

Paper Power Note Investing

COMMERCIAL PAPER & PROPERTY



Jack Sternberg

Module 4
Suspect?
or
PROSPECT?



Bob Leonetti

Today's Topic...

- **How to Find GOOD Deals**
(not the junk that is splattered all over the Net)
- **How to Gather Specific Information**
(and Decipher What it Means)
- **How to Analyze that Information**
(Calculating Investor Returns)
- **Deal Structuring (funding)**
- **Closing**
(Putting it all Together & Protecting the Cash Flow)



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Today's Bottom Lines...



Suspect?
Or...
Prospect?

- Surface Analysis
- In-Depth Analysis
- ROI = Cash on Cash Return
- IRR = Appreciation, Depreciation, etc.

Be Sure and Remember...



- **If It's a Good Deal:**

Move On It!

- **If it Isn't a Good Deal:**

Just...Move ON!

QUALIFYING THE PROPERTY



- Find the Property
- Determine Whether or Not it is a Good Deal
- Level One – “Surface” Analysis
- Deeper Analysis to Follow (only if good deal)



Know What Your Investors Want

- Property Type
- Area
- Condition
- Return / Discount
- Investment Amount



QUICK Surface Analysis Only

Your NAME: <input type="text"/>		Your PHONE: <input type="text"/>	
EZQual Form for Multi-Family Properties			
PROJECT NAME: <input type="text"/>			
PROJECT ADDRESS: <input type="text"/>			
Asking Price: <input type="text"/>	# Units: <input type="text"/>	Cost	<input type="text"/>
Offer Price: <input type="text"/>		Per	<input type="text"/>
CASH Required: <input type="text"/>	+	<input type="text"/>	\$ <input type="text"/> -
(Based on Offer Price)	Acquisition	Rehab	Cash Required
*Gross Income:			
<input type="text"/>	x	<input type="text"/>	x <input type="text"/> % = \$ <input type="text"/> -
Actual Rents	x	12	x Physical Occupancy % = Actual Gross Income
<input type="text"/>	x	<input type="text"/>	x <input type="text"/> % = \$ <input type="text"/> -
Proforma Rents	x	12	x Area Avg. Occupancy % = Gross Income
NOI:			
Less	<input type="text"/>	Expense Factor (estimate) from Gross Income	\$ <input type="text"/> -
		Net Operating Income =	\$ <input type="text"/> -
N.O.I.			
NOI (Before Debt Service) / Asking Price = Cap Rate			
If B: Cap Rate > 9%	Type:	<input type="text"/>	<input type="text"/>
If C: Cap Rate > 10%		Property	Area
CAP Rate			
<Less Debt Service (new or existing)>			\$ <input type="text"/> -
<Less Pref Payments>			\$ <input type="text"/> -
Cash Flow			\$ <input type="text"/> -
SNIFF TEST 1: Cap Rates vs. Surrounding Area	Higher	<input type="checkbox"/>	Lower <input type="checkbox"/>
SNIFF TEST 2: Financing (will Seller carry?)	All Cash	<input type="checkbox"/>	Terms <input type="checkbox"/>
<i>If Offer Price differs from Asking Price by 20% or more, give reason why seller would accept offer:</i>			
<input type="text"/>			
<i>E.g. (1) Spoke to seller - Bank agrees to a short sale, (2) Seller needs cash fast and will accept low offer all cash.</i>			
Why are they selling? <input type="text"/>			
What makes this a good deal? <input type="text"/>			
Proposed exit strategy: <input type="text"/>			
<small>*If not completely occupied, take Avg. Occupancy for Area. Also use Area Rental Rates.</small>			
<small>*Proforma = Raising Occupancy vs. Raising Rents</small>			



The Basics



Property Income
& Expenses



Cash Flow
& Sniff Test



Why This is A Good
Deal

The Basics...

Your NAME: <input type="text"/>		Your PHONE: <input type="text"/>	
EZQual Form for Multi-Family Properties			
PROJECT NAME: <input type="text"/>			
PROJECT ADDRESS: <input type="text"/>			
Asking Price: <input type="text"/>	# Units: <input type="text"/>	Cost	<input type="text"/>
Offer Price: <input type="text"/>		Per	<input type="text"/>
CASH Required: <input type="text"/>	+	<input type="text"/>	\$ <input type="text"/> -
(Based on Offer Price)	Acquisition	Rehab	Cash Required

- What goes in the Cash Required field?
- What if there is a current lien on the property?
- How Do I estimate the Rehab Costs?

