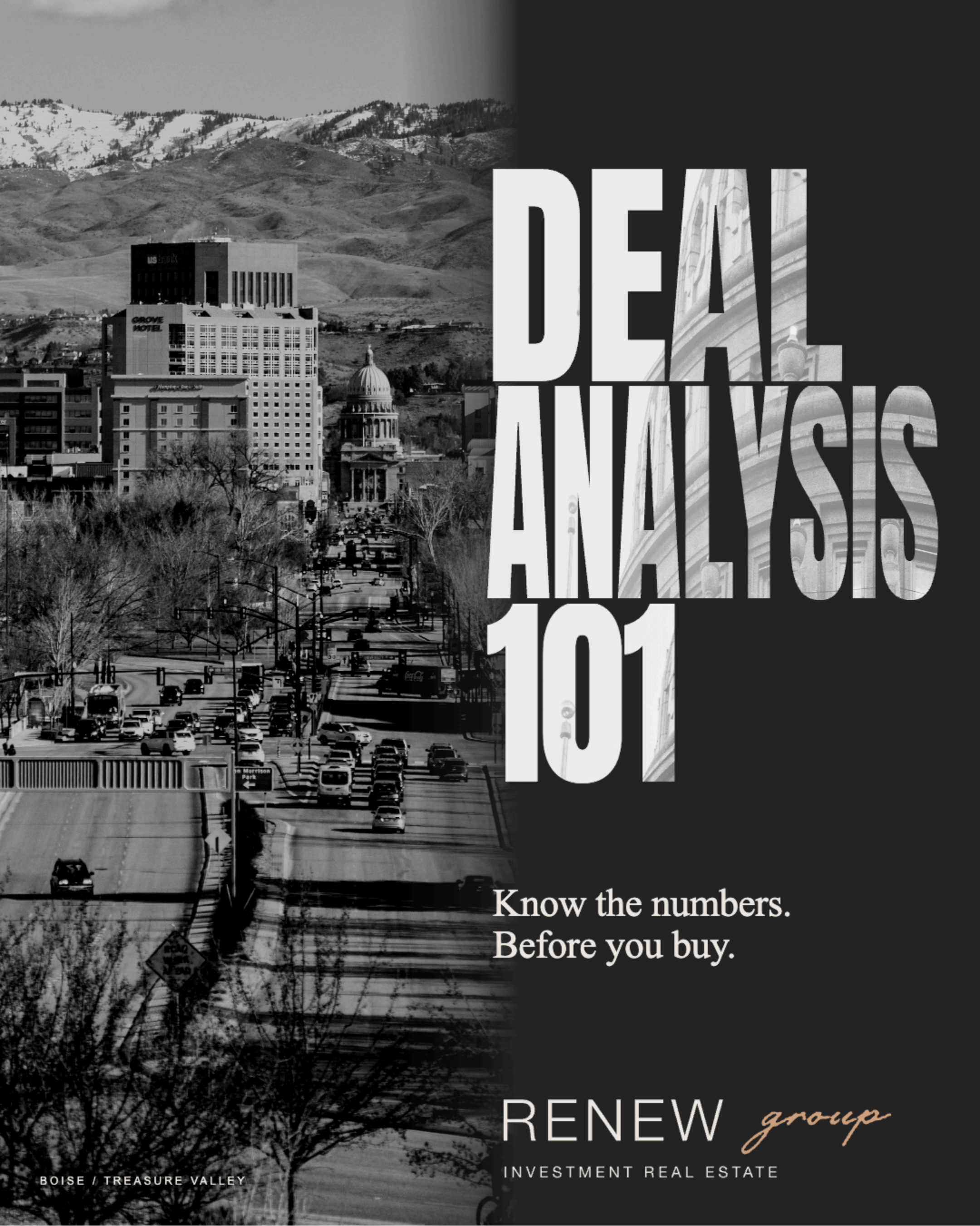




DEAL ANALYSIS 101

Know the numbers.
Before you buy.

RENEW *group*

INVESTMENT REAL ESTATE

FOUR QUESTIONS. ONE DECISION.

Analysis answers four questions before you write the offer.

