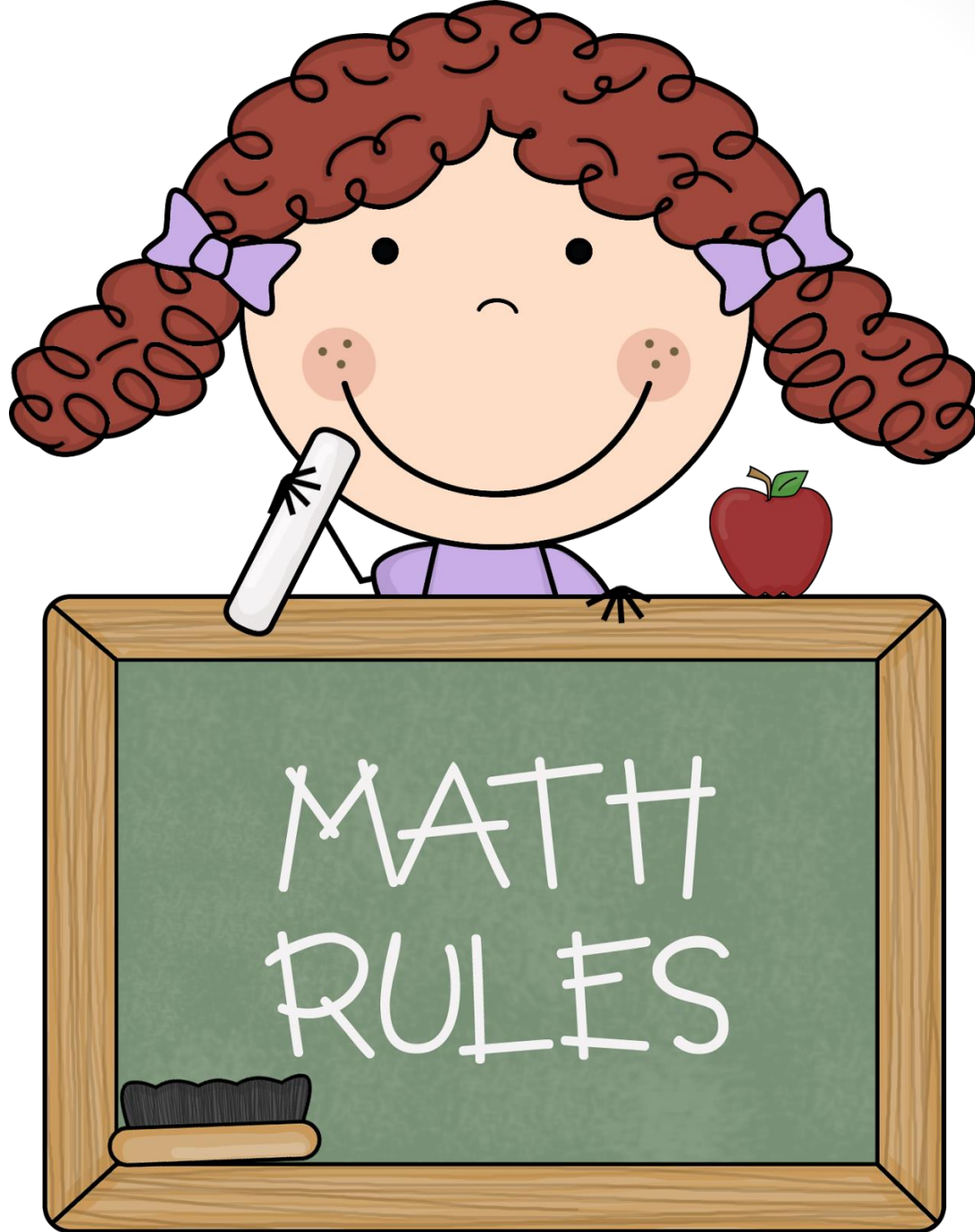


Return On Investment

Calculating that Counts

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Simple Division

Numerator (increase = decrease in result)

Denominator (increase = increase in result)

