

Investment Real Estate Analysis

Understanding Income:

Quality and Consistency

Short term or long term,

Fixed lease or month to month

Understanding Expenses

Know your properties chart of accounts (APOD)

Correctly accounting for expenses is #1 Issue

Establish an Investment Properties Net Operating Income (N.O.I.) “The most Important \$ figure for any Investment Property”

Valuing Investment Properties

Financial Valuations:

Gross Rent Multiplier SP/SGI

Capitalization Rate NOI/SP

Physical Valuations:

Sale Price per Square Foot $SP/Sq.Ft.$

Sale Price per Unit $SP/\# \text{ of Units}$

Sale Price per bed, door, etc...

Valuing Investments

Fixed and set term investments are evaluated by their rate of return using Time value of Money techniques i.e. **Compounding and Discounting**

Investments with varied cash flows are also evaluated using Time Value of Money techniques, yet we are forced to use an **Internal Rate of Return (IRR)** Analysis as the projections of performance are tied to a specific investment

Comparing Alternative Investments

Financial Management Rate of Return: A Tool to help you compare investments in an “Apples to Apples” model i.e.

Equal initial investments

Equal Investment duration

Prepare for Negative Cash Flows

Re-Invest Positive Cash Flows

Focus attention of Investor on the Real Goal: **Accumulated Wealth** How much Wealth do you wish to Accumulate

FMRR Components

Cash Flows After Tax (CFAT)

Safe Rate: That rate, such as a guaranteed rate from a bank, that you can be sure you will not lose principal, yet you will earn a lower return. This rate is used for small sums of available cash and/or any projected negative cash flows which must be funded in advance.

Reinvestment Rate: That rate available to larger sums of capital wherein the investors options are much wider. This rate is used when positive cash flows have accumulated a minimum balance and there are no negative cash flows anticipated in the future.

Wealth Maximization: Considers an Investors entire portfolio wherein the final result isn't about a rate of return. Its about how much wealth have you accumulated over a period of time.