INTRODUCTION TO MULTIFAMILY AND COMMERCIAL REAL ESTATE INVESTING
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

www.infinityinvestments.net
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

- Taxes (Property and Personal Property)
- Insurance
- Management (On and Off-Site)
- Maintenance (Preventative and Emergency)
- Utilities (Gas/Electric/Water/Sewer)
- Repairs (Including Make Ready Work)
- Reserves (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:

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

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: \text{Annual Net Cash Flow is $15,000 and Initial Investment is $100,000 then:}

\[
\text{Cash on Cash Return} = \frac{15,000}{100,000} = 15\%
\]

- 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 1\textsuperscript{st} or 2\textsuperscript{nd} Deeds of Trust
• Joint Venture Partnerships
• Crowd Funding, Self-Directed IRA’s, 1031 Exchangers
• Preferred Equity & Mezzanine Structured Finance
Thank you!

What questions do you have for us?