



Multi Family Financials

Pat Poling, Founder & CEO



M A R A P O L I N G

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Multi Family Financials

- Terminology
- Math
- Pro-Forma
- Ratios

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<u>Operating Revenues</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Gross Scheduled Income	\$3,172,818	\$3,394,915	\$3,598,610	\$3,742,554	\$3,854,831
<u>Vacancy</u>	<u>317,282</u>	<u>305,542</u>	<u>287,889</u>	<u>299,404</u>	<u>308,386</u>
Net Rental Income	\$2,855,536	\$3,089,373	\$3,310,721	\$3,443,150	\$3,546,444
<u>Other Income</u>	<u>282,025</u>	<u>287,666</u>	<u>293,419</u>	<u>299,287</u>	<u>305,273</u>
Gross Income	\$3,137,561	\$3,377,038	\$3,604,140	\$3,742,437	\$3,851,717
<u>Operating Expenses</u>					
Repairs & Maintenance	177,000	180,540	184,151	187,834	191,590
Property Management Fees	94,127	101,311	108,124	112,273	115,552
Taxes	505,309	515,415	525,723	536,237	546,962
Insurance	88,500	90,270	92,075	93,917	95,795
Salaries & Wages	389,400	397,188	405,132	413,234	421,499
Utilities/Cable/Internet/trash	312,706	318,960	325,339	331,846	338,483
Grounds	44,250	45,135	46,038	46,958	47,898
Administrative	53,100	54,162	55,245	56,350	57,477
<u>Promotional/Advertising</u>	<u>44,250</u>	<u>45,135</u>	<u>46,038</u>	<u>46,958</u>	<u>47,898</u>
Total Operating Expenses	\$1,708,641	\$1,748,116	\$1,787,865	\$1,825,609	\$1,863,154
Net Operating Income	\$1,428,920	\$1,628,922	\$1,816,275	\$1,916,828	\$1,988,563
Asset Management Fees	233,640	233,640	233,640	233,640	233,640
Capex Reserves	123,900	123,900	123,900	123,900	123,900
<u>Debt Service</u>	<u>748,710</u>	<u>748,710</u>	<u>991,428</u>	<u>991,428</u>	<u>991,428</u>
Cash Return	\$322,670	\$522,672	\$467,307	\$567,860	\$639,595
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Capex Reserves	123,900	123,900	123,900	123,900	123,900
Interest on Loan	748,710	748,710	743,413	731,501	719,018
<u>Depreciation</u>	<u>1,034,967</u>	<u>1,034,967</u>	<u>1,034,967</u>	<u>1,034,967</u>	<u>1,034,967</u>
Net Income	\$(712,298)	\$(612,295)	\$(319,645)	\$(207,181)	\$(122,962)
Cumulative Net Income	\$(712,298)	\$(1,224,593)	\$(1,544,238)	\$(1,751,419)	\$(1,874,381)
Principal Paydown (%)	0.00%	0.00%	2.91%	3.05%	3.20%
Debt Service Coverage Ratio (DSCR)	1.74	2.01	1.71	1.81	1.88
Breakeven Occupancy	77%	74%	77%	75%	74%

5 Year Example Pro-Forma

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Operating Revenue

- Gross Scheduled Income
 - Total rental revenue for the entire property
 - Average rent per unit (from the rent roll) x the total number of units x 12
 - Presumes 100% occupancy
- Vacancy i.e. Effective Vacancy
 - Total cost, in dollars, of lost revenue from vacant units, rent concessions, and bad debt
 - Average rent per unit x number of vacant units (from the rent roll) x 12, plus
 - Annual rent concessions (T-12), plus
 - Annual bad debt (T-12)
- Net Rental Income
 - Total revenue from rents
 - Does not include other income
 - Gross scheduled income less effective vacancy
- Other Income
 - Revenue from other sources including parking fees, pet fees, utility reimbursements, etc.
 - Calculated from the Rent Roll
- Gross Income
 - The revenue from all sources, accounting for effective vacancy
 - Net rental income plus other income

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Operating Expense

- All of the line item expenses for the property
 - Repairs & Maintenance
 - Property Management Fee
 - Taxes
 - Insurance
 - Salaries & Wages
 - Utilities/Cable/Internet/Trash
 - Grounds
 - Administrative
 - Promotional/Advertising
- Except
 - Asset Management Fees
 - Capital Expenditure Reserves (CAPEX)
 - Debt Service (Mortgage payment)

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Net Operating Income

- The operating profit for the property before management fees, reserves and debt service
- Gross income less operating expenses
- Determines the value of the property (NOI/Cap Rate = Estimated Value)
- Year 1 NOI \$1,428,920 / 7.0 cap rate = \$20,413,143
- Year 5 NOI \$1,988,563 / 7.0 cap rate = \$28,408,043
- Cap Rate is the Un-Leveraged rate of return for the property