Property Income & Expenses

*Gross Income:							
<input type="text"/>	x	<input type="text" value="12"/>	x	<input type="text" value="0.00"/>	%	= <input type="text" value="\$ -"/>	
Actual Rents	x	12	x	Physical Occupancy %	=	Actual Gross Income	
<input type="text"/>	x	<input type="text" value="12"/>	x	<input type="text" value="0.00"/>	%	= <input type="text" value="\$ -"/>	
Proforma Rents	x	12	x	Area Avg. Occupancy %	=	Gross Income	
NOI:							
Less	<input type="text" value="50%"/>	Expense Factor (estimate) from Gross Income				=	<input type="text" value="\$ -"/>
		Net Operating Income				=	<input type="text" value="\$ -"/>
						N.O.I.	

- **Pro-forma Rents** – Use www.RentoMeter.com
(Be Sure and Check Radius)
- **Area Occupancy** – Use Marcus & Millichap's Local Apartment Reports (or CCIM)
- **NOI** – use 50% AVERAGE (will vary according to who pays utilities)

Cash Flow & Sniff Test...

NOI (Before Debt Service) / Asking Price = Cap Rate

If B; Cap Rate > 9%

If C; Cap Rate > 10%

Type:

--	--

Property Area

--

CAP Rate

<Less Debt Service (new or existing)>

<Less Pref Payments>

Cash Flow

\$		-
\$		-
\$		-

SNIFF TEST 1: Cap Rates vs. Surrounding Area

Higher

Lower

SNIFF TEST 2: Financing (will Seller carry?)

All Cash

Terms

<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>

- **Cap Rates:** Compare to the Surrounding Area
- **Debt Service:** Acquisition loans from banks are becoming extremely scarce.
- **Debt Service:** Plan on transactional or private funding or...have the seller Wrap the note
- **Pref Payments:** Preferred % payment that comes off the top (before splits)

Why This Is a Good Deal

If Offer Price differs from Asking Price by 20% or more, give reason why seller would accept offer:

E.g.: (1) Spoke to seller - Bank agrees to a short sale; (2) Seller needs cash fast and will accept low offer all cash.

Why are they selling?

What makes this a good deal?

Proposed exit strategy:

*If not completely occupied, take Avg. Occupancy for Area; Also use Area Rental Rates.

*Proforma = Raising Occupancy vs. Raising Rents

- **Why Selling?** (determines seller's motivation and buyer's creativity)
- **Good Deal?** (Upside, Cap Rates, Low Occupancy, Location, Management)
- **Exit Strategy?** (This is a "working" form – you're not locked into one)

RULE OF THUMB CHEAT SHEET

Expenses	Projected Annual	Actual Annual	Guideline for Projections
Taxes	\$ 189,000.00	\$ 195,996.00	(Purchase price) X (Millage Rate) = Taxes
Insurance	\$ 117,000.00	\$ 140,400.00	\$250 Per door except in Florida
Repairs & Maintenance	\$ 140,400.00	\$ 112,452.00	\$300 to \$600 per door
General/Administrative	\$ 46,800.00	\$ 18,212.00	\$100 to \$250 per door (office supplies / machines / etc)
Management	\$ 91,619.00	\$ -	3% to 5% of total collected income
Marketing & Advertising	\$ 46,800.00	\$ 17,376.00	\$100 per door
Utilities	\$ 259,780.00	\$ 279,078.00	Annualize current values from this year and use the higher of the annualized number or the actuals from the prior year
Contract Services	\$ 93,600.00	\$ 47,876.00	\$200 to \$400 per door (trash pick-up / landscaping / etc.)
Payroll	\$ 421,200.00	\$ 160,428.00	\$700 to \$1,000 per door. \$900 per door is average.
Capital Expenditures	\$ 117,000.00	\$ -	\$250 per door (non-recurring expenses)

Rule of Thumb Guidelines

- Taxes

(Purchase price) X (Millage Rate) = Taxes

- Insurance

\$250 Per door except in Florida

- Repairs & Maintenance

\$300 to \$600 per door



Rule of Thumb Guidelines

- **General/Administrative**

\$100 to \$250 per door (office supplies / machines / etc)

- **Management**

3% to 5% of total collected income

- **Marketing/Advertising**

\$100 per door



Rule of Thumb Guidelines

- **Utilities**

Annualize current values from this year and use the higher of the annualized number or the actuals from the prior year

- **Contract Services**

\$200 to \$400 per door (trash pick-up / landscaping / etc.)



