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Recent Success Story: Example of How A “Ground Game” Lead To A Deal

While doing my daily MLS online hunting, I came across a new listing for a 4 flat in Ukrainian village listed for \$576K. It only threw \$2300/mo in rent which is very poor so it did not look very good online. However, since it was in my West Town area of emphasis and had good curb appeal, I called the agent to make an appointment. The property was listed with a very small suburban based brokerage, and the listing agent did not show the property herself. Instead I was to meet the owner at the building. I asked the listing agent for a phone number and she would not provide it and she just insisted I just knock. I learned later that the agent was the cousin of the owner.

So I went out to see a 4 flat at 11AM and it was bitter cold out that day. I knocked on 3 different doors and finally an elderly man named Ziggy came out to greet me. He hardly spoke any English and just kind of gestured and pointed me through the building. At one point I asked Ziggy if the furnaces were in the basement and he said yes, and then I asked are the furnaces on the roof and he said yes. At this point I realized my communication was not quite connecting.

The first thing I noticed was that the property had a fifth bonus unit that was not mentioned on the listing sheet. The renter was there and he said he paid \$750 per month. This slightly below grade garden unit had 8 foot ceilings, 2 entrances, and was pretty nice. It is clearly an illegal unit but basically it was a sweet bonus unit as it was very nice and currently leased.

The next thing I noticed was that the apartments were all shockingly good condition for only getting \$700 per month. They were all gas forced heat with central air, drywall, and all of the bedrooms were 9x10 or bigger. The kitchen and baths were updated in 2000 and were of above average rental quality. Right off the bat I knew I could rent these units for \$1,000 a month at least. I own and live in a four flat just 3 blocks away so I knew the market rents in the area.

Then I noticed in the living room that these were actually once 2 bedroom units that were de-converted to 1 bedrooms with oversized living rooms. The wall that formed the former bedroom was still 2/3 intact with an opening about 5 feet (2 door widths approximately). Each of these former bedrooms had a window and an oversized closet. So all I would have to do is to throw up a door, a few two by fours, and some drywall and \$1,000 later I would have a 2 bedroom apartment. I knew I could get at least \$1250 a month for these apartments.

The last thing I noticed was that the building was on a 30 foot wide lot. But more importantly the building was extra wide and took advantage of its wide lot being 24 feet from brick to brick. Most Chicago lots are 25 feet wide, with 22 wide buildings, and a 3 foot wide gangway. This width bonus is huge and explains why the room sizes were so good.

I quickly did a proforma on the property “as is” with the \$2300 in income and as a “potential” proforma with my estimated \$5700 in rent. I estimated a purchase price of \$525K down from the list price of \$575K. I was currently working with a 2 person investor team. Both gentlemen were experienced commercial real estate professionals. One of the investors works for a high end Construction company, and the other investor was a partner of a high end international commercial architectural firm. I took my clients through the property and they immediately recognized it was a home run.

I talked them out of offering \$500K and we offered \$485K. The listing agent called me and stated that she wanted to have a good Christmas and wanted to get the deal done. She was going to drive down from Highland Park to present the offer and wanted to see if I would be available by phone so we can negotiate it and get it done quickly. It was very evident to me that the listing agent was more concerned about her convenience than optimizing the deal for her client. She then asked me if my client would go over \$500K? I stated to her that really don't know as my clients are quite the cold investor types and don't really seem to even like me and just don't tell me much. I stated to her that I really don't care what they buy it for and that I just wanted to get the deal done by Christmas as well.

We wound up buying the property for \$500K and hit a home run as my client's expected to pay \$525K. Further, we were able to negotiate a 15K repair credit as well. I did a freedom of information request to pull any permits and building violations the building might have, and was pleased to find that the building had no current or even previous violations.

I will be general contracting the conversion of the 1 bedroom units into 2 bedroom units for the \$1K I estimated in my proforma. I will also be managing and leasing the building at the rate I estimated in the proforma as well. Lastly, I am also helping my client challenge the property taxes in April with the Board of Review Outreach program at no charge when the West Township opens up.

The key point of this is that there are properties out there that are not managed properly (rented for 700/month where the market is 1K per month), not in their highest and best form (in a 1 bedroom form when they are much better as 2 bedrooms), and not properly marketed by their agent (property was shown by Ziggy, 5th unit not mentioned, and 2 bedroom possibility not mentioned). These opportunities are there for someone who is willing to put the sweat out to find them and has the experience to recognize them. This is just one of the ways I find my clients exceptional investment opportunities.