

Link to Live Meeting Video, <https://youtu.be/AhZ172aRSL0>



Rental Analysis

Understanding The Numbers

John Doss

Who has purchased a property that didn't
cash flow as intended?

3 Laws of Real Estate Investing

Law 1: Buy for Cash Flow

- Ideal: Property covers its own expenses with money leftover (cash flow)
- Buying for appreciation vs buying for cash flow
- Market appreciation vs forced appreciation

Law 2: Secure Long-Term, Low-Leveraged Debt

- Critical during growth and scaling a portfolio
- Leverage is one of the greatest benefits of real estate
 - Linear vs exponential growth
- Improved return on investment

Law 3: Maintain Adequate Cash Reserves

- Risk management
- Budget reserves from your cash flow
- Covers eventual repairs, maintenance, & CapEx
- Starting point: 3-6 months of expenses in reserves



**Doss & Spaulding
Properties**

Real Estate | Property Management | Rentals

Two Sides of the Equation

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Understanding Expenses

Operating Expenses (OpEx)

- Insurance
- Property Taxes
- Repairs & Maintenance (R&M)
- Utilities
- Management Fees
- Mortgage Payments
- HOA Fees
- Landscaping
- \$ Loss to Vacancy

Capital Expenditures (CapEx)

- Roof
- HVAC
- Appliances
- Major system upgrades (Electrical & Plumbing)
- Kitchen/bathroom remodeling

Estimating Income



1917 HAVEN RD.
GREENSBORO NC 27410

This report provides an in-depth comparison of HAVEN RD. GREENSBORO NC 27410 properties in the area. Powered by RentRanger report gives you valuable insight for investment property analysis.

RENT RANGE ESTIMATE
\$ 1,900

CONFIDENCE SCORE
94 %

EST PROPERTY VACANCY #
4.07 %

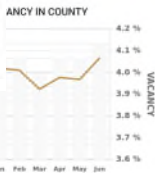
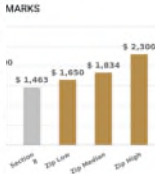
SUBJECT PROPERTY DETAILS

TYPE	Townhouse
YEAR BUILT	2006
SOFT	1625
SOFT LOT	2178
BEDS	3
BATHS	2.5
RADIUS SEARCHED	1.9 mi
# OF COMPS	5
GLA SQFT VS COMPS	SMALLER THAN 40 %



RentRange

RENTAL PROPERTY ANALYSIS REPORT



Rentometer, Inc.
sales@rentometer.com
www.rentometer.com



2002 Hummingbird Ct High Point, NC 27265

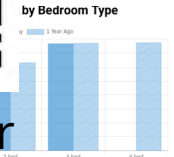


rentals seen within 12 months in a

PERCENTILE 75th PERCENTILE
945 \$1,174



Rentometer



Summary Statistics

Sample Size	14
Sample Min	\$675
Sample Max	\$1,295
Sample Median	\$1,038
Sample Mean	\$1,059
Sample Standard Deviation	\$170
25th - 75th Percentile	\$945 - 1,174





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Important Terms To Know

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Cash Flow

- The money that's left over after ALL expenses are paid

Discussion:

- How much cash flow do you look for when buying a rental?
- Do you look for a certain amount per door?

Formula: **Gross Revenue - Total Expenses = Cash Flow**

Cash-on-Cash Return (CoC ROI)

- Allows comparison with other investment vehicles
- One dimensional
 - Does not factor in: appreciation, loan paydown, tax benefits, etc.

Formula: **Annual Cash Flow / Total Cash *Invested* = CoC ROI**

Debt Service Coverage Ratio (DSCR)

- Used to qualify for DSCR loans
 - Uses property income instead of personal income
- Most lenders want to see a 1.2 DSCR or higher
 - Higher DSCR = more meat in the deal

Formula: **Gross Monthly Rent / Total Mortgage Pmt (PITI) = DSCR**

1% Rule

- Rule of thumb only
- Monthly rent should be 1% or more of the purchase price
- Example: A \$200,000 property that rents for \$2,000/month
- Quick screening but very general

Formula: **(Monthly Rent) / (Purchase Price) = 1% or higher**

Vacancy Rate

- Considers the potential income lost due to vacancy
- Budget for 5-8% in calculations (generally)
- Varies by market and property type
- Example: (1500 rent/month) x 5% = \$75 loss to vacancy/month
- Minimize by pricing at or slightly below market rent

Formula: **(Gross Potential Rent) x (Vacancy %) = \$Loss to Vacancy**

Net Operating Income (NOI)

- Used to calculate cap rates
- Does NOT include debt service or CapEx
- Shows property's operational profitability

Formula: **Gross Income - \$ Loss to Vacancy - Operating Expenses = NOI**

Cap Rate

- More commonly used in multifamily/commercial
- Estimates potential return as a percentage
- Good for comparing different properties and estimating value

