

Find, Analyze & Buy

Single Family Home Properties @ a discount

Using Quantitative Techniques

&

The rules of a “Street Smart Investor”

www.AngelHomeProperties.com

Overview

- Analyze deals using simple financial projections.
 - Cash on cash ROI
 - Equity Rate of Return
- Use financial projections that you can achieve.
 - Relationship of quantitative numbers and being a “Street Smart” single family home property investor.

Most Important Aspects

- Financial Analysis (Quantitative Tools).
 - Cash on Cash ROI
 - Equity Rate of Return
- Tools for a Street Smart “single family home property” investor.
 - Comparative Market Analysis (CMA)
 - Repair budget
 - Home curb appeal and neighborhood analysis
 - Get to the property fast
 - Be a manager

Cash on Cash ROI

- It is the annual positive cash flow divided by your down payment plus closing costs
 - $\$4,000 / \$20,000 = 20\%$
- What ROI do you need?
 - How is the market today?
 - Macro economic issues.
 - Micro-geographic area.
 - What is your knowledge, time and experience?
 - Where else can you invest with the same effort and lower risk?
- Why invest in real estate?
 - It is the best way to secure a monthly positive cash flow.
 - When used in combination with a good execution strategy, the investor should received a Real ROI based on their projection.
- Details about ROI
 - The cash on cash ROI formula will help you determine **areas of a good Property Owner**

Cash on Cash ROI

Assumptions 1

Current Market Value	\$92,000
Purchase Price	\$64,400
Total Loan Amount	\$45,080
Loan Interest Rate %	6.85%
Down Payment 30%	\$19,320
Closing Costs (est. 3%)	\$1,932
Total Cost	\$66,332
Initial Investment	\$21,252

Cash on Cash ROI

Assumptions 2

Operating Expenses Parameters & Assumptions

Gross Monthly rent	\$1,050
Vacancy allowance %	5.00%
Property Tax	\$2,187
Property Insurance	\$400
HOA yearly	-
Maintenance %	5.00%
Property Management (%)	8.00%
Investor's Tax Bracket	28%

Gross Rental Income	12,600
Vacancy Allowance	630
Total Operating Income	\$11,970
Property Taxes	2,187
Insurance	400
Property Management	1,008
HOA	0
Maintenance	630
Total Operating Expenses	\$4,225
Net Operating Income (NOI)	\$7,745
Loan Payments	4,817
CASH FLOW (Before Tax)	\$2,928
Depreciation	\$2,683
Loan Interest	\$3,033
Taxable Income (TI) <i>(NOI-Depreciation-Interest)</i>	\$2,029
Taxes <i>(Your Tax Bracket)</i>	\$568
CASH FLOW (After Tax)	\$2,360

First Year Indicators

Cash flow (Before Tax)	\$2,928
Initial Investment	\$21,252
Cash on Cash (Before Tax)	13.78%

Cash flow (After Tax)	\$2,360
Initial Investment	\$21,252
Cash on Cash (After Tax)	11.10%

Equity Rate of Return 1st Year

Cash flow (Before Tax)	\$2,928	ADD
Principal Reduction (Savings)	\$1,784	ADD
Tax Benefits	-\$568	ADD
Forced Appreciation	\$27,600	ADD
Over time Appreciation	\$2,760	ADD
Initial Investment	\$21,252	MINUS
Equity Rate of Return**	162%	BENEFITS / Investment

Tools for a Street Smart Single Family Home Property Investor

- Comparative Market Analysis (CMA)
- Repair Budget
- Home curb appeal and neighborhood analysis.
- Be Faster than you competitors;
 - Get to the property first
 - Analyze fast
 - Make offer fast
- Be a Manager - Execution
 - Use experience, knowledge, technology, good relationships, ethics and follow and lead.
 - Use your time wisely.

Point of Views

Everybody Needs to Agree

<ul style="list-style-type: none">• Investor• Lender• Appraiser<ul style="list-style-type: none">– (lender and buyer)• Tenant and/or buyer	<p style="text-align: center;"><i>Appraiser Talk</i></p> <ul style="list-style-type: none">• <i>Comparative Market Analysis (CMA)</i>• <i>Income approach</i>• <i>Cost approach</i>• <i>Summary and Opinion of Value</i>
	<ul style="list-style-type: none">• Comparative Market Analysis (CMA)• Or Broker Price Opinion (BPO).• Repair Budget.• Home Curb Appeal and Neighborhood analysis.

Down Payment and Financing Terms

- Highest amount of down payment at the beginning (20%, 30%, 40% down, All cash purchase): It all depends in your short term position of liquidity and available financing.
- Financing terms: The shorter the time, higher payments to principal and less money lost to financing. Key:
 - pay attention to your required ROI.
 - 10 year financing should last this recession and see the start of a new Up Cycle.

Buying in a Recessionary Market

- Use Cash on Cash to secure investments.
- Consider Equity Rate of Return as desirable but, not necessary.
- This recession maybe long and hard... who wants to wait for equity? How long would you have to wait?
- Lease single family home properties as a hedge against recession.

Improving Your Odds

- Buy long term;
 - Real estate is naturally illiquid, do not force it to become liquid.
 - Have a flexible exit strategy.
- Buy newer properties and/or better neighborhoods;
 - **Deceleration** of real Depreciation
 - *(not accounting but physical depreciation)*
- Increase your equity quickly;
 - 10 to 15 year notes; the faster the better.