



The Ultimate Guide to Real Estate Investing Part II

Recording Available: Friday, October 2



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Meet Your Instructor:

Michael Simpson

The NCREA Founder | Senior Instructor

- National Speaker with 30+ years consulting, training & coaching
- Licensed Broker (State of California)
- Top 1% of all U.S. Agents
- Top 3 Commercial Broker California/Hawaii
- Past Director & Arbitrator for C.A.R.
- Past Director & Arbitrator for PWR (5th largest board in the nation)
- Commercial Investment Consultant (C.I.C)
- Commercial REO & Short Sale Specialist





Designed specifically for Residential, Commercial & Investment Agents



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GREAT TIME FOR INVESTORS!

ARE YOU READY TO BUY?



- •Great time to get into or add Commercial Investment Real Estate to Your Portfolio of Services.
- •Resimercial® Firms Launching Commercial Divisions
- •Used to be Resimercial® Not Accepted



The future is here, But...

its

unevenly distributed

WE ARE ALL IN THIS TOGETHER

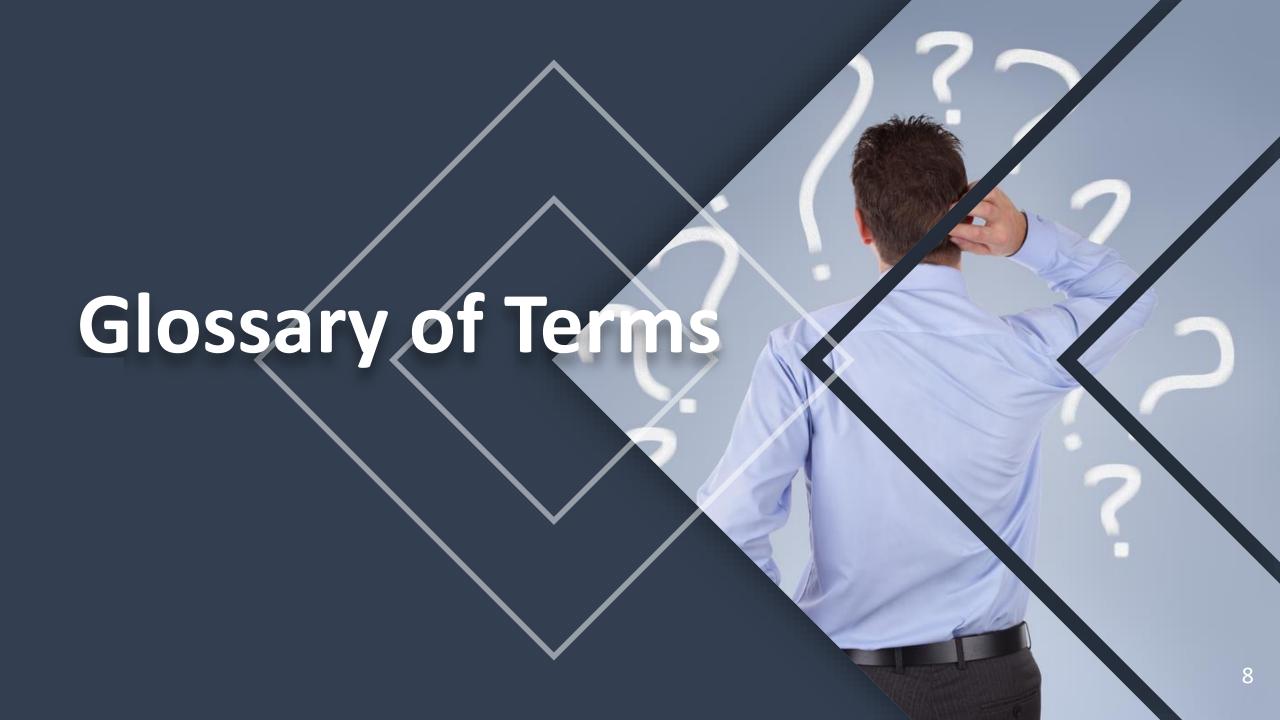
NOT!

