

Cash Flow and Debt Coverage Scenarios (to determine if financially viable)

	<u>Property A</u>	<u>Property B</u>	<u>Property C</u>
Purchase Price:	\$800,000	\$1,100,000	\$1,300,000
Terms: 5%, 20 year amortization			
Downpayment: 25%	-\$200,000	-\$275,000	-\$325,000
Mortgage:	\$600,000	\$825,000	\$975,000
Gross Operating Income	\$133,779	\$189,983	\$265,306
Less Operating Expenses	-\$73,579	-\$96,891	-\$127,347
Equals Net Operating Income (NOI)	\$60,201	\$93,092	\$137,959
Less Annual Debt Service	\$47,520	\$65,340	\$77,220
Equals Cash Flow (before tax)	\$12,681	\$27,752	\$60,739
<i>Capitalization Rate (Cap Rate: NOI÷purchase); we historically see 8-10%</i>	7.5%	8.5%	10.6% (for a buyer, the higher the better)
<i>Cash on Cash (cash flow÷cash invested)</i>	6.3%	10.1%	18.7% (for a buyer, the higher the better)
<i>Gross Revenue Multiplier (GRM: purchase cost÷gross revenue); we see 4.5-5</i>	5.98	5.79	4.90 (for a buyer, the higher the better)
<i>Debt Coverage Ratio (DCR): NOI÷purchase cost; bank requires min. of +/-1.25-1.3</i>	1.27	1.42	1.79 (for a buyer, the higher the better)

Cap Rate (to determine value)

If we use the same information from above with revenue and expenses to come up with an approximate value when listing property:

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Less Operating Expenses	-\$73,579	-\$96,891	-\$127,347
Equals Net Operating Income (NOI)	\$60,201	\$93,092	\$137,959
using an average cap rate of 9%, NOI÷cap rate = price	\$668,896	\$1,034,350	\$1,532,880

Cap Rate

Using two properties with the same revenue but different expenses:

	<u>Property A</u>	<u>Property B</u>	
Gross Operating Income	\$275,000	\$275,000	
Less Operating Expenses	-\$159,500	-\$137,500	
Equals Net Operating Income (NOI)	\$115,500	\$137,500	(% relative to revenue)
	42%	50%	
using an average cap rate of 9%, NOI÷cap rate = price	\$1,283,333	\$1,527,778	
So we see that the expense savings of 8% could potentially translate to	\$244,444	in value	