



# **REAL ESTATE INVESTING**

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# INTRODUCTION

fig. 1

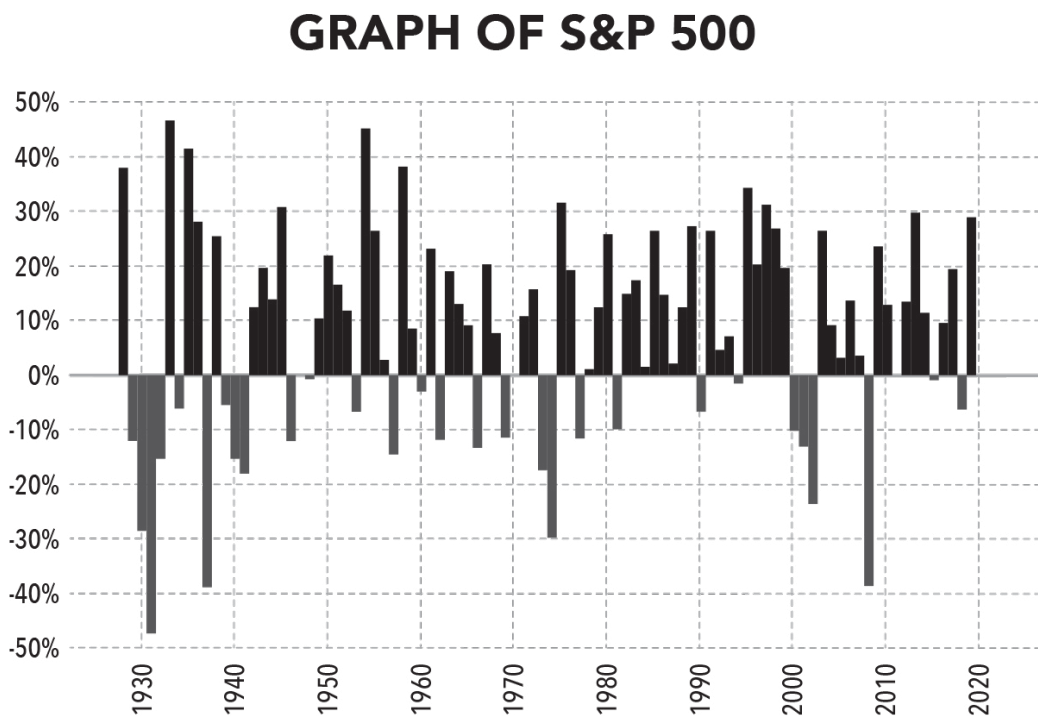


fig. 2

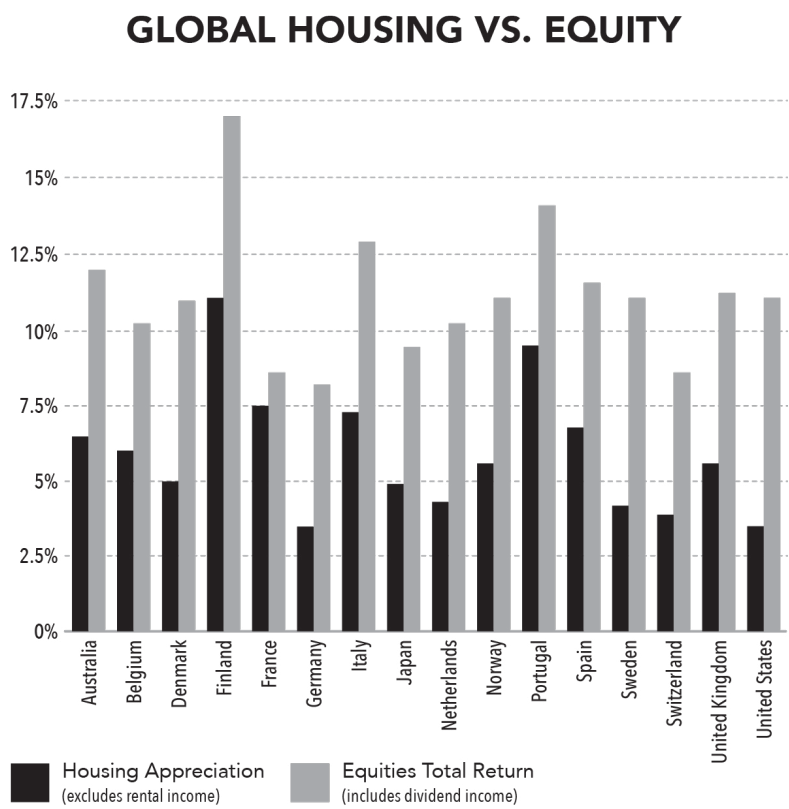


fig. 3

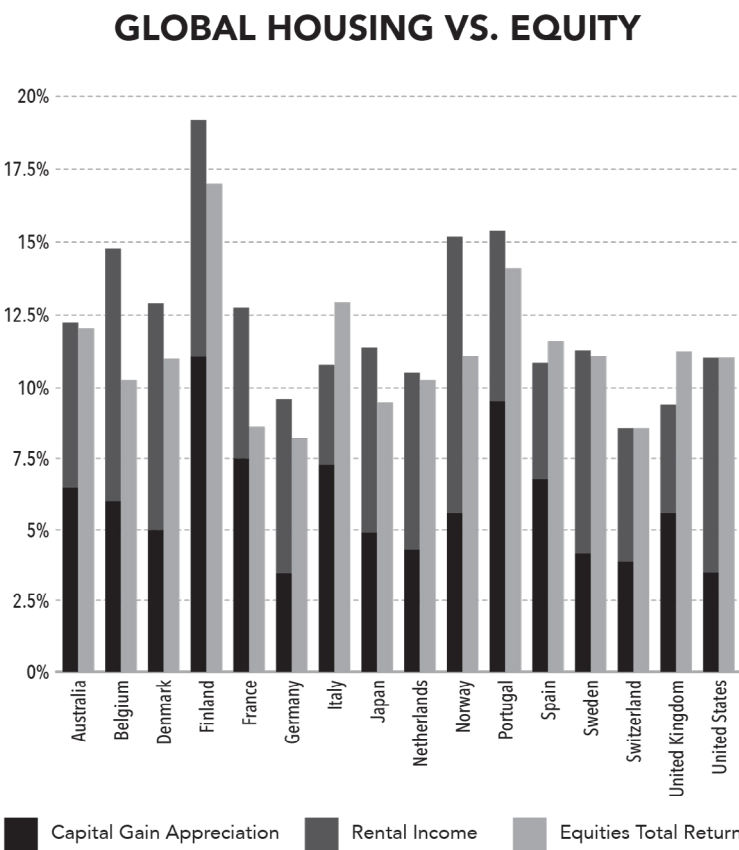


fig. 4

### THE RATE OF RETURN ON HOUSING AND EQUITIES

	HOUSING		EQUITIES	
	Capital Gain Share of Total Return	Rental Income Share of Total Return	Capital Gain Share of Total Return	Dividend Income Share of Total Return
Australia	53.0%	47.0%	59.0%	41.0%
Belgium	40.4%	59.6%	62.3%	37.7%
Denmark	38.5%	61.5%	55.9%	44.1%
Finland	57.9%	42.1%	69.8%	30.2%
France	58.8%	41.2%	56.5%	43.5%
Germany	36.6%	63.4%	52.7%	47.3%
Italy	67.6%	32.4%	72.0%	28.0%
Japan	42.5%	57.5%	71.8%	28.2%
Netherlands	40.2%	59.8%	52.6%	47.4%
Norway	36.6%	63.4%	59.8%	40.2%
Portugal	61.6%	38.4%	80.4%	19.6%
Spain	62.3%	37.7%	57.6%	42.4%
Sweden	37.0%	63.0%	62.8%	37.2%
Switzerland	45.7%	54.3%	58.0%	42.0%
UK	58.6%	41.4%	58.2%	41.8%
USA	31.8%	68.2%	60.5%	39.5%

