

Acquisition

For an acquisition/rehab/resale program, selecting the unit to purchase is a critical and risky decision. Based on a feasibility study, the unit must be priced so that the acquisition cost and estimated rehabilitation cost (with adequate contingency) are acceptable.

Risk:

Non-profits may pay too much for the units.

Non-profits may have competition from private landlords or other developers, which may drive up the cost of a unit beyond what is feasible for acquisition and resale to low income purchasers.

Even with experience, estimating rehabilitation costs has a high degree of risk due to hidden conditions.

Mitigation:

Non-profits need to understand the property values in their market area.

Local realtors may be willing to assist in preparing comparables that are helpful in assessing current property values. Even so, the non-profit must do a feasibility analysis based on estimated rehabilitation and soft costs along with estimated resale value and price to determine the feasible purchase cost for units.

Non-profits should be constantly shopping to maintain a pipeline of houses that are feasible for purchase and should be prepared to offer deposits to owners to secure properties.

Consider using an option agreement to allow you to secure properties until you are ready to buy.

Non-profits should be aware of bank foreclosures, estate sales and other alternative marketing that may be occurring in their market area.

The ability to develop accurate estimates comes from working with many properties of similar age, condition and construction materials. Before you purchase properties, have construction estimates checked by experienced contractors or other professionals who have experience with rehabbing similar projects and include a contingency in the budget for unknown conditions.