Neal Bawa

Anna Myers

BUYING RIGHT- DEAL ANALYSIS

MultifamilyU

Hello, I am Anna Myers

- Lead Underwriter for Grocapitus
- Acquisitions Specialist
  - Find & Underwrite Multifamily Properties in our Key Markets
  - Work with Brokers, Bird Dogs & Partners
- Operating Partner & Asset Manager
  - Windward Forest and Chelsea Place in Atlanta Metro and Park Canyon in Dalton GA near Chattanooga
- Financial Programmer & Demographer
  - One of the programmers and user interface architects for the MultifamilyU Deal Analyzer
  - Analyze market data & trends, together with Neal select Grocapitus Markets

WHAT WILL YOU LEARN TODAY?

- The key terms – NOI, Cap Rate, DCR, CoC
- How to analyze a multi-family investment?
- What is “The Holy Trinity”, and why is it important?

NET OPERATING INCOME (NOI)

A multi-family investment is a business

- Operating Income
  - Rental Income
  - Laundry, parking and other sources of income
- Operating Expenses
  - Property tax, insurance
  - Repair and maintenance
  - Management, marketing, administration
- Debt Service

NOI = Annual Operating Income – Annual Operating Expenses

*NOI DOES NOT INCLUDE DEBT SERVICE

CAPITALIZATION RATE (CAPRATE)

This is a measure of the relative return the Net Operating Income (NOI) yields on the purchase price on an annual basis

$$\text{CapRate} = \frac{\text{Net Operating Income (NOI)}}{\text{Purchase Price}}$$

CAPITILIZATION RATE (VIDEO)

Here is a video that summarizes cap rate nicely

EXAMPLE

What is the Cap Rate of the following property?

*Purchase Price	=	$10M
*Annual Income	=	$1.3M
*Annual Expense	=	$500,000
*Debt Service	=	$480,000

NOI = $1,3000,000 - $500,000 = $800,000

- $CapRate\ @10M = \frac{800,000}{10,000,000}$ = 0.08 = 8%

How will it change if the price is reduced to $8M?

- $CapRate\ @8M = \frac{800,000}{8,000,000}$ = 0.10 = 10%

Higher CapRate → Cheaper Property

MAIN FACTORS AFFECTING CAP RATE

1 **RISK** - *Higher Risk → Higher Cap Rate

2 **LENDING ENVIRONMENT** - *Easier to get money → Lower Cap Rate

3 **LIQUIDITY IN THE FINANCIAL MARKETS** - *Rising Market → Lower Cap Rate

4 **TAX CODES** - *Favorable code create tax shelters → Higher Demand → Lower Cap Rate

5 **APPRECIATION** - *When real estate prices are expected to rise, investors are willing to pay based on a lower Cap Rate

DEBT COVERAGE RATIO (DCR)

The ratio between cash flow and mortgage payment

$$DCR = \frac{NOI}{Debt\ Service}$$

Also known sometimes as “Debt Service Coverage Ratio” (DSCR)

EXAMPLE

What is the DCR of the following property?

*Purchase Price = $10M
*Annual Income = $1.3M
*Annual Expense = $500,000
*Debt Service = $480,000

NOI = $1,3000,000 - $500,000 = $800,000

$$DCR = \frac{NOI}{Debt\ Service} = \frac{800{,}000}{480{,}000} = 1.67x$$

CASH-ON-CASH (COC)

All in cash =

Down Payment +
Closing Costs +
Acquisition Fee

$$CoC = \frac{NOI - Debt\ Service}{All\ In\ cash}$$

EXAMPLE

What is the CoC Return of the following investment?

*Purchase Price	= $10M
*Annual Income	= $1.3M
*Annual Expense	= $500,000
*Debt Service	= $480,000
*Down payment (25%)	= $2.5M
*Closing costs (1%)	= $100,000
*Acquisition Fee (5%)	= $500,000

NOI = $1,3000,000 - $500,000 = $800,000

All in cash =

Down Payment + Closing Costs + Acquisition Fee =
$2,500,000 + $100,000 + $500,000 = $3.1M

$$Coc = \frac{NOI - Debt\ Service}{All\ in\ cash} = \frac{800{,}000 - 480{,}000}{3{,}100{,}000} = \frac{320{,}000}{3.100{,}000} = 10.3\%$$

THE HOLY TRINITY

- The first "make or break" filters for a deal
- Represents the interest of the stakeholders

