Lou Lollio

Residential Investment Property

- Single family
- Duplex fourplex sixplex,
- Up to about 60 units
- · More than 60 units
- · Garden apartments
- · Townhouse apartments
- · Highrise







9 Tips: Buying Small Apartments

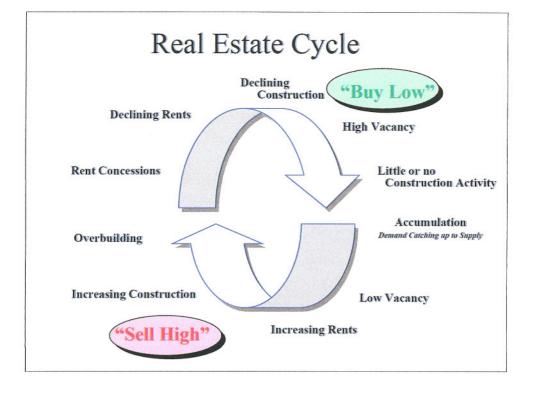
- 1. Compare Property Values and Rents
- 2. Be careful Tax laws may change
- 3. Specialize in something you Know
- 4. Know All the Costs going in!
- 5. Know where your tenants are coming from.
- 6. Investigate insurance coverage
- 7. Confirm Utility Costs
- 8. Consult Your Accountant
- 9. Inspect!

Hidden Market Sources

- For Rent signs
- For Rent ads
- CPAs
- Lenders, Mortgage Brokers
- Contractors
- Churches
- Attorneys

- · "Cloverleafing"
- · "Walkabout"
- · Parking Solutions
- 'Foreign' Ownership (O.R. search)
- · Real Estate Editor
- · Non-Profits

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Buy Low in Hot Markets

- · Look for the Cold Deals
 - "One man's Trash is Another's Treasure"
- · Look for Sellers with Big Equity
 - Monopoly Money
- · Be Flexible

Investments & Investor Behavior

- •Investment Characteristics
- ·Types of Risk
- •Investor Preferences
- Investor Objectives





We Need to Know 3 Things About Any Investment's Cash Flows

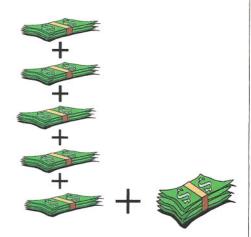
- The QUANTITY
- The QUALITY



The DURABILITY

TWO BENEFITS TO ANY INVESTMENT

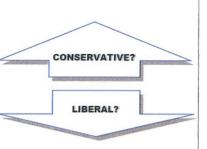
- Cash Flow due to Operations during each year of the holding period
- Cash Flow due to Sale at the Point of Disposition



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N.O.I. is a Critically Important Number

- · Gross Operating Income
 - Potential Rental Income
 - Less, Vacancy & Credit Losses
 - Plus Other income
- · Less, Operating Expense
- Usually for 1 Year



To Accurately Estimate NOI

- ·Analyze Existing Leases and the Market
- ·Analyze Existing and Projected Vacancies
- •Consider Possible Additional Sources of Income
- Analyze All Operating Expenses



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Gross Rent Multiplier

- GRM is calculated from market data, or supplied by the buyer/investor
- Based on First Year Potential Rental Income

Gross Rent Multiplier

· GRM Calculations

Investment Value = GRM
Forecast Year 1 PRI

GRM x Forecast Year 1 PRI = VALUE

GRM Example

 $PRI \times GRM = Price$

Assuming 10,000 s.f. Office, what is market rental rate?

Cash-on-Cash (C/C)

 A common investment measure showing the yield relationship between Cash Flow Before Taxes (CFBT) and Initial Investment

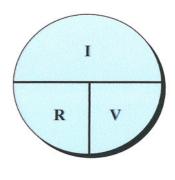
Cash-on-Cash Example

- 10,000 s.f. Office; NOI \$95,000
- \$870,000 Price
- 75% Loan, 30 years, 10%, monthly P&I
- What is the Loan Amount? \$652,500
- What is annual Debt Service? 68,714
- What is Equity Investment? 217,500
- What is Cash Flow Before Tax? 26,286
- What is Cash-on-Cash Return? 12.09%

Direct Capitalization

- Investors use Direct Capitalization to determine Investment Value
- Appraisers use Direct Capitalization to determine Market Value