HUGE

TRANSFER

OF

WEALTH!



Terminology 101

C.A.M. Charges
Common Area Maintenance

Cap Rate

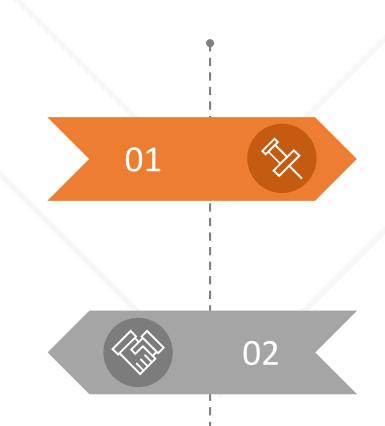
Rate of Return on sales price: N.O.I. divided by sales price

Debt Service Mortgage Payments

Debt Coverage Ratio N.O.I. divided by debt service

Estoppel Agreement

Tenant signs statement stating that no verbal agreements exist between tenant and landlord applying to lease agreement.



G.R.M.

Gross Rent Multiplier

N.N.N. (Triple Net)

Tenant pays taxes, insurance, maintenance & utilities for operating a property

N.O.I.

Net Operating Income: S.G.I. less

vacancy and expenses

Overage

Tenant pays agreed-to-percent of gross sales volume over agreed—to base sales volume

R.O.E.

Return on Equity: Return on value of property less balances.

Terminology 101 Continued

R.O.I.

Return on Investment: Rate of return on down payment. Cash flow divided by down payment

SGI

Scheduled Gross Income; Income before vacancy & expenses

Vacancy

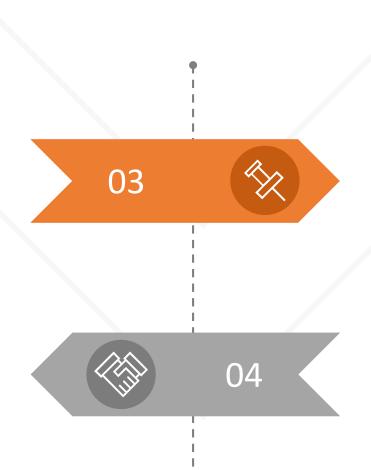
5% of S.G.I.

G.O.I.

Gross Operating Income: S.G.I. less vacancy

Expenses

35% of G.O.I.



Tax Stop

Tenant pays increase on real property taxes

Cash Flow

N.O.I. subtract debt service

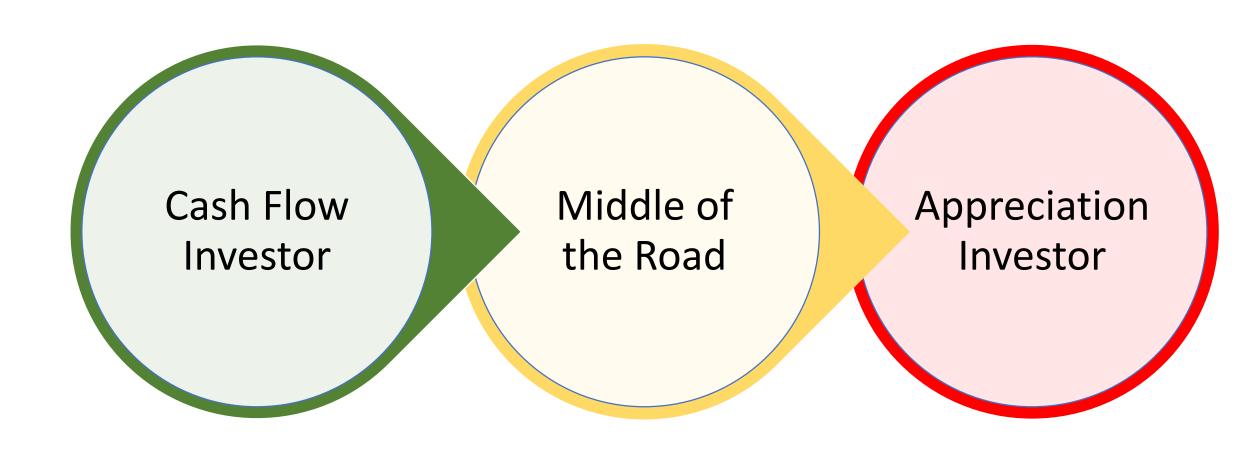
Value

N.O.I. divided by Cap Rate

Value

S.G.I. x G.R.M.