01 WHAT IS IT WORTH?

Closed sales of similar property, as it sits and after repairs

PAGES: 03 to 04

02 WHAT WILL IT EARN?

Rent you can support, less every cost of owning it

PAGES: 05 to 08

03 WHAT DOES IT TAKE?

The loan, the cash you bring, and the return on that cash

PAGES: 09 to 12

04 WHAT IF I AM WRONG?

The same numbers, run again with worse inputs

PAGES: 16

TWO FICTIONAL DEALS CARRY EVERY NUMBER

The duplex	\$300,000. Two units at \$1,400 a month each. Bought to hold.
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The flip	\$250,000 purchase, \$40,000 of repairs, \$350,000 when finished. Bought to resell. Pages 13 and 14.
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The output is a decision.

Buy, change the price, change the plan, or pass. An analysis that cannot end in "pass" is a sales pitch.

SOLD. NOT LISTED.

Value comes from closed sales, not from the list price.

What counts	Sold, not listed. Same market area. Similar size, age, type and condition. An appraiser reports at least three, normally closed in the last 12 months. The recent ones that truly match carry the weight.
On a flip	Match the house as it will be when you finish, not as it sits. That number is the after-repair value.

THE FLIP · FICTIONAL · 1,400 SQUARE FEET WHEN FINISHED

CLOSED SALE	SOLD FOR	SIZE	PER SQ FT
Comp A, 41 days ago	\$338,000	1,360 sq ft	\$249
Comp B, 68 days ago	\$365,000	1,450 sq ft	\$252
Comp C, 97 days ago	\$349,000	1,400 sq ft	\$249

1,400 sq ft * \$250 average

\$350,000

Price per square foot is the rough cut.
An appraiser adjusts each sale for bedrooms, baths, garage, lot and condition. If your value only works with the best comp, it does not work.

NO SOURCE? NO CERTAINTY.

Every number needs a source. In Idaho the sold price is the hard one.

Idaho is a non-disclosure state. No law requires a sale price to be reported, so the county record shows who owns a property and what it is assessed at, not what it sold for. Sales that went through the MLS show their closed price there. Off-market sales do not.

VALUE

Closed sales from the MLS, pulled by a licensed agent

RENT

Leases signed on similar units. A property manager who leases nearby

PROPERTY TAX

The county assessor's and treasurer's parcel records (see page 07)

INSURANCE

A quote for a landlord policy on this address

REPAIRS

A contractor's written bid, after walking the house

LOAN

A lender's terms for this property and this borrower

A number with no source is an assumption.

Label it as one, and replace it with evidence before you offer.

SIGNED RENT. NOT ASKING RENT.

Rent is what a tenant signed for, not what a listing asks.

Use	Leases signed in the last few months on units of the same size, condition and location.
Do not use	The seller’s projection, the highest listing online, or what the current tenant “could” pay. Asking rent is an opinion until someone signs.
If it is occupied	Read the leases, then check them against the rent actually deposited.

THE DUPLEX · FICTIONAL · TWO-BEDROOM UNITS

LEASED NEARBY	SIGNED	RENT
One street over, same size	5 weeks ago	\$1,375
Same size, updated kitchen	2 months ago	\$1,450
Same street, older finishes	3 months ago	\$1,395

Rent you can support, per unit

\$1,400

Two units: \$2,800 a month. The average of the three is \$1,407; round down, not up.

\$2,800 IN. WHAT STAYS?

A rent check is not the cash you keep.

THE DUPLEX · ONE MONTH · FICTIONAL · PERCENTAGES ARE ASSUMPTIONS

Rent, two units at \$1,400	\$2,800
Vacancy, 5%	-\$140
Property tax	-\$210
Insurance	-\$140
Water, sewer, trash	-\$110
Repairs, 5% of rent	-\$140
Capital reserve, 5% of rent	-\$140
Management, 8% of collected rent	-\$213

Net operating income

\$1,707

Net operating income, or NOI, is what the building earns before the loan: \$1,707 a month, \$20,484 a year. 39% of the rent is gone before the mortgage is paid.

THE COSTS YOU FORGOT.

The costs beginners leave out.

Vacancy	No unit is rented every month forever. 5% is 18 days a year. One turnover with a month empty is 8% of that unit’s rent for the year.
Capital reserve	A roof, a furnace, a water heater. They are not monthly bills, so they are missing from the seller’s numbers. Set money aside every month or pay for it all at once.
Management	Count it even if you manage the building yourself. Your time has a cost, and the deal has to work on the day you hire it out.
Property tax	The seller’s bill is not yours. Idaho’s homeowner’s exemption takes up to \$125,000 off the taxable value of an owner-occupied home. It ends when the home sells or stops being the owner’s primary residence. A rental is taxed on the full value.
Insurance	A landlord policy, not the seller’s homeowner policy. Get the quote.

