Letter of Intent (LOI) and Comprehensive Proposal (samples)

By

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Multifamily Mentoring and Consulting
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LETTER OF INTENT

Colfax Apartments, LLC
8 Center Street
Anytown, USA

Re: Purchase of Colfax Apartment Portfolio

Dear Mr. Colfax:

We are pleased to submit the following Letter of Intent for [your name or company name] or its assignee, to acquire the aforementioned property from you. This letter is to clarify the purchase price we are prepared to pay. The general terms will be further set forth in a formal Contract to Buy and Sell Commercial Real Estate (CBSCRE). [Your name or company name] acquisition is based upon the following:

PURCHASE PRICE: $___________

DEPOSIT TO ESCROW AND DUE DILIGENCE: $__________ on open of escrow subject to 30 day due diligence and 45 day financial contingency period. The deposit applies to Purchase Price.

CLOSING COSTS: Buyer and Seller shall equally share all escrow fees, closing costs and recording fees. Documentary transfer taxes and Standard Title Insurance Policy to be paid by Seller.

REPRESENTATIONS/WARRANTIES: Seller represents and warrants that they will disclose all of their knowledge and findings of the property and its operations to Buyer.

This is a Letter of Intent only and it shall not form a binding agreement even if the terms of this letter are acceptable to both Buyer and Seller. Rather, it is intended as merely an expression of the general terms upon which Buyer and Seller will consider entering into a binding contract, which will only come into effect upon the mutual execution of a formal Contract to Buy and Sell Commercial Real Estate. Kindly sign and return this letter by fax to 555-555-5555.

Time is of the essence. This letter is valid until [date] at 5:00 P.M. M.S.T.

Sincerely,

/s/ [Your name, company name, title and address]

Agreed (Buyer)  Agreed (Seller):

__________________________________________ Date  _______________________________ Date

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April 15, 2009

Mr. J. Colfax
Colfax Apartments, LLC
8 Center Street
Anytown, USA

Re: Purchase of Colfax Apartment Portfolio

Dear Mr. Colfax,

Thank you for your reply to our offer on the Colfax Apartment Portfolio. Our investment group has considered the verbal counter offer to our Contract To Buy and Sell Real Estate dated ____________.

We have decided not to accept the counter offer. As discussed below, we feel the original offer of $1,700,000 is fair and reasonable for the current market conditions and we may still have an interest in acquiring the property at our offer price.

We are writing this letter to tell you a little about ourselves and to present our estimate of how we arrived at the market value of the property.

About Us

Ms. J. Doe, Doe Investment Group, LLC, owns single-family rental housing, land development property and apartment buildings totalling 250 units. She is also an owner of 125 storage units with an additional 100 units set to begin construction. Her partner, who owns several apartment buildings and has just completed the renovation and repositioning of two 50 unit apartment building, has a management and renovation team with over 12 years experience in owning, managing and renovating multi-family properties. Both groups are long-term investors and owner / operators.

Financial Analysis of Offering

We presented an offer of $1,700,000, roughly 29% less than the sellers asking price and 18% below the sellers counter offer. We arrived at our market value of the property based on the net income we anticipate after an extensive renovation and repositioning of the two apartment buildings.

Using the trailing financials provided by the sellers, we put together an analysis of the current market value
of the apartment buildings, as follows:

**Income/Expense**

- Potential Rental Income: $242,000
- Vacancy & Credit Losses: ($17,000)
- Effective Rental Income: $225,000
- Other Income: $7,000
- Gross Operating Income: $232,000

Total Operating Expenses: ($135,000)
Net Operating Income (NOI): $97,000

Market Value of Property (at 6.5% Cap Rate): $103,000 = $1,492,000

Then we analyzed the properties based on proformas. The price we offered is a function of three things: The potential rental income we expect for the property (based on current market rent comps which are available upon request), the cost to find new residents and to stabilize the existing resident base, and the cost to improve and reposition the asset. We arrived at our offer price by starting at street level with achievable rents.

Here is how we see this project unfolding over the next 18 – 24 months:

**Proforma Income/Expense And Repositioning Budget**

- Potential Rental Income: $297,000
- Vacancy & Credit Losses: ($29,700)
- Effective Rental Income: $267,300
- Other Income: $27,000
- Gross Operating Income: $294,300

Total Operating Expenses: ($149,906)
Net Operating Income (NOI): $144,394

**Value of Property After Full Renovation and at Stabilized Occupancy**

- Estimated Cap Rate in Year Two: 7.5%

\[
\frac{144,394}{0.075} = 1,925,000
\]
Cost to Acquire, Reposition & Stabilize

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
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<tbody>
<tr>
<td>Purchase Price</td>
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<tr>
<td>Closing Costs</td>
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<td>Financing Costs/Points</td>
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<td>Building Systems Renovation / Replacement</td>
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<td>Unit Renovation Cost</td>
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<td>Lease Up Reserves &amp; Fees</td>
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<tr>
<td>Contingency Reserves</td>
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Total Cost: $2,154,000

Projected Profit: ($229,000)

Please note that if cap rates remain steady at 6.5%, the estimated value equals $2,221,000. We believe there may be some potential profits (upside) to renovationing and repositioning the properties.

Risks and potential upside

Renovation strategies need to be readjusted in a recessionary environment. Apartment owners may not get a return on their rehab investment as market rents can stagnate or decline down the road. In such an environment, many apartment owners have simply stopped renovating properties.

We believe, with hard work and capital, these properties can be successfully repositioned. Our analysis is based on comparable rents for the submarket and our knowledge of renovation costs for similar properties. Our group has the financial wherewithal or can obtain financing, and can still embark on property capital improvements. The property will need to be held in our portfolio for the long term.

We thank you for the opportunity to present how we approached the valuation of your property. We sincerely appreciate your time in considering our offer.

We look forward to hearing from you.

Sincerely,

[Name, company name, title and address]
Note: This sample letter is part of the property analysis exercise that is included in my book Apartment Investing: What the Gurus Don't Teach You. This letter represents our response to the Seller’s unreasonably high counter to our original offer to acquire their properties.

Keep in mind, this letter can be revised to accompany an initial offer on a property whether by Contract to Buy and Sell Commercial Real Estate (CBSCRE) or Letter of Intent (LOI).

Change your opening paragraphs to state:

“Thank you for the opportunity to present an offer to buy the Colfax Apartment Portfolio. Attached to this letter you will find our Contract to Buy and Sell Commercial Real Estate (CBSCRE).

We are writing this letter to tell you a little about ourselves and to present our estimate of how we arrived at the market value of the property”.

For a free 30-minute strategy session on this, or any other element of multifamily investing, contact me at connect@bigfishtopdogs.com.

To your investing success!

Theresa Bradley-Banta
WRG Real Estate, LLC
Multifamily Investment & Acquisition
Mentor, Coach and Real Estate Entrepreneur

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If you’d like more information about my Investing in Residential and Multifamily Real Estate Mentoring & Coaching Programs visit: www.bigfishtopdogs.com/real-estate-coaching