3 Different Types of Investors





INVESTOR'S PRIMARY OBJECTIVE

- Most investors never set specific objectives or goals.
- They tend to invest with the expectation that the property they purchase will go up in value.
- This is usually true, especially in certain markets.

 Is it my objective to maximize my return?

- Is it my objective to live on the cash flow from the party?
- Is it my objective to use some of the cash flow for other purposes while at the same time maximizing my return?

Questions that each investor should ask themselves



4 ways to Determine Value

- Comparable Approach Residential Real Estate
- Capital Asset Approach Risk of Loss
- Cost Approach Vacant Land
- Income Approach Commercial Real Estate

	Assumptions		Current Rents	Market Rents	Seller Carry
	GRM		8.44	7.42	8.01
	CAP Rate		7.31%	8.32%	7.71%
	Price		\$750,000	\$750,000	\$810,000
	Down Payment		\$187,500 (25%)	\$187,500 (25%)	\$162,000 (20%)
	First T.D.		\$562,500	\$562,500	\$438,000 (54%)
	Int. % / # Years		9% / 30 yrs	9% / 30 yrs	9% / 30 yrs
	Second T.D.				\$210,000 (26%)
	Int. % / # Years				11% / 3 yrs
					(% only deferred)
R.O.I.	S.G.I.		\$88,830	\$101,100	\$101,100
ANALYSIS	Vacancy (5%)		(\$4,442)	(\$5,055)	(\$5,055)
	G.0.I.		\$84,388	\$96,045	\$96,045
	Expenses (35%)		(29,535)	(\$33,615)	(\$33,615)
	N.O.I.				
			\$54,852	\$62,429	\$62,429
	Less: Debt Service Pr	mt on First	(\$54,312)	(\$54,312)	(\$42,290)
	Pmt on Second				
	Total Debt Pmts		(\$54,312)	(\$54,312)	(\$42,290)
	Debt Cov. Ratio		1.0	1.14	1.47
	Cash Flow (pre- tax)		\$540	\$8,117	\$20,139
	% Return (C/C ROI)		0.29%	4.33%	12.43%

	ASSUMPTIONS	CURRENT RENTS 25% DOWN	MARKET RENTS 25% DOWN	RENTS 25% DOWN
	GRM	9.9	9.9	
	CAP RATE	6.37%	6.37%	
	PRICE	\$1,521,947	\$1,746,360	
	DOWN PAYMENT	\$380,487	\$436,590	
	FIRST T.D.	\$1,141,460	\$1,309,770	
	INT. % / # YEARS	6% / 30 YEARS	6% / 30 YEARS	
	SECOND T.D.			
	INT. % / # YEARS			
R.O.I.	S.G.I.	\$153,732	\$176,400	
ANALYSIS	VACANCY (3%)	(\$4,612)	(\$5,292)	
•	G.O.I.	\$149, 120	\$171,108	
	EXPENSES (35%)	(\$52,192)	(\$59,887)	
	N.O.I	\$96,928	\$111,220	
	LESS: DEBT SERVICE - PMT ON FIRST	(\$82,124)	(\$94,232)	
Certified	PMT ON SECOND			
Real Estate Investment	TOTAL DEBT PMTS	(\$82,124)	(\$94,232)	
Planning Specialist	DEBT COV. RATIO	1.18	1.18	
	CASH FLOW (pre-tax)	\$14,804	\$16,988	
	% RETURN (C/C)	3.89%	3.89%	