Ask what a quoted NOI leaves out.

Appraisers and lenders usually count a reserve for replacements. Seller and broker figures often do not.

THE BUILDING. BEFORE THE LOAN.

Cap rate is the building’s yearly income return if you paid cash.

THE DUPLEX • FICTIONAL

Net operating income, a year	\$20,484
Price	\$300,000

NOI ÷ price

6.8%

Use it to	Compare buildings without the loan in the way, and to turn income into value: value = NOI ÷ cap rate.
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Same income, different rate	At a 6% cap this income is worth \$341,400. At 7% it is worth \$292,600. A small move in rate is a large move in price.
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Where it misleads	It is only as good as the NOI. Leave out vacancy, reserves and management and any building looks cheap. And a duplex still sells mostly on what similar duplexes sold for.
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It is not the return on your cash.

That depends on the loan, next page. This NOI counts a reserve. Many quoted cap rates do not.

THE LOAN TAKES ITS CUT.

The loan decides how much of the income reaches you.

THE DUPLEX · FICTIONAL · 25% DOWN · \$225,000 LOAN · ASSUMED 7.25%, 30 YEARS

Net operating income	\$1,707
Principal and interest	-\$1,535

Cash flow, a month

\$172

Coverage	Commercial lenders divide income by the payment: NOI over principal and interest. Here that is 1.11, or \$1.11 of income for every \$1.00 of loan payment.
The other version	On DSCR loans for one-to-four-unit rentals, lenders usually divide gross rent by the full payment, taxes and insurance included: $\$2,800 \div \$1,885 = 1.49$. Same building, two numbers. Ask which one.
What moves it	Rate, down payment and term. One point of rate is \$155 a month on this loan.

EVERY DOLLAR YOU BRING.

Count every dollar you bring, not only the down payment.

THE DUPLEX · FICTIONAL

Down payment, 25%	\$75,000
Closing costs, assumed 2%	\$6,000

Cash invested

\$81,000

Reserves	Lenders commonly want six months of payments in the bank on a rental: \$11,310 here. You keep it, but you cannot spend it somewhere else.
Repairs before rent	Paint, flooring, a turnover. If a unit is not ready to rent on day one, that cost belongs in this number.
Why it matters	Every return is measured against the cash you put in. Leave cash out and the return looks better than it is.

\$81,000 IN. WHAT COMES BACK?

What \$81,000 earns in year one.

THE DUPLEX · FICTIONAL

SOURCE	A YEAR	ON \$81,000
Cash flow, \$172 a month	\$2,064	2.5%
Loan principal paid down by the rent	\$2,178	2.7%
Total	\$4,242	5.2%

Cash-on-cash	Cash flow ÷ cash invested. The return you can spend: 2.5%.
Principal	Real, but locked in the building until you sell or refinance.
Appreciation	Not on the ledger. It may come. A deal that only works if the price rises is a bet on the market, not an analysis.

2.5% in cash is thin for the work of owning a duplex.
One surprise in the first year takes most or all of it. Page 16.

YOUR RETURN. THEN YOUR PRICE.

Work backward to the price that meets your number.

Decide the return you need before you look at the price. This investor wants 8% cash-on-cash. Hold the income and the costs, and solve for the price.

THE DUPLEX · FICTIONAL

	AT \$300,000	AT \$247,000
Loan, 75% of the price	\$225,000	\$185,250
Principal and interest	\$1,535	\$1,264
Cash flow, a month	\$172	\$443
Cash invested	\$81,000	\$66,690
Cash-on-cash	2.5%	8.0%

Three levers: price, rent, terms.

At \$300,000 the same return needs about \$1,640 a unit in rent, not \$1,400, or a loan near 4.7%, not 7.25%. If none of the three moves, pass.

THE SPREAD IS NOT THE PROFIT.

On a flip, the spread is not the profit.

