TUTORIAL #3 - MAKING ADJUSTMENTS TO IMPROVE POTENTIAL CASH FLOW

Visit **www.sentravest.com** to see a video demonstration of this tutorial.

This is one of three tutorials provided in the **USER MANUAL** available both within the app and on the website.

In this tutorial, we are **evaluating the purchase** of a hypothetical rental **up/down duplex (multi-unit)**. From the listing we know:

- The asking price is $965,000 (you may purchase for less or more but this is a fair starting point)
- You are going to base your initial analysis on a 20% down payment, although you may want to go lower (or need to go higher) depending on circumstances and the outcome of the analysis.
- The current mortgage rate available is 3.1%
- You are able to negotiate a 30-year amortization period
- The reported property taxes are $4,250
- You believe the upper portion would rent for at least $2,100 per month and the lower portion would rent for at least $1,900 per month but you would like to assess different rents and the effect on the amount of your down payment in order to retain positive cash flow
- There is a detached garage/shop with its own entrance that may have rental potential

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Data Entry

Create a New Property
- Press the **"+" button** to bring up the first of four key data entry screens. Only a few elements are required data and we shall deal with those only in this example.

Property ID

Enter a Property Nickname
- This is the name under which the property will be saved for future edits, updates, and reports
- For this example, we will use **Duplex1**

Financing Data

Enter the Base Purchase Price
- Typically, the list price or asking price to begin the analysis. This number may change over time as you include costs in the purchase price (improvements, etc.). This is the number upon which the mortgage requirements will be calculated where you are making a down payment.
- For this example, we will use **$965,000**

Enter the Down Payment %

- Any value from 0% to 100% will work. For this example, we will use **20%**

Enter the Mortgage Interest Rate

- Any value from 0% to 100% but in this example, we will use **3.1%**

Enter the Amortization Period

- In this example, we will use **30** (years)

Key Expenses

Enter the Annual Property Tax Estimate

- In this example, we will use **$4,250**

In this exercise, we are going to skip over the "Annual OTHER Expenses 1" and "Monthly Strata / HOA Fee", leaving them both at $0.00

Revenue Forecast

For the **First Unit**

Enter Monthly Rent / Lease 1

- In this example, we will use **$2,100**

Enter the # of Units at this Rent / Lease

- In this example, we will use **1**

Enter the Vacancy Rate

- In this example, we will use **0%**

For the **Second Unit**

Enter Monthly Rent / Lease 2

- In this example, we will use **$1,900**

Enter the # of Units at this Rent/Lease

- In this example, we will use **1**

Enter the Vacancy Rate (for the second unit)

- In this example, we will use **0%**

Supplementary Revenue

Although we will return, at this point in this exercise, we are going to skip over BOTH the "Supplementary Revenue" fields, leaving them at $0.00

CHECK CASH FLOW

There are two ways to do this:

1. Throughout the initial four data entry screens, there is a **"CHECK CASH FLOW"** button at the bottom of each screen

2. Also, in the top right corner, you will see a **"3-Dot"** menu icon. If you click on that at any time, you can also calculate cash flow based on data entered and any future updates.

Press the **"CHECK CASH FLOW"** button (at the bottom of the page)

Check Cash Flow	
Recalculated Purchase Price (incl. Mortgageable Costs)	$965,000.00
Down Payment (after Adjustments, incl. Deposit)	$193,000.00
Mortgage Required	$772,000.00
Total Monthly Revenue (after Adjustments)	$4,000.00
Monthly Mortgage Payment	$3,296.57
Total Monthly Operating Expenses (after Adjustments)	$354.17
Estimated Average Monthly Cash Flow 🟢	**$349.27**
CAP Rate	4.53 %
Cash on Cash (ROI)	2.17 %
Total Cost of Debt at 30 year Amortization	$414,763.98
OK	

As you can see, based on the information entered thus far, this investment property would yield a **positive monthly cash flow of $349.27. However, this is just a starting point.**

The mortgage payment is shown and also the total monthly expenses, including HOA fees, a monthly allowance for property taxes, and the mortgage payment.

Note that this cash flow number does not yet consider the expenses associated with owning such a duplex... and does not necessarily reflect the best rental scenario.

