HELPING YOUR PROPERTY OWNERS ASSESS THEIR

RENTAL INVESTMENTS

Presented by Cassandra Swanson BBA, RMP, MPM

About Me:

Cassandra Swanson, BBA, RMP, MPM

currently completing MS

Owner of Paramount Property Management, Inc

in Meridian Idaho

Why should you take my word for it?

"University of Edinburgh researchers analyzed the data of over 300,000 people aged between 16 and 102 and found that those who wear glasses or need contact lenses were 30 percent smarter than their able-visioned counterparts." (Davies, Lam et al., 2018)

Presented by Cassandra Swanson BBA, RMP, MPM

Everything is figureoutable.

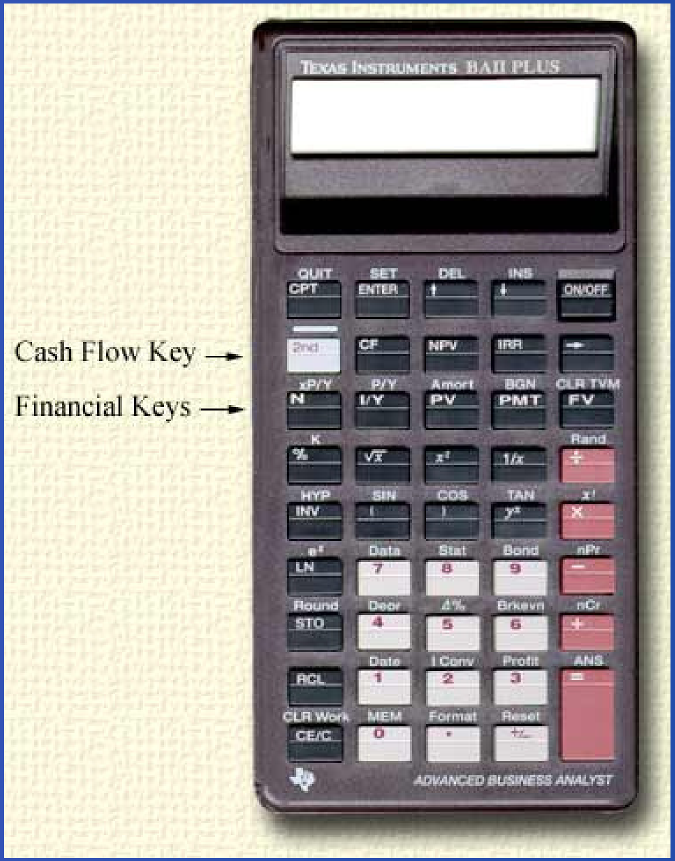
Presented by Cassandra Swanson BBA, RMP, MPM

Houses are still an emotional purchase

No one cares about the mutual fund brand

Let's group our owners into four categories

1. Relationship Oriented - they will never look at your numbers but want to trust the numbers you com up with
2. Financial Oriented - Will love your spreadsheet more than their high school crush, but will want to challenge your numbers
3. Community Oriented - Will give away everything without saving anything for themselves,
4. Pretends to be financially oriented, but isn't - most likely relationship or community-oriented, but an influencer in their life has asked them to please be smart so they are trying to be Financially oriented



For this class you will need

Calculator options

- TI TI BAII Plus
- HP 12c Platnum

Mobile App:

- BA Financial Calculator

Nevermind....

You do not need a calculator

Tony Drost
Past National NARPM President, MPM, RMP
Chairman, First Rate Property Management, Inc
Associate Broker, Swope Investment Properties
was kind enough to put together this spreadsheet for our use.

https://bit.ly/narpmcalculations

1. Download spreadsheet
2. Enable editing
3. Only type information in blue boxes

NOI
Net operating income

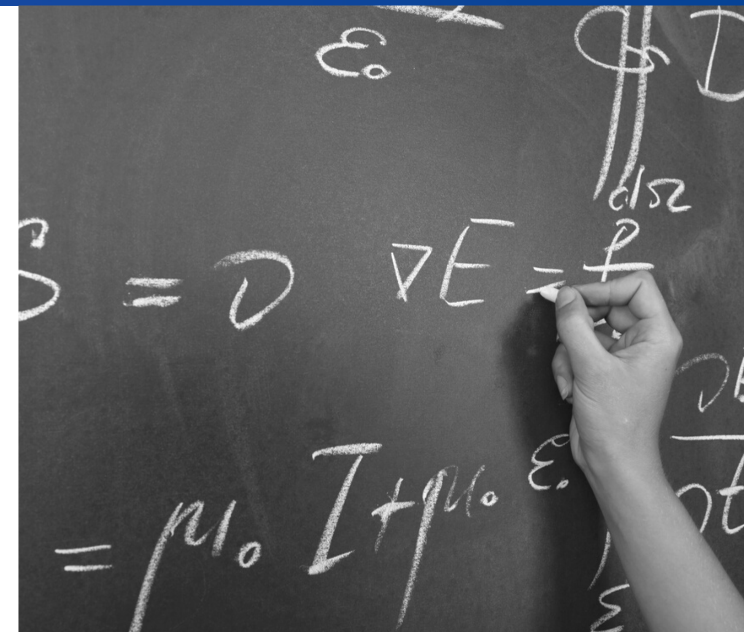
Gross Operating Income

− Gross Operating Expenses

= Net Operating Income (NOI)

The revenue generated from a property's **daily** operations, less its operating expenses.