BUYER R.O.I. ANALYSIS

	1		2		3		4	
ASSUMPTIONS	<u></u>		722 12		92 <u> </u>	ō,	2 <u>-</u>	-2
GRM/CAP	324 (4)		19 <u>6 1</u>		14 <u>7</u>		** <u>*</u>	<u> </u>
PRICE	\$		s		\$		\$	-,,
DOWNPAYMENT	\$	%	s	%	\$	%	s	%
FIRST T.D.	\$	%	\$	%	\$	%	\$	%
INT/AMORT.	% /yrs		% /yrs		% /yrs		% /yrs	-5
SECOND T.D.	\$	%	ş	%	\$	%	\$	%
INITIAL INT/# YRS	% /yrs		% /yrs		% /yrs	i i	% /yrs	28
SUB. INT/#YRS	% /yrs		% /yrs		% /yrs		% /yrs	-
SUB. INT/#YRS	% /yrs		% /yrs		% /yrs		% /yrs	-
S.G.I	\$		ş		\$		s	-
VACANCY	\$()	%	\$()	%	\$()	%	\$()	%
G.O.I.	\$		\$		_\$		_\$	-
EXPENSES	\$()	%	\$()	%	\$()	%	ş()	%
N.O.I.	\$		_\$		\$		\$	-35
DEBT SERVICE-1ST	s()		_\$()_		_\$()		\$()	
DEBT COV.RATIO	()		()		()		()	-0
SECOND	\$()		\$()		W		2-1	
							\$()	
TOTAL	\$()		\$()		\$()		\$()	Ä
DEBT COV RATIO (INC 2ND)							_()	28
CASHFLOW	\$		\$		\$		\$	-6
(PRE-TAX) %RETURN (C/C) (ROI)		%		%		%		96



FORCED APPRECIATION

4 WAYS TO INCREASE NOI

- 1. Raise Rents
- 2. Increase Occupancy
- 3. Decrease Expenses
- 4. Find Other Income



NOI Divided by Cap

Purchase Price \$ 1,000,000.00

Down Payment \$ 250,000.00

Loan Amount: \$ 750,000.00

LTV 75%

Debt amount **		\$ 750,000
Amortization Rate		7
Monthly Rents		\$ 9,275
less		
Vacancy	5%	\$ 464
Reserves	3%	\$ 278
Management	3%	\$ 278
Taxes		\$ 1,042
Insurance		\$ 750
Other		\$ 272
Total Expenses		\$ 3,085

	Tenant	Rent		Maturity
1	CPA		950	6/1/2018
2	Nail Salon		950	6/1/2018
3	Law Firm		1,000	3/1/2018
4	Dentist		1,225	3/1/2018
5	Flower Shop		800	2/1/2018
6	Starbucks		1,500	6/1/2020
7	Jamba Juice		950	12/30/2017
8	Subway		950	12/1/2017
9	Liquor Store		950	1/1/2018
10	Shoe Repair		0	1/1/2018
	Storage/Parking		0	
	Total / Month		9,275	



Buyer R.O.I. Comparison: 323 Anywhere St.

ASSUMPTIONS	CURRENT RENTS 25% DOWN	25% DOWN	RENTS 25% DOWN
GRM			
CAP RATE			
PRICE	\$1,000,000		
DOWN PAYMENT			
FIRST T.D.			
INT. % / # YEARS			
SECOND T.D.			
INT. % / # YEARS			
S.G.I.			
VACANCY (3%)			
G.O.I.			
EXPENSES (35%)			
N.O.I			
LESS: DEBT SERVICE - PMT ON FIRST			
PMT ON SECOND			
TOTAL DEBT PMTS			
DEBT COV. RATIO			
CASH FLOW (pre-tax)			
% RETURN (C/C)			
1 1			

BUYER R.O.I. ANALYSIS 323 BIG Commission Ave.

020 210 00111110010117	_
	Courset Donto 25% done
Assumptions	Current Rents 25% down
GRM	
CAP Rate	
Price	\$1,000,000
Down Payment	\$250,000
First T.D.	\$750,000
Int. % / # Years	7% / 30 yrs
Second T.D.	
Int. % / # Years	
S.G.I.	\$111,300
Vacancy (5%)	
G.O.I.	
Expenses (35%)	
N.O.I.	
Less: Debt Service	(\$59,877)
Pmt on First	
Pmt on Second	 (ĆEO 077)
Total Debt Pmts	(\$59,877)
Debt Cov. Ratio	
Cash Flow (pre-tax)	
% Return (C/C ROI)	

R.O.I. ANALYSIS ANSWER SHEET



BUYER R.O.I. ANALYSIS 323 BIG Commission Ave.