Rule of Thumb Guidelines

- **Payroll**

\$700 to \$1,000 per door. \$900 per door is average

- **Capital Expenditures**

\$250 per door (non-recurring expenses)



In-Depth Analysis

UNDERWRITING AND ANALYSIS FOR PROFIT				
Property Information		Date:		
Property Name	Compton Apartments			
Number of Units	468			
Purchase Price	\$ 10,250,000.00			
Price Per Unit	\$ 21,901.71			
Rentable Square Feet	359126			
Price Per Square Foot	\$ 28.54			
Income:	Projected	Per Unit	Actual	Per Unit
Gross Scheduled Rents @ 100%	\$3,393,288.00	\$ 7,250.62	\$ 3,147,032.00	\$ 6,724.43
Physical Vacancy	\$ 508,993.00	\$ 1,087.59	\$ 674,480.00	\$ 1,383.50
Concessions	\$ -			
Total Rental Income	\$2,884,295.00	\$ 6,163.02	\$ 2,472,552.00	\$ 5,340.93
Utility Reimbursement	\$ -	\$ -	\$ 19,298.00	\$ 41.24
Other Income	\$ 42,000.00	\$ 89.74	\$ 6,790.00	\$ 14.44
Effective Gross Income	\$2,926,295.00	\$ 6,252.77	\$ 2,498,140.00	\$ 5,395.60
Expenses:	Projected	Per Unit	Actual	Per Unit
Taxes	\$ 189,000.00	\$ 403.85	\$ 195,996.00	\$ 418.79
Insurance	\$ 117,000.00	\$ 250.00	\$ 140,400.00	\$ 300.00
Repairs & Maintenance	\$ 140,400.00	\$ 300.00	\$ 112,452.00	\$ 240.28
General/Administration	\$ 46,800.00	\$ 100.00	\$ 18,212.00	\$ 38.91
Management %	5%	\$ 144,214.75	\$ 308.15	\$ -
Marketing	\$ 46,800.00	\$ 100.00	\$ 17,376.00	\$ 37.13
Utilities	\$ 259,780.00	\$ 555.09	\$ 279,078.00	\$ 596.32
Contract Services	\$ 93,600.00	\$ 200.00	\$ 47,876.00	\$ 102.30
Payroll	\$ 421,200.00	\$ 900.00	\$ 160,428.00	\$ 342.79
Total Expenses	\$1,458,794.75	\$ 3,117.08	\$ 971,818.00	\$ 2,076.53
Net Operating Income	\$1,467,500.25		\$ 1,526,322.00	
Capital Expenditures	\$ 117,000.00		\$ -	
Cash Flow After Capital	\$1,350,500.25		\$ 1,526,322.00	
Primary Debt Service	\$ 726,427.00		\$ 726,427.00	
Secondary Debt Service	\$ 450,000.00		\$ 450,000.00	
Cash Flow Before Taxes	\$ 174,073.25		\$ 349,895.00	
Cash on Cash Return	5.80		11.66	
Debt Service Coverage Ratio	1.15		1.30	
Cap Rate	14.32		14.89	
Market Rent Upside				
Gross Potential (Market)				
Gross Scheduled (Actual)				
Loss to Lease (Upside)				
Mortgage Info				
Purchase Price \$ 10,250,000.00				
% Down 19.50				
Down Payment \$ 2,000,000.00				
Mortgage Amount \$ 8,250,000.00				
Interest Rate \$ 8.00				
Amort. Term \$ 360.00				
Annual Debt Service \$ 726,426.96				
Closing/Acquisition Costs				
Closing Costs (3%) \$ 307,500.00				
Loan Points				
Loan Point Cost \$ 195,000.00				
Closing Costs - Other \$ 497,500.00				
Total Closing Costs \$ 1,000,000.00				
Down Payment \$ 2,000,000.00				
Total Acquisition Costs \$ 3,000,000.00				
NOTES				

- Calculate Income
- Itemize Expenses
- Closing & Acquisition
- Integrates w/ EZ- Qual



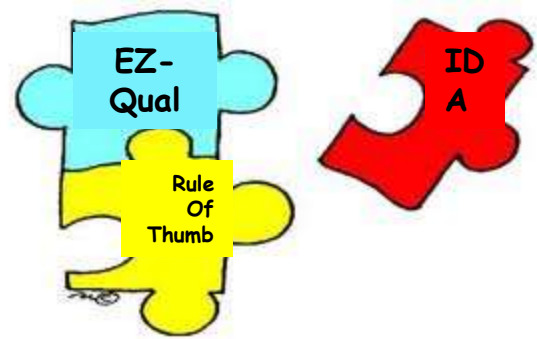
Possible Pitfalls

- Does Income Support Outgo?
- What is Return to Investors?
- What is the Upside?
- Are Values Current?
- Do You Have all the information that you need?



Putting it All Together

- ▶ Complete the EZ-Qual
- ▶ Watch Out for Liars!!
- ▶ Rule of Thumb Guidelines
- ▶ In-Depth Analysis



Next Up? Get the FACTS!



- Finding the Money!
- Structuring Deals For Maximum Benefits to All
- Working With Investors
- Exit Strategies
- Determining

Tomorrow's Topic...

- **How to Find GOOD Deals**
(not the junk that is splattered all over the Net)
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(and Decipher What it Means)
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