p8 Have you considered volunteering for the Nominating Committee? You should.

p10 Purposeful procedures, intentional systems, and measurable goals are a must.

p13 Plan on growing your company? Look at the options for financing the purchase.

RESIDENTIAL Resource

NARPM™

THE OFFICIAL MONTHLY NEWS MAGAZINE OF THE NATIONAL ASSOCIATION OF RESIDENTIAL PROPERTY MANAGERS

The Market has Shifted!

Gone are the days of receiving multiple applications for a property that was just put on the market earlier that day. The fish in the barrel days are over and now we will have to actually work to get residents into our properties. Have you considered concessions? *See page 6.*

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You Need to Be the Facilitator

Financing the Purchase

Adam Wonus *began his career as an underwriter with Mercantile Commercial Capital. During that time, Adam experienced working with small to mid-sized business owners all over the country. In October of 2010, Adam joined Wells Fargo Bank, NA. Adam was responsible for financing owner-occupied commercial property, as well as structuring/financing business acquisitions for small to mid-sized business owners throughout Central Florida. In 2012, Adam was recognized as the leading producer of loan volume in the State of Florida. In 2014, Adam purchased Atrium Management Company, a 13-year-old Central Florida property management company. Atrium specializes in managing upscale residential and multi-family properties.*

If you plan on growing your company, you will need to look at the options for financing the purchase. If you call or stop in to speak with your local banker, he or she may not know the answer. Isn't that scary? You would think everyone at the bank should know how to utilize all of their loan products, right? Having spent eleven years in banking before acquiring my first management company, there couldn't be anything further from the truth.

When our parents went to the bank for a loan, it was usually to get a car loan, home loan, or a credit card. Now banks offer insurance, payroll, treasury management, health care finance, etc. When I was with Wells Fargo, in 2013, there were roughly 87 lines of business provided by the bank.

I know some people will read this and think, they just need to get back to the basics; "That's too many product lines." I disagree. I think having all these options creates competition. Competition brings pricing down and allows the general public to gain access to financing tools that weren't previously available.

I bring this up because it's now up to you, as the consumer, to know how to get your loan completed. You can't expect the branch manager who specializes in opening checking accounts to know how to finance your next company. They may know the right person to call within the bank, but most likely they will not. In this high-paced multiproduct world, you need to be the facilitator.

In my opinion there are three main avenues with which to finance a property management company:

1. **Family Money –** You hit the gene pool jackpot and your uncle is extremely rich! "Uncle Ted, I need $1.3 million to purchase a property management company."
2. **Investor Capital –** You could get the seller to hold a note for a portion of the acquisition price and bring in a capital partner for the equity piece (down payment). Some sellers like this option because they avoid capital gains tax all at once and take a payout over time (while receiving interest). There are hundreds of ways to structure these types of deals and it really comes down to discussing what option makes the most since for the seller, as well as your new business. We could write an entire book discussing this option alone.
3. **Small Business Loan –** The SBA 7(a) Loan is the most common loan type used for business acquisitions ranging from $100,000 to $5 million. There are banks that will finance up to five million dollars with these types of loans.

I'm going to focus on the 7(a) Loan because it is the most common. That being said, you can use a combination of numbers one, two and three above to make an acquisition happen. I recently purchased a property management business using a combination of two and three. Had I not known an investor, I would have gone to section one and begged everyone I knew for capital. I hear people say, "I don't want partners" all the time. That's nice if you are independently wealthy. I was not, unfortunately, so I had to get creative!

SBA 7(a) LOANS

This is a very common loan used for the acquisition of small businesses. In fact, for the average American, the 7(a) Loan is one of the only bank products accessible for business acquisitions. The reason most of these loans are difficult is because there isn't any collateral for the bank to take in the event of default. Property management companies do not have any hard assets. You are essentially buying contracts, and if you don't make your payment to the bank, there are not any tangible assets for a bank to seek as damages. The 7(a) Loan is a government-backed loan that guarantees a portion of the loan, bringing down the level of risk for the bank. They still have liability, but it is mitigated with the government guarantee.

I will warn you that a bank is still going to require that you and the company you are purchasing be in good shape (financially). They won't hand out a loan based on your dream. You have to show profitability and a good history of repayment on previous debt. It is frustrating as a banker to receive calls from potential borrowers who assume a loan should be given out because they have such a "great idea."

LOAN TERMS

7(a) Loans are typically structured utilizing a 7 or 10-year term. Depending on the bank you choose,

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You can't expect the branch manager who specializes in opening checking accounts to know how to finance your next company.

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these loans can carry a fixed or floating rate. The loan is typically tied to the prime rate with a spread of 2.25% to 2.75% for the floating-rate option. There are a number of banks that will now fix the rate for the length of the loan. I always recommend seeking a fully fixed-rate option. With a floating rate, the payment can increase rather quickly if the prime rate begins to increase. In 2005 and 2006, the prime rate was increasing and I remember getting calls from business owners begging to refinance because in some cases their monthly payments had gone up 30%. By utilizing a fully fixed option on the 7(a) Loan, you are eliminating a potential risk down the road.

WHAT IS THE DOWNSIDE TO THIS TYPE OF LOAN?

The biggest objection that business owners have to these loans is having to use their home or other business assets as collateral. I had to use my personal residence as collateral when I received this loan as I had required so many borrowers to do over the years. To be honest, I didn’t mind doing so. I understood that if the bank is willing to take a risk on me, then I better be willing to share in the up and downside of the project. If you think you may fail, you probably shouldn’t be buying the business in the first place.

Starting a property management business from the ground up is difficult. By utilizing the 7(a) Loan, I was able to step away from my job at the bank and receive a decent salary while I continue to grow my property management business. If you purchase a business correctly, the business will pay for the loan and allow you to receive a salary.

Utilizing debt correctly is one of fastest ways to create wealth. The more creative you get, the more success you will have.

DESIGNATIONS & CERTIFICATIONS

The power that comes with increased knowledge and confidence is tangible. It is what sets you apart from your competition. Professional designations and certifications from NARPM® have an impact on your company and your clients, and the results translate directly to the bottom line. Add the credibility of our professional designations and certifications to your name and to your company name!

NARPM® designations are earned with a combination of property management experience, NARPM® and industry education, and service to the association through volunteer activities. You may have taken clock-hour courses to maintain your license. Imagine the gains when the courses are specifically focused on what you do as a Property Manager – and are being taught by a property management professional. Take it one step further and envision networking with other experienced Property Managers from across the country. Earning your NARPM® designation will bring a whole new dimension to your daily tasks.

Designees approved at the December 2016 Professional Development Committee meeting:

MPM®
Tiea Vincent, MPM® RMP®

RMP®
Lori Hermansen, RMP®

The Professional Development Committee now approves Designation Packets monthly.

- Please submit your packet by the **15th of each month** to be approved.
- Deadline for the National Convention in October is **August 4, 2017.**

***There is a new upload system available to submit your designation / certification documents. To upload your documents to the new upload system, please email designationinfo@narpm.org.

NARPM® DAY ON THE HILL

MAY 15-16, 2017 WASHINGTON, DC

Make contacts with key Members of Congress and their staffs on Residential Housing issues such as criminal background checks, certifying standards for Service Animals, and ADA reform.

*Additional information will be forthcoming.