Decision Point

If your goal was to obtain a high-value positive cash flow, using the sample data as-is, with <u>enough of a margin</u> to absorb both expected and some unexpected costs... then this may be the time to consider another property.

However, in this scenario, you feel the property has good revenue potential. There is an opportunity to increase the rents following some minor short-term renovations, and you may decide to rent the garage/shop separately.

So, let's explore options... and **fine-tune** the analysis.

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Further Analysis with Data Revision

Close the **CHECK CASH FLOW** by clicking on **"OK"**

First, let's explore the expenses side of the equation.

Proceed to Screen #2 of the Property - Check Cash Flow section. You can do this by clicking **"NEXT"** at the bottom of Screen #1... or by simply clicking the **"2"** at the top of the screen.
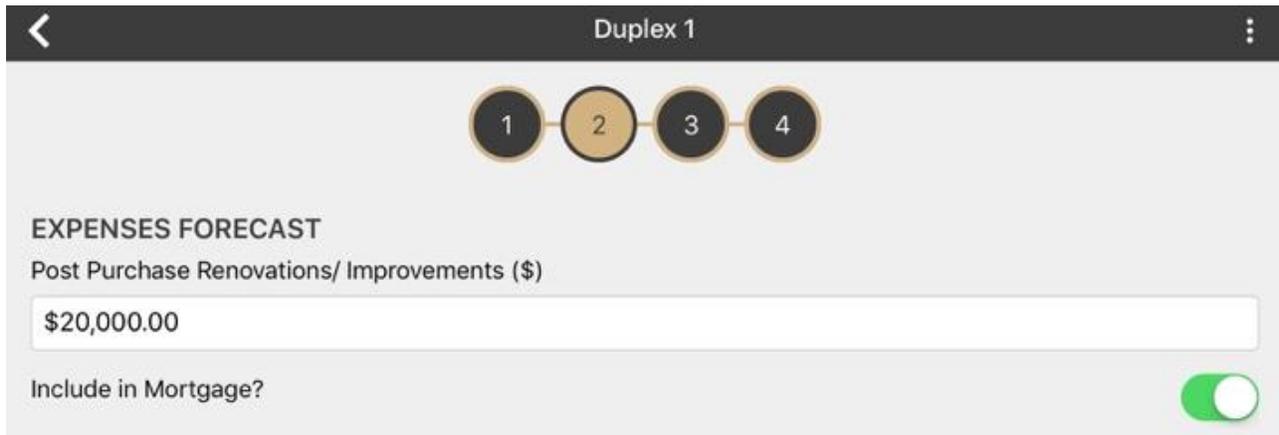
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Detailed Expenses Forecast

Under Detailed Expenses Forecast in **Screen 2**...

Enter the Post Purchase Renovations/Improvements
- In this example, we will use **$20,000**
- Toggle the **"include in mortgage?"** To the right so it turns green for '**yes**, include'

In this exercise, we are going to skip over several fields, leaving them at $0.00

Enter the Annual Insurance Premium
- In this example, we will use **$175** (the cost of putting a rider on your personal insurance)

Enter the Annual Repairs Estimate
- In this example, we will use **$5,000**

While you could add more, the data entered thus far will serve to illustrate the point.

Press the **"CHECK CASH FLOW"** button... (either at the bottom of the screen or under the **"3-Dot"** menu in the top right of the screen)

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Check Cash Flow

Recalculated Purchase Price (incl. Mortgageable Costs)	$985,000.00
Down Payment (after Adjustments, incl. Deposit)	$197,000.00
Mortgage Required	$788,000.00
Total Monthly Revenue (after Adjustments)	$4,000.00
Monthly Mortgage Payment	$3,364.89
Total Monthly Operating Expenses (after Adjustments)	$785.42
Estimated Average Monthly Cash Flow 🔴	**($150.31)**
CAP Rate	4.00 %
Cash on Cash (ROI)	(0.92 %)
Total Cost of Debt at 30 year Amortization	$423,360.12

OK

By adding in some perfectly reasonable expenses, **the cash flow is now 'upside down'** and currently shows a **negative monthly cash flow of ($150.31).**

Time to improve the revenue side of the equation to re-evaluate this property!