THE FLIP · FICTIONAL · SIX MONTHS · \$262,500 LOAN AT ASSUMED 10% AND 2 POINTS

After-repair value	\$350,000
Purchase	-\$250,000
Repairs	-\$40,000
Loan points and interest	-\$18,375
Closing on the purchase, 1.5%	-\$3,750
Taxes, insurance, utilities, six months	-\$3,000
Selling costs, assumed 6% of the sale	-\$21,000

Profit, before tax

\$13,875

Buy at \$250,000, spend \$40,000, sell at \$350,000: a \$60,000 spread. \$46,125 of it goes to costs. The profit is 4% of the sale price. Interest is counted on the full loan for all six months.

START AT THE SALE. WORK BACK

Start from the sale and work back to your offer.

Set the profit the work and the risk are worth to you. Here, \$40,000. Subtract it and every cost from the after-repair value. What is left is the most you can pay.

THE FLIP · FICTIONAL · LOAN: 90% OF PRICE PLUS REPAIRS, MAX 75% OF VALUE

After-repair value	\$350,000
Selling costs	-\$21,000
Repairs	-\$40,000
Loan points and interest	-\$17,013
Closing and holding	-\$6,384
The profit you require	-\$40,000

Maximum offer, rounded

\$225,600

The 70% rule	A shortcut for this ledger: 70% of after-repair value, less repairs. $\$245,000 - \$40,000 = \$205,000$. It leaves 30% of the sale for costs and profit.
Rule or ledger	At \$205,000 this flip earns \$62,210. At \$250,000 it earns \$13,875. Sort deals with the rule. Write the offer from the ledger.

SHORTCUTS. NOT APPROVALS.

Rules of thumb sort deals. They do not approve them.

1% RULE

Monthly rent should be at least 1% of the price

ON OUR DEALS: $\$2,800 \div \$300,000$ is 0.93%. Fails.

50% RULE

Half the rent goes to operating costs, before the loan

ON OUR DEALS: Predicts \$1,400 of NOI. The ledger says \$1,707.

70% RULE

Pay no more than 70% of after-repair value, less repairs

ON OUR DEALS: \$205,000. The seller wants \$250,000.

Each one is a guess at a ledger you have not built yet. The 1% rule guesses at cash flow. The 50% rule guesses at expenses. The 70% rule guesses at a flip's costs and profit.

Use them to decide which deals deserve an hour.

Then spend the hour. Your taxes, rents, rate and repair costs are in the ledger. They are not in the rule.

WHAT IF YOU ARE WRONG?

Run it again with worse numbers.

THE DUPLEX · FICTIONAL · CASH FLOW A MONTH

As analyzed	\$172
Rent 10% lower	−\$45
Rate one point higher	\$17
Vacancy 10%, not 5%	\$43
All three	−\$315

THE FLIP · FICTIONAL · PROFIT BEFORE TAX

As analyzed	\$13,875
Sells for 5% less	−\$2,575
Repairs run 20% over	\$5,875
Takes three more months	\$5,813
All three	−\$18,638

You are not predicting these.

You are finding which one breaks the deal, and whether you could carry it if it happened.

BUY. CHANGE. OR PASS.

The analysis ends in one of four decisions.

BUY

The numbers meet your target, each has evidence behind it, and the deal survives the stress test

OUR TWO FICTIONAL DEALS: Neither, at the asking price

CHANGE THE PLAN

A different loan, exit or use fixes the weak number

OUR TWO FICTIONAL DEALS: Live in one unit and the duplex is a different deal

CHANGE THE PRICE

The property is right and the price is not

OUR TWO FICTIONAL DEALS: The duplex at \$247,000.
The flip at \$225,600

PASS

Nothing moves

OUR TWO FICTIONAL DEALS: Both, if the sellers hold their price

You will pass on most of what you analyze.

That is the analysis working. The deals you buy are the ones that held up.

ONE ADDRESS. THIS WEEK.

Your move: run one real address this week.

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|----------------------------|--|
| 1. Pick one | A duplex, or a house that needs work, in a neighborhood you know. |
| 2. Get the evidence | Closed sales and signed rents, the assessor's parcel record, an insurance quote, a lender's terms. |
| 3. Build the ledger | Income, every expense, the loan, the cash in. Label every assumption. |
| 4. Stress it | Rent down, rate up, costs over, time longer. |
| 5. Decide | Buy, change the price, change the plan, or pass. Write down why. |
-

Bring us the address.

We will pull the closed sales and rent comps and run it with you. DM
@renewgroup_boise.

Education only. Not an offer, an appraisal, or legal, tax or lending advice. Both deals are fictional. Rates, costs and percentages are assumptions.