
Evaluating Residential Investment Properties

Brian Anderson • 09.07.21

Overview

What Are Investors Looking For?

- Begin with the end in mind

Cash Flow, Cap Rates, and NOI Oh My!

- Which one do you need and why

Where Are You Looking?

- Buildings don't pay rent, people do

Good Buy or Not?

- Build and trust your Buy Box

Run the Numbers

- Example dry run

What Are Investors Looking For?

Start Here

- Begin with the end in mind-work backwards
- Know their goals-they aren't yours
- They aren't going to live there

Keep Focus on the Goal

- Net Cash Flow & NOI
 - Stable rents
 - Value add potential
 - Appreciation is icing on the cake-don't factor in
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Net Cash Flow and NOI

Net Operating Income

- Net rental income-expenses=NOI
- Focus on both sides of the equation
- Before debt, taxes, and depreciation

Net Cash Flow

- $\text{NOI} - \text{mortgage} = \text{Net Cash Flow}$
 - Use NOI instead if there is no mortgage
 - Before taxes and depreciation
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Where Are You Looking?

Keep in Mind

- “Buildings don’t pay rent, people do”
- Identify the area first, before you run numbers
- Know the area well-building permits, population, etc

Start Here

- Where are the big stores, schools, and businesses going?
 - Market to the that area and be patient
 - Tell everyone
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Good Buy or Not?

Keep in Mind

- “You make money when you buy, not when you sell”
- Leverage subject matter experts on your team
- Have multiple outs

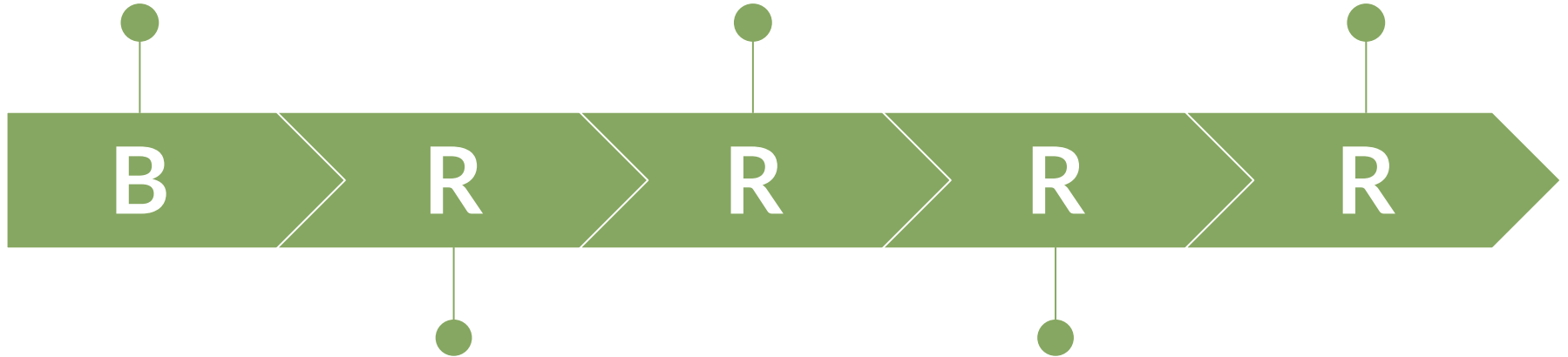
Start Here

- Define your Buy Box
 - Run the numbers, take the emotion out of it
 - Financing ready
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BUY-Purchase the property correctly

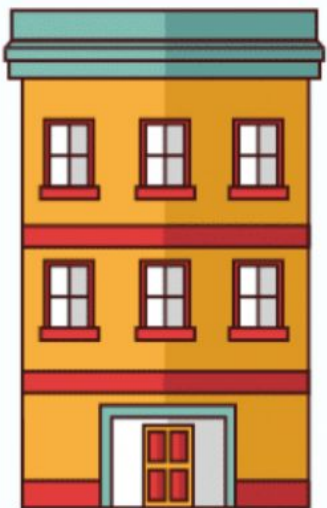
RENT-Place a well qualified tenant

REPEAT-Take the money you pulled out and do it again



REHAB-Complete the value add repairs

REFINANCE-Refi the property at the new value and pull out your cash



PROPERTY #1

- Rental income: \$100,000
- Property management fees: \$20,000
- Property taxes: \$15,000
- Repairs: \$20,000
- Insurance: \$10,000



PROPERTY #2

- Rental income: \$50,000
- Property management fees: \$1,000
- Property taxes: \$1,000
- Repairs: \$1,000
- Insurance: \$2,000

1. Calculate the NOI
2. Break it down monthly based on the numbers you have
3. What you expected?

Which one would you chose and why?

Example Evaluation Numbers

Large House

- \$8333.34/mo gross income
- \$1667.67/mo PM
- \$1250/mo prop tax
- \$1667.67/mo repairs
- \$833.34/mo insurance
- **\$2914.66/mo NOI**

Small House

- \$4166.67/mo gross income
 - \$83.33/mo PM
 - \$83.33/mo prop tax
 - \$83.33/mo repairs
 - \$166.67/mo insurance
 - **\$3750.01/mo NOI**
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Investment Property Analysis

Run through the numbers

- Pre gather information
 - Give yourself a buffer
 - Consider multiple outs
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Review

What Are Investors Looking For?

- Begin with the end in mind

Net Cash Flow and NOI

- Keep it simple and consistent

Where Are You Looking?

- Buildings don't pay rent, people do

Good Buy or Not?

- Build and trust your Buy Box

Run the Numbers

- Practice, practice, practice

Thank you!

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