Press **"OK"**

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Press either the **"1"** at the top of the screen to return to the first data entry screen.

Scroll down to the Rent/Lease section...

In this example, you now expect the improvements budget of $20,000 will enable you to boost the expected rents to the market rates of $2,600 for the upper, $2,300 for the lower... and you have secured a potential tenant for the garage/shop at $500 per month.

Enter Monthly Rent/Lease **1** - *the upper level of the duplex in this scenario*
- In this example, we will change $2,100 **to $2,600**

Enter Monthly Rent/Lease **2** - *the lower level of the duplex in this scenario*
- In this example, we will change $1,900 **to $2,300**

Supplemental Revenue

Enter Monthly OTHER Income - *the garage/shop in this scenario*
- In this example, we will use **$500**

This also could be entered as a value for Rent/Lease 3, with 1 unit at the indicated rate of $500/month.

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CHECK CASH FLOW

Press the "**CHECK CASH FLOW**" button… (either at the bottom of the screen or under the **"3-Dot"** menu in the top right of the screen)

Check Cash Flow	
Recalculated Purchase Price (incl. Mortgageable Costs)	$985,000.00
Down Payment (after Adjustments, incl. Deposit)	$197,000.00
Mortgage Required	$788,000.00
Total Monthly Revenue (after Adjustments)	$5,400.00
Monthly Mortgage Payment	$3,364.89
Total Monthly Operating Expenses (after Adjustments)	$785.42
Estimated Average Monthly Cash Flow 🟢	**$1,249.69**
CAP Rate	5.74 %
Cash on Cash (ROI)	7.61 %
Total Cost of Debt at 30 year Amortization	$423,360.12
OK	

By considering some perfectly reasonable expenses, and then responding with some updated target revenue numbers, the cash flow is now "right side up" and currently shows a **positive monthly cash flow of $1,249.69.**

Press **OK**

Press "**<**"

Press "**X**" to return to the Portfolio

VIABILITY SUMMARY Report - In-App Version

Press "**<**" to return to the Property Snapshot Menu.

Select **"Viability Summary"** from the list of reports in the Property Snapshot.

Pressing the **"+"** will expand a section of any report
Pressing the **"-"** will collapse the section of any report

Some of the projected data calculations are presented in sub-tables.
You can swipe each table left or right to view the data
(may be required, depending on the screen size of your mobile device)

Expand the "**Summary**" section (press the **"+"**). and see:
- Total purchase price, including and costs you have included for mortgage purposes
- Adjusted down payment (reflecting any mortgage inclusions, tied to your down payment %
- Mortgage required
- Total monthly expenses captured thus far
- Total monthly revenue captured thus far
- Monthly Net Income / Loss before taxes (the indicated cash flow)

Collapse this section by pressing "-"

Expand the "**Income Statement**" section (press the "+") and see:
- Gross Annual Rental / Lease Income
- Any deductions indicated by the vacancy rate you entered
- Gross Annual Rental / Lease Income
- Total Annual OTHER Income, if any
- Gross Annual Operating Income
- Total Annual Operating Expenses
- Net Operating Income (excluding mortgage payments)
- Total Annual Mortgage Payments
- Before Tax Annual Cash Flow

Collapse this section by pressing "-"

Expand the **"Operating Ratios / Indicators"** section (press the **"+"**) and see:
- Capitalization (CAP) Rate
- Cash on Cash / Return on Investment (COC)
- Gross Rent Multiplier (GRM)
- Net Income Multiplier (NIM)
- Debt Coverage Ratio (DCR)
- Expense Ratio per Rental Unit (ER)
- Price per Unit (PPU)
- Average price per Total Area in Square Feet/Meters

Collapse this section by pressing "-"

VIABILITY SUMMARY Report - Shareable PDF Version

You can view this (and any) report in **two formats**:
- the in-app version of the report (with drop-down menu sections)
- the formal PDF version suitable for viewing on your device, printing, etc. using device capabilities

The formal PDF version of this report is automatically created by **Real Estate Investor** when the report is selected.

Press the ⬆ and then select your on-device option to "send" it to:
- a PDF - the PDF version of the report can be viewed on your device
- a printer
- an email
- a text
- etc.

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