

## Breaking Down the LOI

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The goal of this document is to familiarize yourself with the main parts of an LOI.

### *Purchase Price*

The purchase price is the price you can offer after you completed the initial underwriting and received information from your property manager and received some loan quotes.

### *Earnest Money Deposit*

Earnest money is a payment made by the buyer in early contract negotiation stages. The earnest money amount is usually between 1% and 2% of the purchase price.

The LOI should determine when earnest money deposit is due and whether it is refundable or non-refundable (a non-refundable deposit is considered “hard”).

For example, the earnest deposit may be due at the execution of the purchase and sale agreement. Another option is to break down the earnest money deposit to two installments: half is paid at the execution of the purchase and sale agreement and then another half is due at the expiration of the inspection period. You can also offer an additional deposit in order to extend the closing date.

Most earnest money deposits – even those who are non-refundable - are refundable subject to a clean title, survey, and environmental reports, and can also be subject to seller default.

### *Inspection Period/Due Diligence*

The beginning of the Due Diligence period is defined in the LOI. During that period, the seller needs to provide the buyer with documentation regarding the property. Due Diligence period takes 14-30 days.

You can add the list of items you request from the seller in the LOI. You can also include it later at the Purchase and Sale Agreement.



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- Past three years financials (in excel format)
- Current rent roll (in excel format)
- Copies of all tenant leases
- Copy of a blank lease agreement
- Copies of the current and past three years' tax assessment and bills
- Current insurance binder or policy for property, casualty and liability, and insurance loss runs for the past three years
- List of salaries and wages for all employees on property
- Copies of all maintenance records and warranties
- Trailing 12-month non-operating below the line expenses
- 12-month capital improvement budget (if any)
- Complete copies of all records, instruments, contracts and agreements for the property
- Seller to provide buyer with a list of all personal property to be conveyed with the property at closing
- An updated survey with ALTA specifications
- A current title policy
- A detailed list of all capital improvements (along with costs) made to the property over the past three years
- A copy of any plans and specifications relating to any planned or unfinished interior and/or exterior improvements to the property (if any)
- Copies of all service contracts
- Copies of past three years' utilities bills
- Full general ledger (not just cash account related to bank deposits) and bank deposits statements for the past year (in excel format)
- Schedule of write-offs (past 12 months) and explanation of write off policy
- Aged receivable report, including detailed by resident
- 12-month capital improvement budget (if any)
- Historical occupancy report (past 12 months)
- Historical environmental reports



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- Personal property list
- Breakdown of FBS income
- Such other non-confidential documents as buyer may reasonably require which are in seller's or its property manager's possession

Another important thing to ask is access to the property for physical inspections during the Due Diligence period.

### *Financing*

The LOI should include information on financing. Will you take new debt or assume the loan? What are the terms of your financing? For example, "securing a 70% LTV Freddie Mac loan". This shows the seller that you've done your homework and already looked into financing. That will give you an advantage over buyers who haven't looked into financing yet, since they are more likely to amend their terms/pricing after receiving loan quotes that can impact their underwriting.

### *Closing*

The LOI defines when the closing happens. Usually, closing is 60-90 days after the execution of the purchase and sale agreement.

You can add an option to extend the closing date. If you wish to add an extension, clarify how many extensions you wish to have an option to, and at what fee (if any). Extension can be a 30-day period, and offer, for example, \$250,000 fee for the first extension and \$350,000 fee for the second extension (those fees might be non-refundable).

### *Title/Survey*

Determine who pays for title insurance and for new survey or recertification of existing survey. You can also offer to split those costs.



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## *Closing Costs*

This part of the LOI should outline who pays for each closing-related cost items.

- Lawyers' fees (usually each side pays their own lawyer's fees)
- Brokerage commissions (usually the seller pays their own brokerage fee, and the same for the buyer, if they have a broker).
- Costs to clear title
- Escrow fees to Title company
- Recording the deed

## *Misc. Items*

Here are some recommended items we include in our LOI.

- Buyer and seller shall work to complete the purchase and sale agreement within first two weeks of executing LOI.
- Seller shall continue normal operations and repairs and maintenance during contract and will have all vacant units make ready at time of closing.
- Once purchase and sale agreement is executed, seller shall not solicit, receive, or accept any offers.
- Buyer is allowed to assign contract to a single purpose entity.

The terms that I've laid out in this document are reflective of what is accepted in my markets. However, they might be different depending on the market(s) you choose. I recommend consulting with a broker and your property management company to learn what are the accepted terms in your market. Some markets, for instance, do not require non-refundable earnest money, while in other markets your offer will not be considered without them.



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