IRV Formula for Direct Capitalization



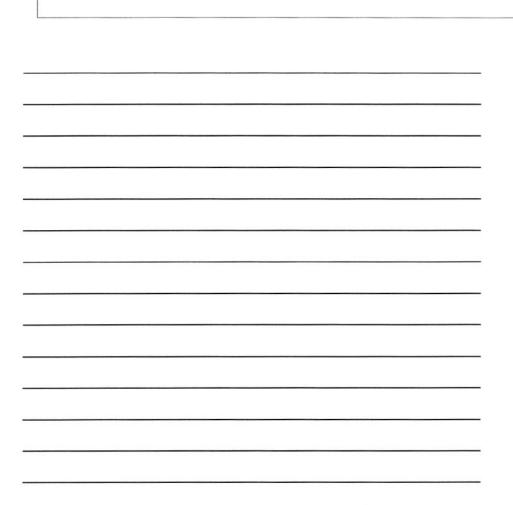
Rules of Thumb

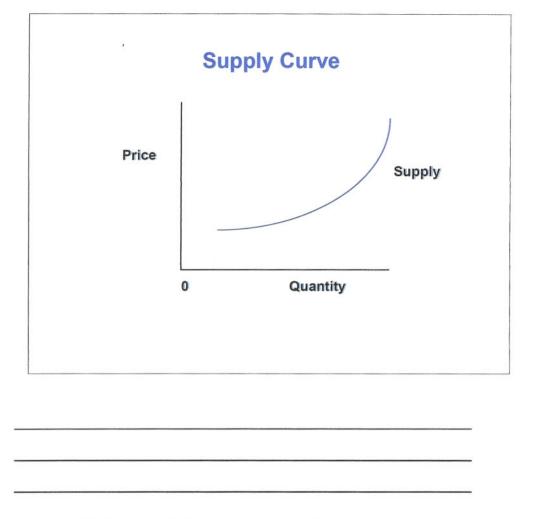
- · Mirror how an Investor Speaks and Thinks
- · Gross Rent Multiplier
- Cash on Cash (Before Tax)
- · Cap Rate
- Internal Rate of Return (IRR)

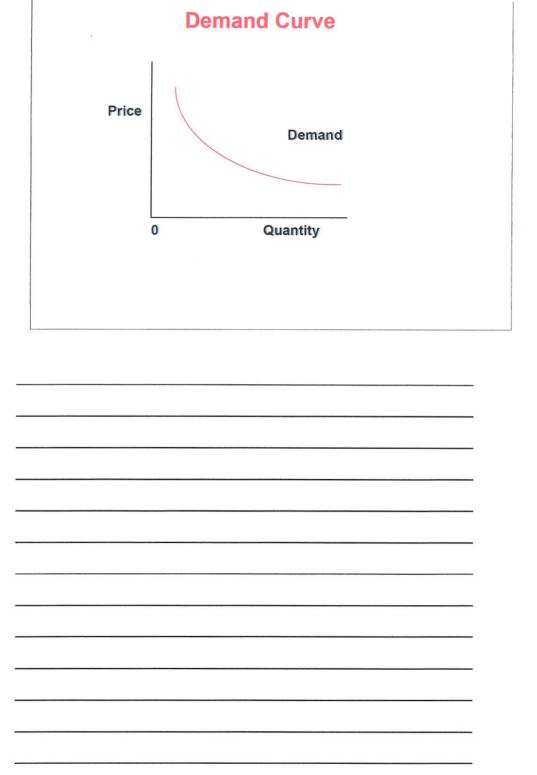
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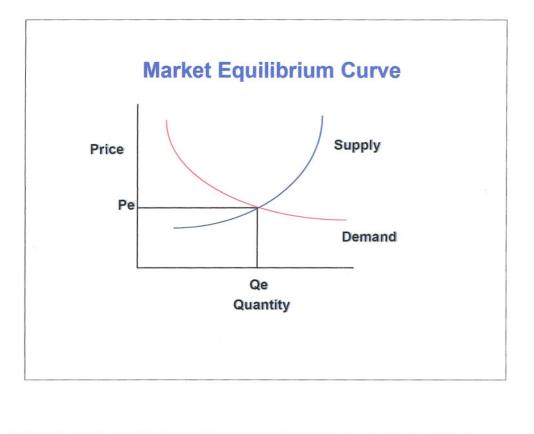
Some Cash Outlays are NOT "Operating" Expenses

- Debt Service (Interest & Principal
- · Reserves for Replacement
- · Cost Recovery (depreciation
- · Charitable Donations
- Income Taxes (but Real Estate Taxes ARE!)









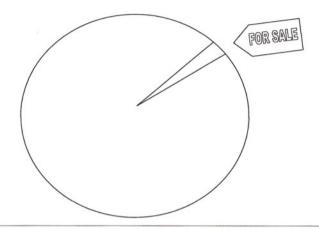
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HIDDEN MARKET

How to Find Good Buys When No-one Else Can!

"Orange County had 334,000 Parcels in 2003, including 235,000 Residential and 8,400 Commercial Parcels" Tax Assessor Bill Donegan, Orange County, Florida



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Residential Buzz Words

- Family
- · Household
- Tenure
- · Buy vs. rent threshold