*Equity and debt sources have complementary interests
*Different metrics

Syndicators / Apt Buyers

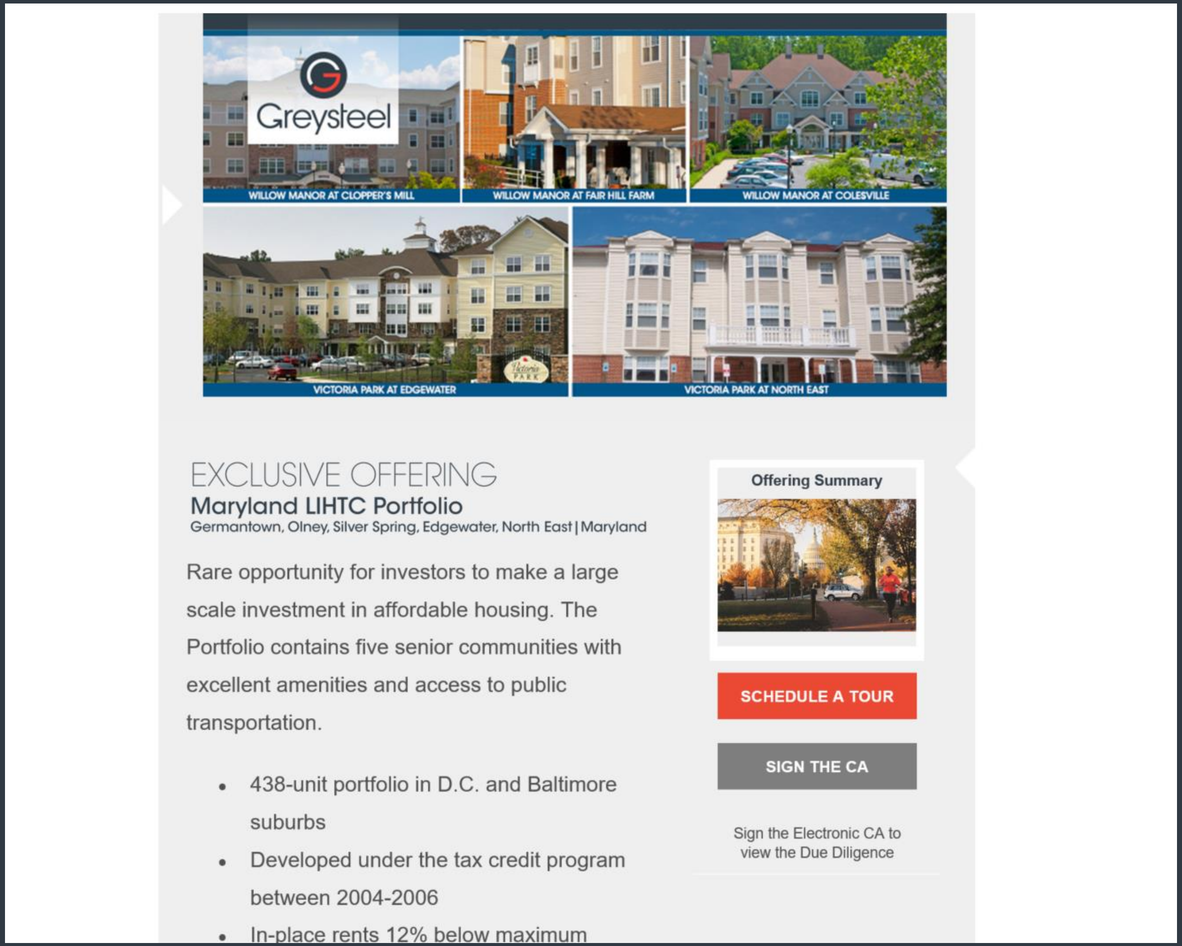
Private Lenders / Debt Partners

Investors (Equity Partners)

GETTING A LISTING

Looks like this.

Sign the Confidentiality Agreement to get access to the property's docs.



WHATS IN THE PACKAGE (THINGS YOU'LL NEED)

- ❑ Operating Memorandum (aka. OM)
  - Tells you quite a bit about the property
  - This is a ***marketing brochure***!!

- ❑ Rent Roll

- ❑ T12 (aka. Trailing 12 months' Income & Expenses)
  - There's also T3, T6

OFFERING MEMORANDUM or "OM"

- Property Address
  - Use to Research Crime, Flood Zones…
- Asking Price (not always listed)
- Utilities - who pays what?
- Year Built, Year Renovated
  - Is it older than 1970? Additional Risk
  - Was it recently renovated - how many units not renovated?