Formula: **(NOI) / (Property Value or Purchase Price) = Cap Rate %**

Operating Expense Ratio (OER) & 50% Rule

- 50% rule estimates 50% of gross income goes to operating expenses
- OER should ideally be under 50%
- High OER can indicate: low rents, high expenses, poor management, or older property

Formula: **(Operating Expenses) / (Gross Income) = OER**

Example Deal

Acquisition & Financing Inputs		Financing Outputs (30-Year)	
Purchase Price	\$100,000	Loan Amount \$	\$80,000
Down Payment %	20.00%	Down Payment \$	\$20,000
Interest Rate	7.200%	Closing Costs	\$3,360
Mortgage Term (years)	30	Cash to Close	\$23,360
Initial Improvements/Repairs	\$7,000	Mortgage Payment (Principal + Interest) (30)	\$543.03
Commissions Applied To Closing	\$0	Total Debt Service (PITI) (30)	\$721.20
Seller Concessions	\$0	DSCR (30)	2.10
Number of Units	2	Total Cash Invested	\$30,360

Revenue Inputs		NOI & Cap Rate	
Potential Gross Rent (Monthly)	\$1,515	Potential Gross Income (PGI)	\$18,180.00
Other Income	\$0	Annual \$ Loss to Vacancy	\$909.00
Annual Operating Expenses		Effective Gross Income (EGI)	\$17,271
Property Taxes	\$671.08	Operating Expenses	\$7,501.18
Insurance	\$1,467.00	NOI	\$9,769.82
Vacancy Rate	5%	Cap Rate	9.8%
R&M Budget (% of gross rent)	15%	CoC Metrics (Monthly)	
CapEx Budget (% of gross rent)	5%		
PM Fees (% of effective gross rent)	10%	Phantom' Cash Flow	\$649.87
HOA Dues	\$0	Pure Cash Flow	\$271.12
Utilities (Yearly)	\$0	Phantom Cash-on-Cash ROI	25.7%
Advertising (Yearly)	\$0	Pure Cash-on-Cash ROI	10.7%
Administrative (Yearly)	\$0	1% Rule?	1.52%
Repairs & Maintenance (\$/year)	\$2,727		



Spreadsheet
Download

Deal Analysis Tools



Simple
Spreadsheet
(free)



DealCheck



BiggerPockets
Calculator

Mitigating Risk

- Thorough tenant screening
- Maintain 3-6 months of reserves for operating expenses
- Adequate insurance coverage (landlord, renters, umbrella)
- Preventative/routine maintenance
- Diversify & spread capital across more properties/markets
- Consider professional management
- LLC structure for asset protection



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Exit Strategies

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1031 Exchanges

- Defer capital gains taxes upon sale by rolling proceeds into next property
- Requires like-kind exchange
 - Can go from SFH to MF
- 'Buy, Borrow, Die' strategy
 - Defer until you die - heirs inherit step-up

1031 Exchange Guidelines

- Qualified intermediary must hold proceeds
- 45 days to identify up to 3 replacement properties
- 180 days to close on replacement property
- Replacement must be equal or greater value (to defer 100%)
- Like-kind investment only

Reverse 1031 Exchanges

- Buy replacement property before selling original
- Useful when you have cash and found replacement property
- 45 days to identify property to sell after purchase
- 180 days to complete sale of original property
- Same like-kind, title, and value requirements

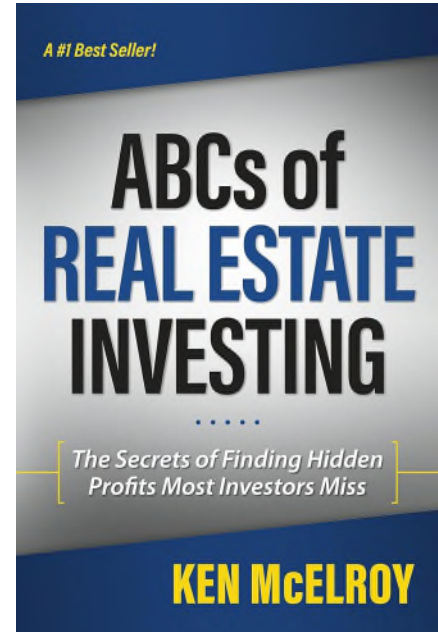
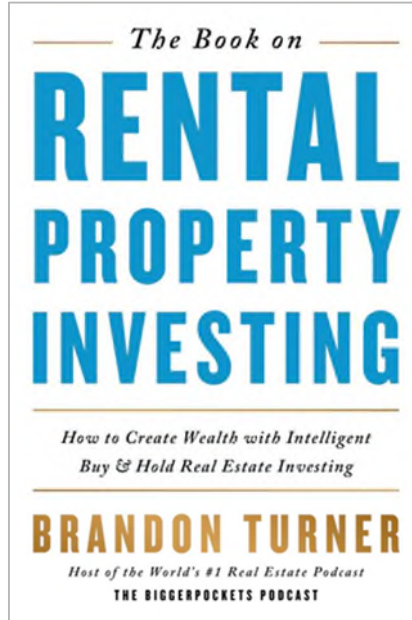
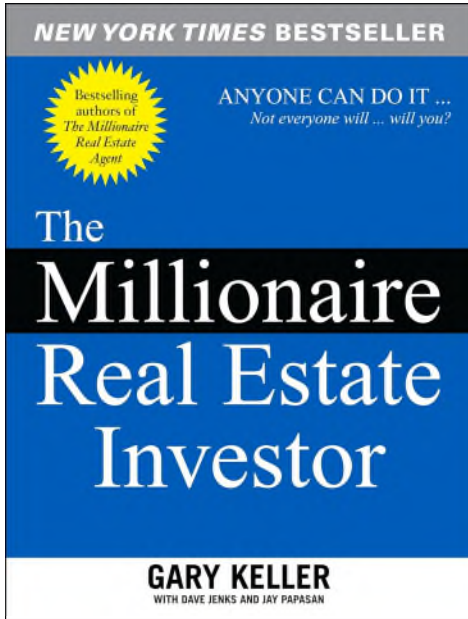
Cash-Out Refinancing

