

HIRC

The High-Risers Club

Coach Jeff Wright

Welcome

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Does anyone have anything great to share personally or professionally?



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Podcast

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- **Ask Jeff : Similarities and Differences Between Commercial and Residential Real Estate**
- **The Balance Wheel of Life with Ed Schultek**

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Greatness is Within



You Can Do This

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Valuation

Measuring Investment Value ($I \div R = V$)

- **I** – NOI – Net Operating Income
- **R** – Capitalization (Cap) Rate
- **V** – Market Value

*If you have any two of these three value, you can solve for the third.

NET OPERATING INCOME (NOI) CALCULATION SHEET

INCOME	
Residential Income	
Commercial Income	
Rental Income	\$
Expense Reimbursement Revenue	
RE TAX	
Insurance	
CAM	
Other Income	
Storage	
Vending	
Laundry	
Parking	
Other	
Total Income	\$
Vacancy / Credit Loss	5%
Effective Gross Income	

OPERATING EXPENSES	
Real Estate Taxes	
Insurance	
Electric	
Water & Sewer	
Gas	
Heat	
Trash / Refuse	
Repairs & Maintenance	\$500
Landscaping	1%
Management	5%
Elevator	
Advertising	
Supplies	
Accounting	
Legal	
Other (Specify)	
Other (Specify)	
Reserves	
Total Operating Expenses	\$
NET OPERATING INCOME \$	\$
Capitalization Rate	%
Income Based Valuation	\$

FORMULAS TO REMEMBER

Effective Gross Income
 - Total Operating Expenses
 = **Net Operating Income**

Net Operating Income
 ÷ Capitalization (Cap) Rate
 = **Income Based Valuation**

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Valuation

Question

What is the NOI of a 6-unit, multi-family property that has an INCOME of \$60,000, a VACANCY FACTOR of 5%, and TOTAL EXPENSES of \$24,000?

	\$60,000	Income
<i>Less</i>	\$ 3,000	Vacancy Factor ($\$60,000 \times 5\%$)
<i>Less</i>	\$24,000	Expenses
<i>Equals</i>	\$33,000	Net Operating Income

Valuation

Question (Cont.)

With an NOI of \$33,000, what is your client willing to pay for this property if they want a minimum CAP RATE of 7%?

$$\$33,000 \div 7\% = \$471,429 \text{ (Rounded)}$$

Confidence Building Exercises

A commercial property generates an annual rental income of \$250,000 and an additional \$25,000 in other income. Assume there are 25 units in the property and the property has a vacancy and credit loss percentage of 5%.

- The effective gross income is subject to the following expenses:
- Real estate taxes of \$20,000
- Insurance of \$8,000
- Utilities of \$4,000 per unit
- Repairs and maintenance of \$1,000 per unit
- Management fee of 5% of the effective gross income
- Landscaping of 1% of the effective gross income

The property also has a reserve of \$25,000 per year.

What is the net operating income (NOI) of the property?

Confidence Building Exercises

Annual Rental Income:	\$250,000.00	
Other Income:	\$ 25,000.00	
Vacancy & Credit Loss:	\$ (13,750.00)	$(\$250,000 + \$25,000) \times 0.05$
EGI =	\$261,250.00	
Real Estate Taxes:	(\$ 20,000.00)	
Insurance:	(\$ 8,000.00)	
Utilities:	(\$100,000.00)	$(\$4,000 \times \text{Number of Units})$
Repairs & Maintenance:	(\$ 25,000.00)	$(\$1,000 \times \text{Number of Units})$
Management Fee:	(\$ 13,062.50)	$(0.05 \times \$261,250)$
Landscaping:	(\$ 2,612.50)	$(0.01 \times \$261,250)$
Reserves:	(\$ 25,000.00)	
Operating Expenses =	(\$193,675.00)	
EGI:	\$261,250.00	
Operating Expenses	(\$193,675.00)	
NOI =	\$ 67,575.00	

Valuation

INCOME & EXPENSE STATEMENT

INCOME	SF	PSF
Rental Income		
Tenant A	7,566	\$15.39
Tenant B	350	\$14.40
Tenant	1,580	\$11.39
Tenant D – Seller	7,016	
\$12.50Buyer/Owner User	8,000	\$13.5