	Assumptions	Current Rents 25% down
	GRM	8.98
	CAP Rate	6.87%
	Price	\$1,000,000
	Down Payment	\$250,000
	First T.D.	\$750,000
	Int. % / # Years	7% / 30 yrs
	Second T.D.	
R.O.I.	Int. % / # Years	
ANALYSIS		
ANSWER	S.G.I.	\$111,300
SHEET	Vacancy (5%)	(\$5,565)
JIILLI	G.O.I.	\$105,735
	Expenses (35%)	(\$37,008)
	N.O.I.	\$68,727
	Less: Debt Service Pmt on First	(\$59,877)
	Pmt on Second	
	Total Debt Pmts	(\$59,877)
Certified Real	Debt Cov. Ratio	1.14
Estate Investment		
Planning Specialist	Cash Flow (pre-tax)	\$8,850
	% Return (C/C ROI)	3.54%



1	Purchase Price		\$	1,000,000.00				
2								
3	Down Payment		\$	250,000.00				
4								
5	Loan Amount:		S	750,000.00				
6								
7	LTV			75%				
8								
9								
10	Debt amount **		\$	750,000		Tenant	Rent	Maturity
11	Amortization Rate			7	1	CPA	950	6/1/2018
12	Monthly Rents		\$	14,750	2	Nail Salon	950	6/1/2018
13	less				3	Law Firm	1,000	3/1/2018
14	Vacancy	5%	\$	1,180	4	Dentist	1,225	3/1/2018
15	Reserves	3%	\$	443	5	Flower Shop	800	2/1/2018
16	Management	3%	\$	443	6	Starbucks	1,500	6/1/2020
17	Taxes		\$	1,044	7	Jamba Juice	1,800	12/30/2017
18	Insurance		\$	750	8	Subway	1,800	12/1/2017
19	Other		\$	1,045	9	Liquor Store	1,800	1/1/2018
20					10	Shoe Repair	1,800	1/1/2018
21	Total Expenses		\$	4,904		Storage/Parking	1,125	
22						Total / Month	14,750	

Buyer R.O.I. Comparison: 323 Anywhere St.

ASSUMPTIONS	CURRENT RENTS 25% DOWN	25% DOWN	RENTS 25% DOWN
GRM			
CAP RATE			
PRICE	\$1,000,000		
DOWN PAYMENT			
FIRST T.D.			
INT. % / # YEARS			
SECOND T.D.			
INT. % / # YEARS			
S.G.I.	\$177,000		
VACANCY (3%)			
G.O.I.			
EXPENSES (35%)			
N.O.I			
LESS: DEBT SERVICE - PMT ON FIRST			
PMT ON SECOND			
TOTAL DEBT PMTS			
DEBT COV. RATIO			
CASH FLOW (pre-tax)			
% RETURN (C/C)			

ANSWER SHEET

R.O.I. ANALYSIS ANSWER SHEET

ASSUMPTIONS	MARKET RENTS 25% DOWN
GRM	5.64
CAP RATE	10.9%
PRICE	\$1,000,000
DOWN PAYMENT	\$250,000
FIRST T.D.	\$750,000
INT. % / # YEARS	7% / 30 Years
SECOND T.D.	
INT. % / # YEARS	
S.G.I.	\$177,000
VACANCY (3%)	(\$8,850)
G.O.I.	\$168, 150
EXPENSES (35%)	(\$58,852)
N.O.I	\$109,297
LESS: DEBT SERVICE - PMT ON FIRST	(\$59,877)
PMT ON SECOND	
TOTAL DEBT PMTS	1.82
DEBT COV. RATIO	\$49,420
CASH FLOW (pre-tax)	\$49,420
% RETURN (C/C)	19.7%