It doesn't include earnings from other investments, taxes, loan interest, and other capital expenditures.



At Purchase:

$$GRM = \frac{\text{Purchase Price}}{\text{Yearly Gross Rent}}$$

Subsequent Years:

$$GRM = \frac{\text{Market Value}}{\text{Yearly Gross Rent}}$$

HOW LONG WILL PROPERTY TAKE TO PAY FOR ITSELF?

DESIRED VALUES

ANNUAL GRM <100

CONSIDERED GOOD VALUE
~ 4-7

Gross Rent Multiplier GRM

PURPOSE

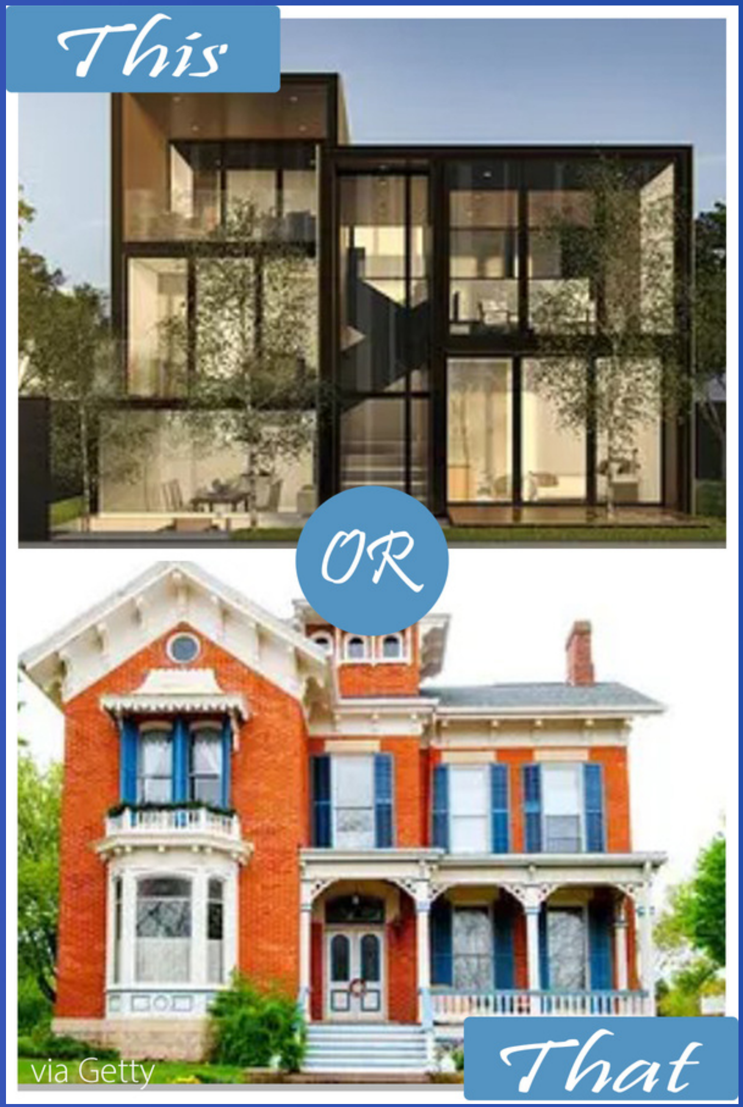
Quickly compare multiple market properties to narrow down options & compare similar properties

GUIDE

The lower the number the better.
Consider properties with GRM<100

WARNING

GRM does not take into account vacancy, operating expenses, financing costs, depreciation, and other factors that affect a property's potential cash flow and net profit.



Price per unit

$$= \frac{\text{Purchase Price}}{\text{number of units}}$$

Price per unit

Property 1

- 12-unit subject property's 2bd/2ba units 1200 sq ft each.
- Purchase Price per unit $85k
- Updated amenities built in 2018

Property 2

- 2bd/1ba 900sq ft
- Price per unit $75k
- built 1989

The higher price per unit of the 12-unit property would then be warranted because of its more modern features and larger floor plans and newer age.
Be careful to not dismiss an opportunity by assuming units are overpriced.

