000	2/1/2019
Fifth Avenue 1401 5th Ave N	29	756	2,035	2.69	1963	463	5.4%	10,145,000	3/15/2019
The Hudson 2450 Aurora N	127	602	1,716	2.85	1987	507	4.1%	38,750,000	4/11/2019
Aire 2572 Gilman Dr. W	68	768		0.00	1991	537		28,000,000	4/9/2019
419 Queen Anne Ave N	31	451		0.00	1912	530		7,395,000	5/1/2019
Average Overall	45	709	2,031	1.36		488	4.8%	15,098,333	

Our apologies for not having complete financial data on all of these sales. It's been difficult, since the departure of Patty and Mike, and some of the key agents are not cooperating. The other day I called a Kidder broker (not Dan; Dan is one of the good ones), and he told me, sorry, but the seller requested confidentiality. So I called the seller (George Webb). Within 5 minutes George emailed the closing rent roll.

NNN Investments—How Do They Stack Up in Comparison to Apartments?

I got a call the other day from a guy who sold his Capitol Hill apartment building and bought a couple of NNN auto centers, and was thinking about buying a third one shown him by another agent. He liked the deal, but had some concerns. There was eight years left on the lease with 3 5-year options, and he called me up for my advice, wanted to know how he should plan for that eight year mark. What if the center didn't renew? Here's what I told him.

It's pretty sweet when those automatic deposits hit your account, for sure, with no maintenance concerns, just dumps in, month after month. But there is going to come a time, sooner or later, when you'll have to deal with a vacancy. Here's what I tell my clients. This was taught to me by Don Owens, when I sold him the Big O Tire store in Kent. Don is gone now, but his wisdom lives on. When he showed me his proforma I said, "Don, what are you during? You don't need to put a vacancy proforma percentage in; it's fully tenanted. And what's this business about a tenant improvement percentage, and a leasing commission percentage? It's fully tenanted, and triple net at that!"

"True," says Don. "But what happens if it goes dark? You're going to have four to five months of a vacancy, you're going to have a leasing commission to pay, and it's usually 5% of the entire amount over the period of the lease, and the new tenant is going to say, 'I want a receptionist counter right here, and a bathroom way over there.' So there's \$30,000 or so in tenant improvement expenses. So what I do is figure a reasonable vacancy percentage, a tenant improvement percentage, maybe it's only 1%, and a leasing commission percentage – since it comes in a future lump it may only represent 1 or 2 points up front. It can help in figuring out these percentages by going over the owner's books to see what his history is. But I figure in these costs, subtract them out, and there's my NOI. I'm not doing this as a negotiating tool, only for the purposes of my own planning. Then I set up my own little impound account that I feed every month, so that if and when it does happen I'm fully prepared. And if it never happens, well, that's OK. It never hurts to have a little chunk of something extra hidden away."

Anyway, those are my thoughts on NNN investments, or Don's thoughts, may he rest in peace. He was not only a good client, he was a good friend and mentor. When I first met him I thought I was the smart one. Funny how it is—the more you learn the smarter everyone else becomes`.

The Seattle Apartment Investment Newsletter

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"I have known Bob for 25 years....He worked hard to find the perfect buyer for the property and went "above and beyond" to do so. Bob's efforts played a key role in our successful sale." **Chris Benis, Attorney**

I particularly appreciate Bob's attention to detail and his follow through in each phase of the transaction. This includes every detail..." **Arne Yager, Professional Equity Ventures.**

"...even after escrow Bob insured that I, as the seller, received all consideration and that all items that necessarily follow close were handled. I call that full service." **Martin Halfhill, L&M Investment Co.**

"Don and I just can't thank you enough for all the time and work you put in selling that building for us." **Phyllis Lindquist.**

Call us if you'd like us to evaluate your property.



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