ANSWER SHEET

ASSUMPTIONS	CURRENT RENTS 25% DOWN	MARKET RENTS 25% DOWN
GRM	8.98	5.64
CAP RATE	6.87%	10.9%
PRICE	\$1,000,000	\$1,000,000
DOWN PAYMENT	\$250,000	\$250,000
FIRST T.D.	\$750,000	\$750,000
INT. % / # YEARS	7% / 30 Years	7% / 30 Years
SECOND T.D.		
INT. % / # YEARS		
S.G.I.	\$111,300	\$177,000
VACANCY (3%)	(\$5,565)	(\$8,850)
G.O.I.	\$105,735	\$168, 150
EXPENSES (35%)	(\$37,008)	(\$58,852)
N.O.I	\$68,727	\$109,297
LESS: DEBT SERVICE - PMT ON FIRST	(\$59,877)	(\$59,877)
PMT ON SECOND		
TOTAL DEBT PMTS	(\$59,877)	(\$59,877)
DEBT COV. RATIO	1.14	1.82
CASH FLOW (pre-tax)	\$8,850	\$49,420
% RETURN (C/C)	3.54%	19.7%



ANSWER SHEET

CASH FLOW (pre-tax)

% RETURN (C/C)



\$26,820

10.7%

	ASSUMPTIONS	CURRENT RENTS 25% DOWN	MARKET RENTS 25% DOWN	MIDDLE RENTS 25% DOWN
	GRM	8.98	5.64	7.12
	CAP RATE	6.87%	10.9%	8.67%
	PRICE	\$1,000,000	\$1,000,000	\$1,000,000
	DOWN PAYMENT	\$250,000	\$250,000	\$250,000
	FIRST T.D.	\$750,000	\$750,000	\$750,000
	INT. % / # YEARS	7% / 30 Years	7% / 30 Years	7% / 30 Years
	SECOND T.D.			
IS	INT. % / # YEARS			
	S.G.I.	\$111,300	\$177,000	\$140,400
	VACANCY (3%)	(\$5,565)	(\$8,850)	(\$7,020)
	G.O.I.	\$105,735	\$168, 150	\$133,380
	EXPENSES (35%)	(\$37,008)	(\$58,852)	(\$46,683)
	N.O.I	\$68,727	\$109,297	\$86,697
	LESS: DEBT SERVICE - PMT ON FIRST	(\$59,877)	(\$59,877)	(\$59,877)
	PMT ON SECOND			
	TOTAL DEBT PMTS	(\$59,877)	(\$59,877)	(\$59,877)
	DEBT COV. RATIO	1.14	1.82	1.44

\$49,420

19.7%

\$8,850

3.54%

	ASSUMPTIONS	20% Down, Seller 20% 2nd Middle Rents	
	GRM	7.12	
Certified Real Estate Investment	CAP RATE	8.67%	
Planning Specialist	PRICE	\$1,000,000	
	DOWN PAYMENT	\$200,000	
	FIRST T.D.	\$600,000	
	INT. % / # YEARS	7% / 30 Years	
	SECOND T.D.	\$200,000	
	INT. % / # YEARS	9% / 3 years	
	S.G.I.	\$140,400	
	VACANCY (3%)	(\$7,020)	
рОІ	G.O.I.	\$133,380	
R.O.I. ANALYSIS	EXPENSES (35%)	(\$46,683)	
	N.O.I	\$86,697	
	LESS: DEBT SERVICE - PMT ON FIRST	(\$47,901)	
	PMT ON SECOND	(\$18,000)	
	TOTAL DEBT PMTS	(\$65,901)	
	DEBT COV. RATIO	1.31	
	CASH FLOW (pre-tax)	\$20,796	
	% RETURN (C/C)	10.4%	







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- How to Prepare a Listing Presentation & Buyer/Seller Proposal
- What, When & How to Calculate Depreciation
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- & Tons of Business Tips to give you an Competitive Edge, such as Why Sitting on a Bunch of Equity "Diminishes the Return."

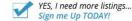
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Leading Authority

- Kory J

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The NCREA.com 877.877.1543 or info@TheNCREA.com



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Thank You For Your Time

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