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Alaska REAL ESTATE BY DAVE WINDSOR

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FINANCING INCOME PROPERTIES

Owning an income property has 4 benefits – Appreciation, Depreciation, Cash Flow and Equity Growth.

The financing of such properties is completely different if you go over 4 family units. In other words, anything up to a fourplex is one thing, over 4 units and you are dealing with commercial financing.

Duplex to Fourplex: If you can owner-occupy your income property for at least 12 months, your options include V.A. and F.H.A., just like you might be buying a single family home.

If you have VA eligibility, you may purchase your income property with zero down. If you are FHA eligible, you may purchase the same property with 3.5% down.

A VA buyer must be able to show some kind of landlord experience (or put in place a written property management agreement with a professional). With FHA, there is no such requirement. However, in both cases, there are strict 'reserve requirements' to demonstrate that you won't go broke as a landlord in the first few months. See any of the traditional home lenders for details.

If you are not VA or FHA eligible, you may purchase the property with a Conventional Fannie Mae or Freddie Mac product with 25% down – and it matters not a hoot whether you owner – occupy the property or not.

Your lender may also be able to use Alaska Housing (AHFC) and here, provided you owner-occupy, you will need 20% down, though you might be able to manage with 10% down if it is just a duplex.

Greater than Four Units: Now, depending on your personal banking, you can negotiate directly with your own chosen Bank. However, it is likely that you will be directed to either a Fannie Mae or Alaska Housing 'Multi-Family' loan product.

Over the years, I personally have abandoned the Fannie Mae approach because Alaska has its own, less complicated, fair and balanced offering through AHFC (Alaska Housing Finance Corporation).

In order to go this route, you need to find one of the few experienced loan originators specializing in Multi-Family financing. First National Bank Alaska (Mike Scott 907-777-5622) or Alaska USA (Paul Hansmeyer 907-261-3438) can both assist you here.

The AHFC loan will require that you have a downpayment of 20%. It is a carefully formulated program that requires a full assessment of income and expenses that will produce a cash flow providing a result that equals 1.25 times your monthly mortgage repayment.

Now, actually, this is one of the best aspects of the program. You cannot obtain the loan until it is proven that a positive cash flow can be produced. This protects you as an investor.

The corollary to this is that your purchase price must make sense to both the Appraiser and the Lender before a loan will be approved. Inexperienced licensees listing such properties do not always understand this critical piece of the puzzle. Persons selling income properties need to know at what price the multi-family property can sell for, as opposed to what the owner (or licensee) pulls out of the sky for a 'list price'.

Alaska housing will also insist that you set up a 'Replacement Reserve' account, with them as trustors, to cover serious future repairs. Borrowers whine about this one, with some justification, but it does provide another safety net for the investor. You may draw on that reserve escrow account, for example, when the roof needs replacing.

The AHFC program is rigorous indeed but, if you qualify, you can be confident that you have made a good investment - and that you did not pay too much for it. The only way sellers can obtain more for a property than the value calculated by the AHFC formula is to provide Owner Finance.

For example, I recently had six-plexes in East Anchorage, listed with me by a long-time owner who had zero debt on those pieces. The properties were successfully sold by offering slightly better terms than AHFC, and also thereby skipping all the restrictions of that program. This gained the seller a better result, but also enabled the buyer to acquire a good investment with the least of complications.

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