OM samples

- Type of Construction & Roofs
- Number of units
  - Confirm with rent roll - Types and sizes of units
- Key Words to Look out for…

LOOK FOR THE THINGS THAT MATTER TO YOU

Location:

- What are you near
- What's happening around the area (new employers, new metro rails, etc)
- What are the demographics in the immediate vicinity
- What is the current tenant profile of this property

Sources:

- Google Maps & Street View, Google Earth
- Crime Mapping – check several sources
- Better Business Bureau
- Zillow, RedFin, Trulia
- Local Tax Assessor's Office
- Broker – Brokerage reports
- Property Management Companies
- News – use alerts, local papers, follow major employers' news
- CoStar, AxioMetrics
- Local REIA clubs

RENT ROLL

Sometimes, they're in PDF form. You'll want to convert into Excel.

- Actual average rents / unit type
- Loss to Lease
- How long have tenants been at property
- What are the "proven" rents that are on record?
- And more

SAMPLES OF RENT ROLLS

TRAILING EXPENSE-T12

Pay attention:

- Trends – are there unexpected expenses out of norm?
- Missing expenses
- Anything in particular looking high / out of place

➢ T12 tells a lot in a story of the property

<u>T12 samples</u>

PUTTING IT TOGETHER : INCOME

Income	
Gross Potential Rents @ 100%	Assuming all units rented out at current market prices
Loss to Lease	Amount "lost" due to rent increases and earlier signed leases at lower rents
Gross Scheduled Rents @ 100%	GPR minus Loss to Lease
Vacancy - Physical	Actual unoccupied
Vacancy - Economic	Model units, employee units, discounted units, concessions, Rent Incentives, Delinquency & Bad Debt
Utility Reimbursement	Recapture of utilities fees when property is master metered. RUBS
Other Income	Pet fees, admin fees, parking, vending, laundry, etc.

PUTTING IT TOGETHER : EXPENSES

Expenses	
Taxes	
Insurance	
Repairs and Maintenance	Normal wear and tear on units
General / Admin	Administrative costs, office supplies, etc.
Management	Property Management fees
Marketing	Website, flyers, renter referrals, etc.
Utility	Electric, Gas, Sewer, Trash, etc.
Contract Services	Landscaping, carpet cleaning, pool, etc.
Payroll	On-site staff who support your property

RULES OF THUMB

Expenses	Rules of Thumb
Taxes	80% of Purchase Price x Mill Rate = Taxes
Insurance	$250 / Door
Repairs and Maintenance	$300-600 / Door (must confirm with PM)
General / Admin	$100-25- / Door
Management	% of Total Collected Income. Typically 4% for larger properties.
Marketing	$100-250 / Door
Utility	Use Last Year's & Annualize this year's. Take highest value.
Contract Services	$200-400 / Door
Payroll	$700 -$1,000 / Door**
Capital Expenditures	$250-300 / Door

These numbers are general rules of thumb – each market may vary ***significantly*** from these ROT.

TOP 3 MOST COMMON PITFALLS THAT YOU NEED TO AVOID

- Not Doing Sufficient Due Diligence
  - Accepting Offering Memorandum Financials as FACT
  - Property Tax – not properly accounting for change on Sale
  - Inadequate Rent Comp Analysis

- Relying on Appreciation of Market
  - "Value Add" is the name of our game. There must be "forced appreciation" to move the needle.

- Taking on too much risk with your debt structure

New Investment opportunity with overall 23+% average annual returns projected

Phase I ($6.2 Million equity) sold out. Taking reservations for Phase II

Accredited investors: Join us in developing a stunning new 322-Unit Graduate Student Housing Project in Buffalo, NY, near the University at Buffalo.

Over 23% average annual returns are projected, due to large environmental clean up credits and 13 years of Tax incentives.

New Investment opportunity with overall 23+% average annual returns projected

Here is what the finished project looks like

A tremendous time to invest in Student Housing

"As dorms morph into luxury apartments, our student housing clients are able to offer more in amenities such as pools, hot tubs, weekly social events, top-of-the-line workout facilities and high-speed internet. These services are free, but with the increase in amenities, rents are significantly greater than other types of apartments, sometimes even twice the amount,"

- RSM Partner Nick Antonopoulos

"There's just been a massive amount of money flowing into the space and the top investors are all doing what they can to make a splash,... There are more groups looking to invest than there are developers and operators with available real estate, so the next 12 months should be very interesting, as the hardest thing for these institutional investors to do is find the right product with the right operator."