Valuation

INCOME & EXPENSE STATEMENT

INCOME	SF	PSF
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Tenant A	7,566	\$15.39
Tenant B	350	\$14.40
Tenant	1,580	\$11.39
Tenant D – Seller	7,016	
\$12.50 Buyer/Owner User	8,000	\$13.50

INCOME & EXPENSE STATEMENT

INCOME	SF	PSF	Annual	Monthly
Rental Income				
Tenant A	7,566	\$15.39	\$116,441	\$9,703
Tenant B	350	\$14.40	\$5,040	\$420
Tenant	1,580	\$11.39	\$18,000	\$1,500
Tenant D – Seller	7,016	\$12.50	\$87,700	\$7,308
Buyer/Owner User	8,000	\$13.50	\$108,000	\$9,000
Total Rental Income	24,512	\$13.67	\$335,181	\$27,932

Valuation

Reimbursements	Annual
Real Estate Taxes	
Tenant A	\$22,343
Seller - Based on New Lease	\$14,085
Total Reimbursement	\$36,428
Total Income	\$371,609

Valuation

Reimbursements	Annual
Real Estate Taxes	
Tenant A	\$22,343
Seller - Based on New Lease	\$14,085
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Reimbursements	SF	PSF	Annual	Monthly
Real Estate Taxes				
Tenant A			\$22,343	
Seller - Based on New Lease			\$14,085	
Total Reimbursement			\$36,428	
Total Income			\$371,609	
Vacancy		5%	(\$18,580)	
Effective Gross Income			\$353,029	

Confidence Building Exercises

Operating Expenses

- The effective gross income is subject to the following expenses:
- Real estate taxes of \$56,363
- Insurance of \$4,936
- Electric \$19,139
- Gas \$6,912
- Water \$982
- Sewer Tax N/A
- Maintenance \$6,124
- Supplies - Bldg. \$5,278
- Supplies – Janitorial \$1,405
- Fire Contract \$228
- Condo Common Charges \$21,756
- Management \$14,121

Valuation

Operating Expenses

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- Condo Common Charges \$21,756
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OPERATING EXPENSES	SF	PSF	Annual	Monthly
Real Estate Taxes			56,363	
Insurance			4,936	
Electric			19,139	
Gas			6,912	
Water			982	
Sewer Tax			N/A	
Maintenance			6,124	
Supplies - Building			5,278	
Supplies – Janitorial			1,405	
Fire Contract			228	
Condo Common Charges			21,756	
Management		4%	14,121	
Total Operating Expenses			\$137,244	
NET OPERATING INCOME			\$215,784	

Valuation

INVESTOR VALUATION

Buyer's Target Cap Rate	7.75%	7.50%	7.25%
Indicated Value - Rounded	\$2,785,000	\$2,880,000	\$2,980,000

Valuation

FINANCING ANALYSIS

FINANCING ANALYSIS

Purchase Price - Negotiation	\$2,785,000	\$2,880,000	\$2,980,000
Indicated CAP Rate	7.75%	7.50%	7.25%
Loan-to-Value (LTV)	75%	75%	75%
Loan Amount	\$2,088,750	\$2,160,000	\$2,235,000
Equity Investment	\$696,250	\$720,000	\$745,000
Rate - Estimate	6.00%	6.00%	6.00%
Amortization - Estimate	25	25	25
Annual Debt Service	\$161,494	\$167,003	\$172,802
Net Operating Income	\$215,784	\$215,784	\$215,784
Annual Payment	\$161,494	\$167,003	\$1762,802
Net Cash Flow	\$54,290	\$48,781	\$42,982

Valuation

FINANCING ANALYSIS

Debt Service Coverage Ratio – Property	1.34x.....	1.29x.....	1.25x
Lender Min. Requirement – (Varies by Lender)	1.25x	1.25x	1.25x
Cash on Cash Return	7.80%.....	6.78%.....	5.77%x

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Next Session

Buyer Sequence: Due Diligence

**Tuesday, November 14, 2023
@ Noon Eastern**

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