= % Result

ROI = Return On Investment

- “Return” = Profit
- “On” = Division
- “Investment” = Money Invested

- $R/I = \text{“ROI”}$

Simple ROI

- Investment = \$100,000
- Returns = \$50,000

$\frac{\$50,000}{\$100,000}$	$\frac{\$50,000}{\$200,000}$	$\frac{\$100,000}{\$100,000}$
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= 50%

= 25%

=100%

Timeline Matters

- “Cumulative ROI” = Lifespan of Investment
- “Annual ROI” = Divide cumulative by number of years of lifespan

Simple ROI

- Investment = \$100,000
- Returns = \$50,000

- $\$50,000 / \$100,000 = 50\%$
- 5 year timeline
- Cumulative ROI = 50%
- Annual ROI = 10%

Investment Factors

- “Down Payment” = Cash you use to purchase
- “Closing Costs” = Legal, inspections, appraisals, initial renovation
- Question to always ASK: Are you using downpayment or adding closing costs?

WARNING! Interest is NOT Investment

- Using Line of Credit to invest.
 - CASH value = investment
 - Interest = expense in budget

Return Factors

- “Equity” = Value added by market appreciation
- “Mortgage paydown” = Value added by debt reduction
- “Cashflow” = Monies collected from monthly profit

Gross ROI

$$= \frac{\text{Equity} + \text{Mtg paydown} + \text{Cashflow}}{\text{Investment}}$$

Equity ROI

$$= \frac{\text{Equity} + \text{Mtg paydown}}{\text{Investment}}$$

Why? Cashflow can be dubious!

Monthly Pro Forma

Purchase Price	\$460,000.00
Total Building Rent	\$2,750.00

Closing Costs

Downpayment (20%)	\$92,000
Legal	\$1,800
Inspection	\$500
Contingency Fund	\$5,000
Total Investment	\$99,300

Mortgage Terms

Rate	2.64%
Amortization	30
Term	5
Type	Fixed
Payment	\$1,480.97

Monthly Expense Budget For First Year

Revenue

	Monthly	Annual
Rent	\$2,750.00	\$33,000.00
Total	\$2,750.00	\$33,000.00

Rental Breakdown

Upper	\$1,400.00
Lower	\$1,150.00
Garage	\$200.00
Total	\$2,750.00

Expense

	Monthly	Annual
Tax	\$229.17	\$2,750.00
Insurance	\$122.67	\$1,472.00
Condo Fees	\$0.00	\$0.00
Management	\$275.00	\$3,300.00 (Standard 10% for Property Managers)
Vacancy 5%	\$137.50	\$1,650.00
Repairs 5%	\$137.50	\$1,650.00
Mortgage	\$1,480.97	\$17,771.67
Total	\$2,382.81	\$28,593.67

Profit

	Monthly	Annual	Cash on Cash Yield (Annual Cashflow/Total Investment)
Cashflow	\$367.19	\$4,406.33	4.44%
Reserve (amount saved into reserve fund after year 1)	\$275.00	\$3,300.00	3.32%
Total	\$642.19	\$7,706.33	7.76%

Cash on Cash

- “Cash on Cash Return”
- “Cash on Cash Yield”
- “Yield”

$$= \frac{\text{Before Tax Cashflow}}{\text{Cash invested}}$$

“Cap”italization Rate

- Used in commercial property
- Compares Property to Business
- Measure of income potential of property
- Measure of perceived Risk

Net Operating Income

- Rent – All NON-financing expenses
- Financing can vary WIDELY deal to deal, throws off calculations

Calculating CAP

$$= \text{NOI} / \text{Building Price}$$

Higher = higher perceived risk

Lower = lower perceived risk

Calculating Building Value

$$= \text{NOI} / \text{Cap rate}$$

Due Diligence

- Clarify what is the Investment
- Be CRYSTAL clear on cashflow calculation
 - Property management
 - Repairs / maintenance
 - Utilities
 - Vacancy
- Assumed Rent inflation / Market appreciation

Get on the same page!

