

Scenario 9: Restructuring for Fun and Profit

Merle H. owned a fourplex in a bustling suburban town. Perhaps as an aftershock from 9/11, he found all his units empty. One family got a divorce and the remaining spouse could not afford to pay the rent. One gentleman lost his job at a local supermarket and moved out of state. One group of four young men just turned out to be deadbeats, and the fourth unit had their lease come due and decided to live elsewhere. All this occurred with the span of just six weeks. There Merle sat with no income and a large mortgage.

Merle's building consisted of four, three bedroom, one bath apartments all of which were exactly the same configuration with a living room, kitchen, eating area and half bath on the main floor and three bedrooms and a full bath on the second floor. Each of the units contained just less than 1,200 square feet. Each unit also had a one car attached garage and small fenced patios off the living room.

In telling his sad story to an investor friend, Merle learned about a real estate counselor who was said to be very creative. It was in discussions with this broker that he learned about the advantages that he might experience with condominiumization. Merle and the broker visited the town's planning and building departments, learned about their requirements and procedures and got a referral for an engineer who had previously run condo conversions through their building department. Because of the buildings configuration the engineering fees were quite low and basically just involved a legal description of the division into individual units and then an accompanying drawing. The total fees were under \$5,000.

While the paper work was being ushered through the town, the counselor suggested that Merle update the units a bit: new carpeting, fresh paint, some new lighting fixtures, some new hardware in the kitchens, four new kitchen sinks and countertops, new window coverings, some yard work and other miscellaneous items. While Merle was taking care of getting these items done, his counselor contacted the lender and got the paperwork started that would allow for the release of liability for each unit as individual units were sold. In this case, the lender required that they received all the profits of sale as the sales took place until the loan was fully retired. Merle would then receive the balance of the sale proceeds. During the renovation period the counselor also contacted an attorney he had worked with on real estate situations previously and got all the paperwork completed to establish a homeowners association.

Within four months of Merle contacting his real estate broker/counselor, the units were condominiumized, renovated, listed for sale with the counselor, marketed, sold and the homeowners association was in force and in full operation. It took another thirty days to close the final unit. Merle was ecstatic. This was a period in which tenants were very scarce so to be totally out of the building *and* to have made a profit in doing so was a huge relief.

InSight Real Estate Investments, Inc. combines their expertise in equity marketing with traditional sales and marketing techniques so as to provide a complete palette of choices for our clients. People centric transactions such as these frequently provide investors with real world solutions to problems they encounter.

