

INTRODUCTION TO **MULTIFAMILY AND COMMERCIAL** **REAL ESTATE INVESTING**



Infinity Investments

Commercial Realty & Investment Services

Introduction



STEVE PETERSON, CCIM

- Broker/Owner of Infinity Investments
- Infinity Investments was established in November 2009 in Oakland, CA
- Past President of California Association of Real Estate Brokers (CAREB) 2017 & 2018
- Past President of NorCal CCIM 2018
- Past President of Associated Real Property Brokers (ARPB) 2015 & 2016



INFINITY INVESTMENTS

- Investment/ Brokerage Firm
- Specializing in Sales & Acquisitions of Small to Mid-Sized Apartment buildings

Why Buy Multifamily Properties?

- ✓ Stable cash flow during the holding period
- ✓ High occupancy rates historically & currently
- ✓ Financing is available at attractive rates
- ✓ Economies of scale that SFR's don't have
- ✓ Excellent generator and preserver of wealth
- ✓ Prices in the current market have dropped more than 50% from their peak while rents are near where they were at the peak and rising

What Do We Look At?

- Cash Flow
- NOI Details
- Price & Cap rate
- Return on Investment & Return on Equity
- Cash on Cash return & Internal Rate of Return

Gross Operating Income

- **Rents**
 - Gross Scheduled Rents
 - - Vacancy
 - - Loss to Lease / Concessions
- **Other Income**
 - + Laundry
 - + Vending
- = **Effective Gross Income**

Operating Expenses

- **T**axes (Property and Personal Property)
- **I**nurance
- **M**anagement (On and Off-Site)
- **M**aintenance (Preventative and Emergency)
- **U**tilities (Gas/Electric/Water/Sewer)
- **R**epairs (Including Make Ready Work)
- **R**eserves (Sometimes Required by Lender)

Net Operating Income

- **NOI** = Income - Expenses
- Net Income after accounting for all income sources minus all non-debt service expenses.
- What's left after you collect rents and pay your bills but before you pay your mortgage.

Capitalization Rate

The rate of return generated by a real estate investment property based on the annual Net Operating Income that a property generates.

$$\text{Cap Rate} = \frac{\text{Net Operating Income or "NOI"}}{\text{Purchase Price}}$$

Basically it represents the percentage return you would get from a building if you paid cash and didn't have a mortgage payment.

Cap Rate Example

If NOI = \$100,000 and Purchase Price = \$1,000,000 then:

$$\text{Cap Rate} = \frac{\text{NOI}}{\text{Purchase Price}} = \frac{\$100,000}{\$1,000,000} = \mathbf{10\%}$$

Remember:

- The higher the better when you buy
- The lower the better when you sell

Other Terms

- **Net Cash Flow** is simply the cash remaining after all expenses and the mortgage are paid.
- **Cash on Cash Return** = **Net Cash Flow** divided by the **Total Cash Invested** (i.e. down payment plus closing)
- **Internal Rate of Return** is the total return on the initial investment on an annual basis once the property is sold.

Cash on Cash Return (ROI)

$$\text{Cash on Cash Return} = \frac{\text{Annual Net Cash Flow}}{\text{Initial Investment}}$$

For example: Annual Net Cash Flow is \$15,000 and Initial Investment is \$100,000 then:

$$\text{Cash on Cash Return} = \frac{\$15,000}{\$100,000} = \mathbf{15\%}$$

- Ideally you want to achieve double digit cash on cash return, difficult to do in the Bay Area
- Cash on Cash needs to be higher than the going in Cap Rate

Return on Equity (ROE)

$$\text{Return on Equity} = \frac{\text{Annual Net Cash Flow}}{\text{Property Net Equity}}$$

*For example: Annual Net Cash Flow is \$15,000 and
Property Net Equity is \$300,000 then:*

$$\text{Return on Equity} = \frac{\$15,000}{\$300,000} = 5\%$$

ROE diminishes as the property appreciates in value

ROI vs. ROE

- ROI: $\$15,000/\$100,000=15\%$
- ROE: $\$15,000/\$300,000=5\%$
- Cash Flow acceleration example:
- Sell & do 1031 Tax Differed Exchange
- Take \$300,000 put towards new property
- ROI $\$30,000/\$300,000=10\%$
- Result is that you have doubled your cash flow

Identifying “Upside” in Apartment Complexes

- Vacancy issues due to management or functional obsolescence
- Building in additional other income
- Increasing rents based on physical renovations
- Realistically reducing operating expenses based on current inefficiencies

Going-in Cap Rate vs. Stabilized Cap Rate

- Forced appreciation by increasing NOI
- **Going Cap Rate** is the actual Cap Rate the day Escrow Closes
- **Stabilized Cap Rate** represents the Cap Rate that is reflected once the property is stabilized (renovated, leased-up, expenses lowered etc)

Creative Financing Techniques and OPM

- Master-Lease Options
- Land Contracts/Contracts for Deed
- Wrap-around Mortgages
- Seller Carried 1st or 2nd Deeds of Trust
- Joint Venture Partnerships
- Crowd Funding, Self-Directed IRA's, 1031 Exchangers
- Preferred Equity & Mezzanine Structured Finance



End Of Presentation

Thank you!

**What questions do you
have for us?**



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www.infinityinvestments.net