

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

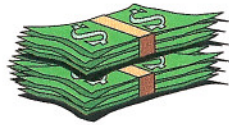
- For Rent signs
- For Rent ads
- CPAs
- Lenders, Mortgage Brokers
- Contractors
- Churches
- Attorneys
- “Cloverleafing”
- “Walkabout”
- Parking Solutions
- ‘Foreign’ Ownership (O.R. search)
- Real Estate Editor
- Non-Profits

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

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

- The QUANTITY
- The QUALITY
- The DURABILITY



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

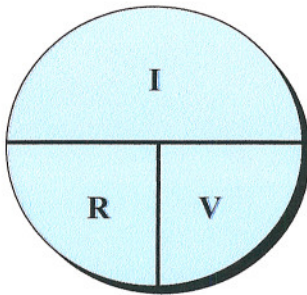
$$\frac{\text{Investment Value}}{\text{Forecast Year 1 PRI}} = \text{GRM}$$

$$\text{GRM} \times \text{Forecast Year 1 PRI} = \text{VALUE}$$

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

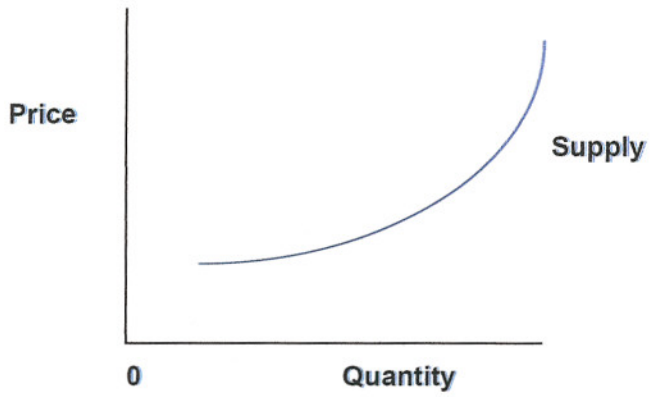
- Mirror how an Investor Speaks and Thinks
- Gross Rent Multiplier
- Cash on Cash (Before Tax)
- Cap Rate
- Internal Rate of Return (IRR)

Some Cash Outlays are
NOT “Operating” Expenses

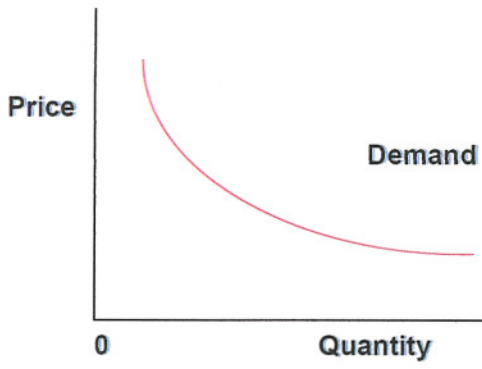
- Debt Service (Interest & Principal)
- Reserves for Replacement
- Cost Recovery (depreciation)
- Charitable Donations
- Income Taxes (but Real Estate Taxes ARE!)



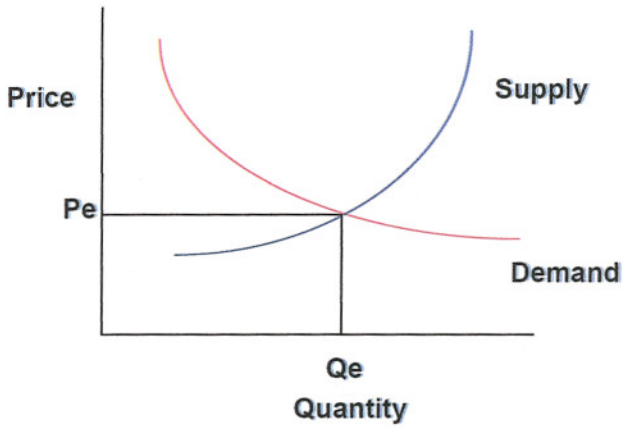
Supply Curve



Demand Curve



Market Equilibrium Curve



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