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Value Drivers

- Average Rent
- Vacancy
- Other Income
- Operating Expenses

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Cash Return

- The actual cash generated by the property
- Net Operating Income less cash outflows
- Asset Management Fees
 - Not to be confused with Property Management
 - Asset Management fees are paid to the sponsor for management of the project
- Capex Reserves or Capital Expenditure Reserves
 - Cash reserved for the turn of each unit at the end of its annual lease term
 - Lender requirement
- Debt Service
 - The note or mortgage payment, including principle and interest
 - Note that only the interest expense is deductible for taxes (see Net Income)

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Repairs & Maintenance	177,000	180,540	184,151	187,834	191,590
Property Management Fees	94,127	101,311	108,124	112,273	115,552
Taxes	505,309	515,415	525,723	536,237	546,962
Insurance	88,500	90,270	92,075	93,917	95,795
Salaries & Wages	389,400	397,188	405,132	413,234	421,499
Utilities/Cable/Internet/trash	312,706	318,960	325,339	331,846	338,483
Grounds	44,250	45,135	46,038	46,958	47,898
Administrative	53,100	54,162	55,245	56,350	57,477
<u>Promotional/Advertising</u>	<u>44,250</u>	<u>45,135</u>	<u>46,038</u>	<u>46,958</u>	<u>47,898</u>
Total Operating Expenses	\$1,708,641	\$1,748,116	\$1,787,865	\$1,825,609	\$1,863,154
Net Operating Income	\$1,428,920	\$1,628,922	\$1,816,275	\$1,916,828	\$1,988,563
Asset Management Fees	233,640	233,640	233,640	233,640	233,640
Capex Reserves	123,900	123,900	123,900	123,900	123,900
<u>Debt Service</u>	<u>748,710</u>	<u>748,710</u>	<u>991,428</u>	<u>991,428</u>	<u>991,428</u>
Cash Return	\$322,670	\$522,672	\$467,307	\$567,860	\$639,595
Asset Management Fees	233,640	233,640	233,640	233,640	233,640
Capex Reserves	123,900	123,900	123,900	123,900	123,900
Interest on Loan	748,710	748,710	743,413	731,501	719,018
<u>Depreciation</u>	<u>1,034,967</u>	<u>1,034,967</u>	<u>1,034,967</u>	<u>1,034,967</u>	<u>1,034,967</u>
Net Income	\$(712,298)	\$(612,295)	\$(319,645)	\$(207,181)	\$(122,962)
Cumulative Net Income	\$(712,298)	\$(1,224,593)	\$(1,544,238)	\$(1,751,419)	\$(1,874,381)
Principal Paydown (%)	0.00%	0.00%	2.91%	3.05%	3.20%
Debt Service Coverage Ratio (DSCR)	1.74	2.01	1.71	1.81	1.88
Breakeven Occupancy	77%	74%	77%	75%	74%

Net Income

- The net income for the property after all expenses including fees, reserves, interest, and depreciation
- Net Operating Income less
- Asset Management Fees
- Capex Reserves or Capital Expenditure Reserves
- Interest on the Loan (not Debt Service)
- Depreciation (Improvements not land)
 - 27.5 years
 - 15 years
 - 7 years
 - 5 years
 - 3 years

<u>Operating Revenues</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Gross Scheduled Income	\$3,172,818	\$3,394,915	\$3,598,610	\$3,742,554	\$3,854,831
<u>Vacancy</u>	<u>317,282</u>	<u>305,542</u>	<u>287,889</u>	<u>299,404</u>	<u>308,386</u>
Net Rental Income	\$2,855,536	\$3,089,373	\$3,310,721	\$3,443,150	\$3,546,444
<u>Other Income</u>	<u>282,025</u>	<u>287,666</u>	<u>293,419</u>	<u>299,287</u>	<u>305,273</u>
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Ratios

- Principle Paydown %
 - Return on invested capital from principle reduction
 - Principle reduction/original invested capital
 - Note this example has a note comprised of interest only payments for the first two years
- Debt Service Coverage Ratio – DSCR
 - Ratio of cash to debt service before asset management fees
 - Used by lenders and investors to assess the strength of the property and its ability to make the note payments
 - Higher DSCR may secure a lower interest rate
- Breakeven Occupancy
 - The level of occupancy required to meet all cash expenses, including opex and debt service
 - The property could operate at this reduced level of occupancy without utilizing any reserves to pay operating expenses and debt service
 - Investors “sleep at night” ratio

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Next Steps

Thank You

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