WARNING

it is important to factor in the age of properties and amenities or location, in order to determine if a higher price per unit is warranted

CASH ON CASH RETURN

1

Cash on Cash Return

Return on Investment (ROI) for 1 year period

2

Measures

Cash income earned on cash used (pre tax)

8 - 12% excellent value

3

Use

Investment properties that involve long-term debt borrowing

4

Formula

$$= \frac{\text{Net Cash Flow}}{\text{Total Investment}}$$

Return with loan paydown

INCREASES ROI EACH YEAR

NOT REALIZED UNTIL THE PROPERTY IS SOLD, BUT KEEPS INVESTORS AWARE OF ADDITIONAL ROI

IN ESSENCE RENT APPLIED TO PRINCIPAL CREATES VALUE FOR INVESTOR

FORMULA

$$= \frac{\text{Net Cash Flow} + \text{Principle Paydown}}{\text{Total Initial Investment}}$$

Return with loan paydown & appreciation

APPRECIATION CREATES INACTIVE CAPITAL

INVESTORS ROI FIRST YEAR WITH PROJECTED APPRECIATION

EACH YEAR SHOULD CONTINUE TO INCREASE

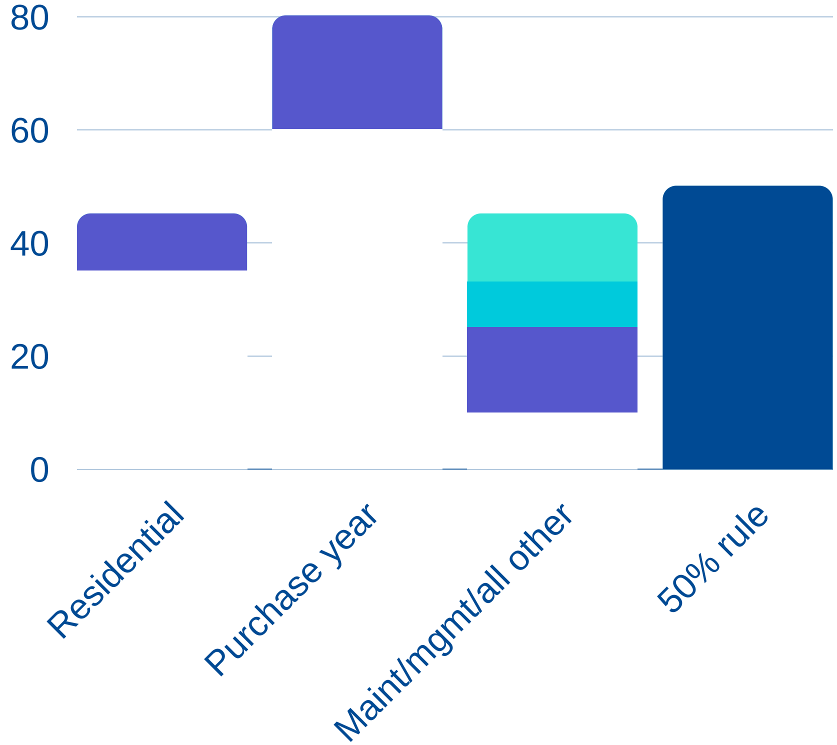
REALIZED AT SELL

FORMULA

$$= \frac{\text{(Net Cash Flow + Principle Paydown + Appreciation)}}{\text{Total Initial Investment}}$$

Expenses Per Revenue

$$= \frac{\text{Annual Operating Expenses (1 year)}}{\text{Revenue (1 year)}}$$



50% rule - investor should estimate your operating expenses to be 50% of gross income

Reveals

Cost risk with having investment property operating day-to-day. A lower % implies that a property is well-run. a higher % reveals potential for property to be upside down.

A strong property manager should be able to create a better % for the investor

Expenses per unit

$$= \frac{\textbf{Annual operating expenses}}{\textbf{Number of units}}$$

Compare to unit metrics

Difference in unit? older, remodeled, , etc

Tenant caused?

CAP RATES

CAP Rate

$$= \frac{\text{NOI}}{\text{Purchase Price}}$$

Cap Rate after Rehab

$$= \frac{\text{NOI}}{\text{(Purchase Price+Rehab Costs)}}$$

Warning

Never use a single metric for purchase decisions
Do not use market value as a replacement for purchase price

Debt Coverage Ratio (DCR)

Properties with >1 DCR are considered profitable. A low DCR is a red flag the investor may lose money

$$= \frac{\text{NOI}}{\text{Annual Debt Service}}$$

RULE SUMMARY

1 OR 2% RULE

if an investment property's monthly rent is approximately 1-2% of the total purchase price, it will likely + cash flow

50% RULE

Investors should estimate operating expenses to be 50% of gross income

10-10-10 RULE

Never put down more than 10% of the purchase price. Pay no more than 10% interest. Buy at least 10% under market

70% FLIP RULE

.Do not pay for an investment property any more than 70% of the After Repair Value (ARV), minus the cost of repairs.

Property Purchases have emotional motivations

RELATIONSHIP MOTIVATED INVESTOR

Taking time to run numbers, shows transparency and builds trust.

FINANCIALLY MOTIVATED INVESTORS

Approach investments like an engineer, showing all the numbers build their confidence in investment decissions

COMMUNITY MOTIVATED INVESTOR

Allows decissions on providing housing through investments providing a way for them to build wealth and offer more and moreto the community

Thank you!

To Tony Drost MPM, RMP for designing the spreadsheet and his help in this session for all the NARPM property managers to us