- Marc Lifshin, Co-founder and Managing Partner of Core Spaces.

Interested in Apartment Investing?

Come enjoy an incredible learning experience

I help people become financially free with real estate by teaching them how to invest in apartment buildings

Interested in Apartment Investing?

An incredible learning experience

Multifamily Real Estate Investing Has Proven To Be One Of The Best Asset Classes For Long-Term Wealth Accumulation

Interested in Apartment Investing?

An incredible learning experience

I teach the last honest Apartment Boot Camp in America.

And it makes you 3 unique promises.

A unique learning experience

Seize the Opportunity

Promise

The only Apartment boot camp in the U.S. that makes & keeps these promises to you:

Promise 1: The training is eye opening, specific and tangible, meant to be used right away.

Thank you again for an amazing learning experience in the MF Boot Camp. My husband and I really appreciated how many specific tools you shared that we haven't seen elsewhere. Tools we can begin putting into practice right way, such as what to look for in determining which markets have the greatest potential for growth and cash flow, how to then drill down to specific neighborhoods within those markets, and how to build a team that can help support and run our out-of-state holdings. This is invaluable information for new investors like ourselves, but I imagine even a seasoned veteran would have picked up some great tips.

- Anya Sagee

MultifamilyU

www.multifamilyU.com

A unique learning experience

Seize the Opportunity

Promise

Promise 2: Pitch free – no upsell, coaching, mentoring, tapes etc. Just 100% sales free, content rich training.

The Multifamily Boot Camp was 100% sales free training on how to buy apartments. Lots of content, resource and tips you can use right away. No sales pitch. All training. I've attended several weekend bootcamps before and although all offer great information, half the time you're there, they're trying to sell you something – their next event or coaching or whatever else. The Multifamily Boot Camp was 100% sales free training on how to buy apartments.

- Joy Viray

MultifamilyU

www.multifamilyU.com

A unique learning experience

Seize the Opportunity

Promise

Promise 3: filled with shortcuts, secrets and strategies that you have never seen before, with a clear roadmap to success

Neal's ingenious ideas on how to use VA's and mega-marketing strategies to attract tenants was truly an eye opening experience for me.

The boot-camp provided me with a clear and precise road map to identify specific locations to invest in. Neal's presentation coupled with labs (small group sessions) provided hands-on experience for all the attendees.
I can state unequivocally that this boot camp was by far one of the best that I've attended. I was able to immediately implement the strategies that I learnt.

- Esosa Egonmwan

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www.multifamilyU.com

What you will learn

Hundreds of students have been blown away by the quality and depth of the boot camp

Multifamily and Syndication Fundamentals

The fundamentals of apartment investing, and the 4 critical phases of a multifamily project you must master.

The Best and Worst Metros

Metro selection like you have never seen it before. This knowledge is essential for buying the right product at the right time.

The secret sauce to MultiFamily investing

Investing in the right neighborhood is even more important than picking the best city. Students rave about the process we teach for this crucial step.

How to find brokers and Properties

Learn multiple ways to find brokers and properties, including what to say and how to answer difficult questions.

How to evaluate Properties

The art and science of underwriting, and how to avoid common but deadly pitfalls that can cost hundreds of thousands of dollars.

Get the right Prop Mgr.

Finding, evaluating, and managing property managers… one of the most important skills for successful multifamily investing

How to raise private money

Absolutely POWER PACKED step by step 1-hour workshop

Amazing Bonuses

1. HD recordings of all sessions for a year
2. A powerful Facebook student-only group gives you access to partners, investors, deals and sponsors
3. A Digital student resource kit with dozens of resources – demand projections, due diligence lists, checklists, templates, worksheets, lists of brokers and so much more
4. Data reports for your Metro
5. A no-pitch private coaching session with Neal
6. Mystery bonuses – short videos posted by Neal frequently to the Facebook group
7. Mega-marketing Webinar recording
8. Virtual Assistants Webinar recording

Are you ready to become a successful Apartment Investor?

Get ready for an incredible learning experience

SO TAKE ACTION:

Attend the e-bootcamp live: March 4th 2019:

5:30-7:30 pm Pacific 6 live sessions (Mon, Wed, Thu)

Go to www.multifamilyU.com and use the coupon code golden to get $400 off the early bird pricing (expires tomorrow at midnight).