- Pull equity and cash without tax consequences
- Keep property and all ownership benefits
- Redeploy capital for diversification & reinvestment (growth/scaling)
- Fund lifestyle while retaining assets for heirs (retirement)

For the readers in the group...

Foundational RE Investing

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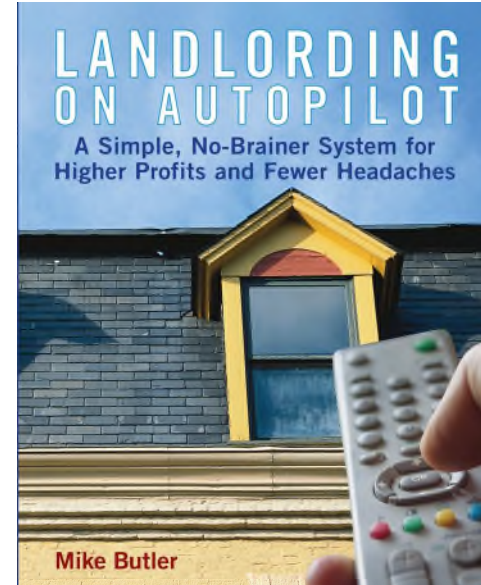
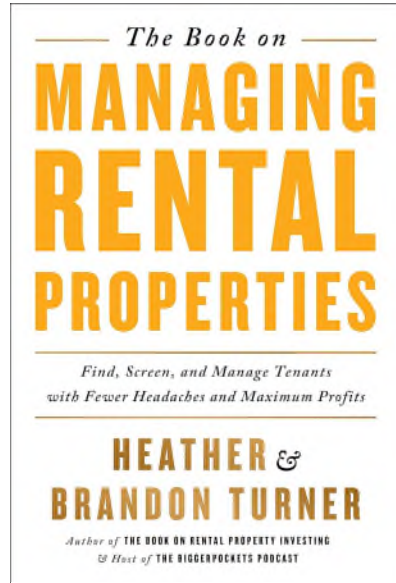


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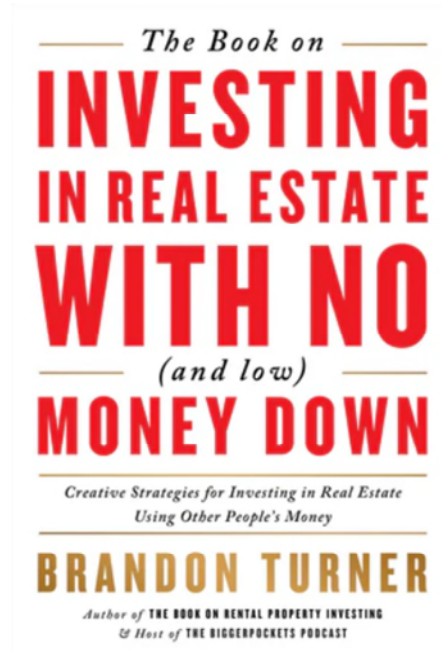
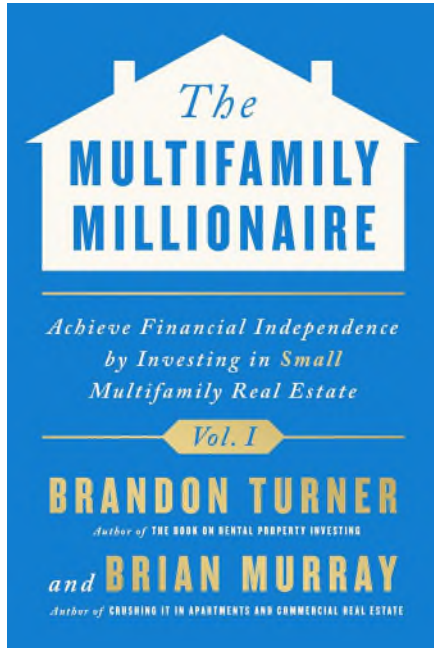
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Landlording & Self Management



Honorable Mentions



Thank you!