If watching a replay, you can email us to get a $200 off code

All live sessions are recorded and available for playback

DEMO

Underwriting Demo Ahead -→

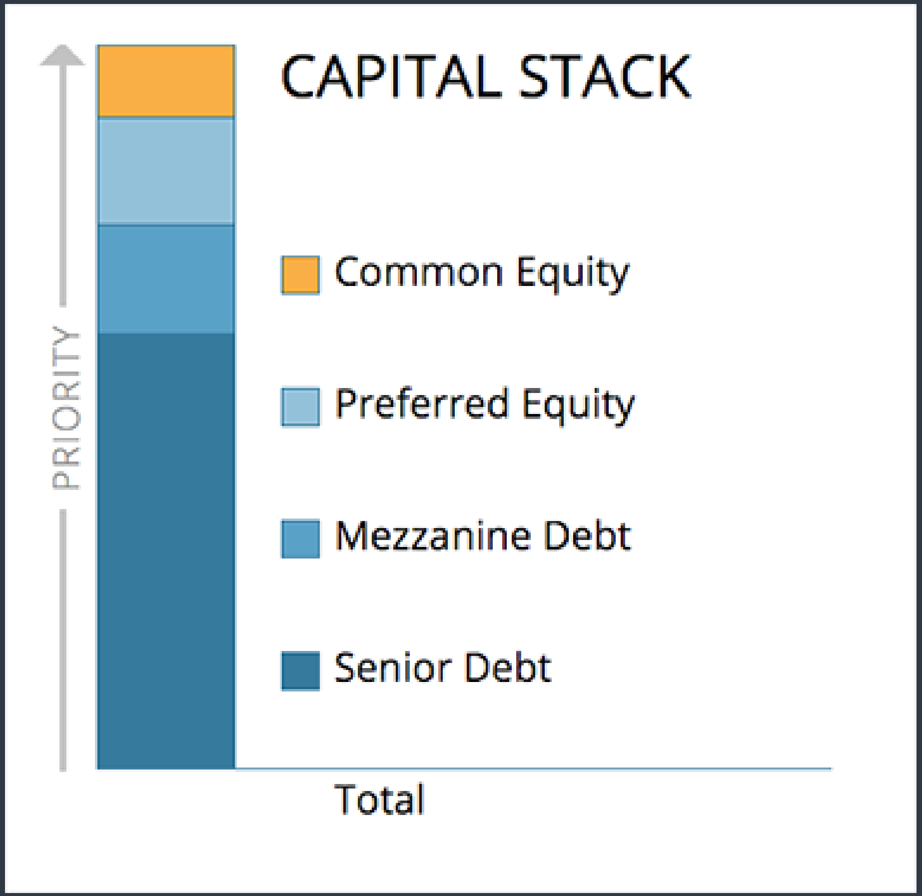
Thanks for Joining Me tonight!

- Please take our POLL –

HAVE QUESTIONS? I am happy to answer them!

- Email : anna@grocapitus.com
- Phone : 415-610-8873

THE CAPITAL STACK



FIXED AGENCY LOANS VS. BRIDGE

PROS OF 10 YR FIXED

- Long term fixed rate, no interest rate risk
- Potential for longer I/O duration
- Investors liking longer investment horizons as the cycle matures
- Lower initial loan costs
- No bridge Refi costs and points
- Future buyer can assume loan at attractive fixed rate
- Lower interest rate in most cases

CONS OF 10 YR FIXED

- Rehab costs cannot be rolled in for most loans (LTC not available)
- Lower overall Loan-to-Value
- Agency debt typically takes longer to close (15-30 days)
- Lower overall returns
- Cannot return partial equity through Refi

HOW ARE BRIDGE LOAN INTEREST RATES CALCULATED?

- Most Bridge loans have **floating** interest rates.
- The rates are based on 1 month LIBOR rates
- How can you find 1 month LIBOR rates?
- What is the usual Bank spread?
- How often do LIBOR rates rise?

FIXED AGENCY LOANS VS. BRIDGE

Fixed loan scenario
Purchase Price – $15M
Rehab amount - $1M
Closing Costs – 2.5%
LTV : 75%
Interest Rate – 5.25%
Loan Amount – $11.25M

Equity needed - $3,750,000

Average Annual Returns 12%
Average Cash flow 10.89%

Bridge loan scenario
Purchase Price – $15M
Rehab amount - $1M
Closing Costs - 3.5%
LTC : 85%
Interest Rate - 6.28%
Loan Amount – $12.75M

Equity needed - $2,850,000

Returns
Cash flow