## CHAPTER 1

### Is Real Estate Investing for Me?

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fig. 5



fig. 6

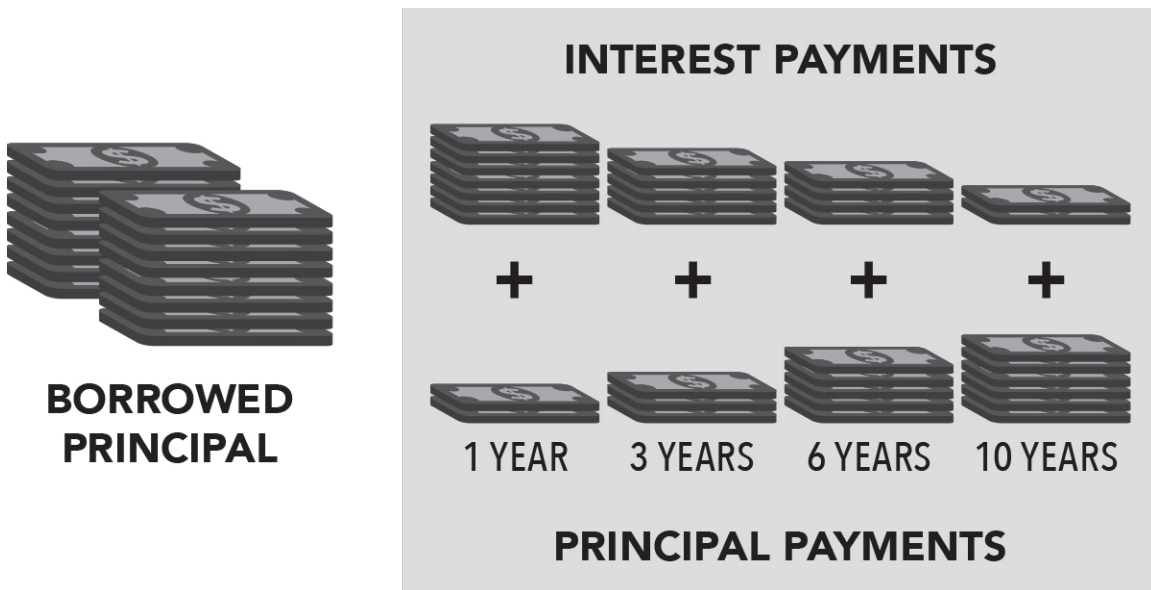


fig. 7

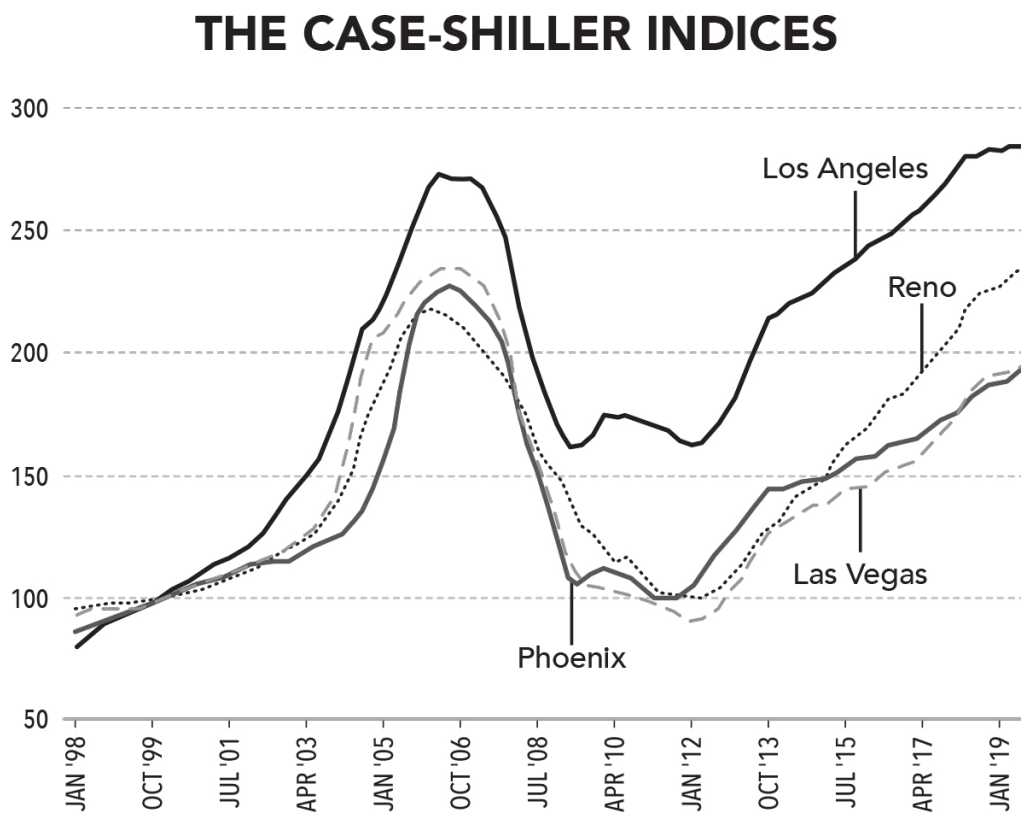
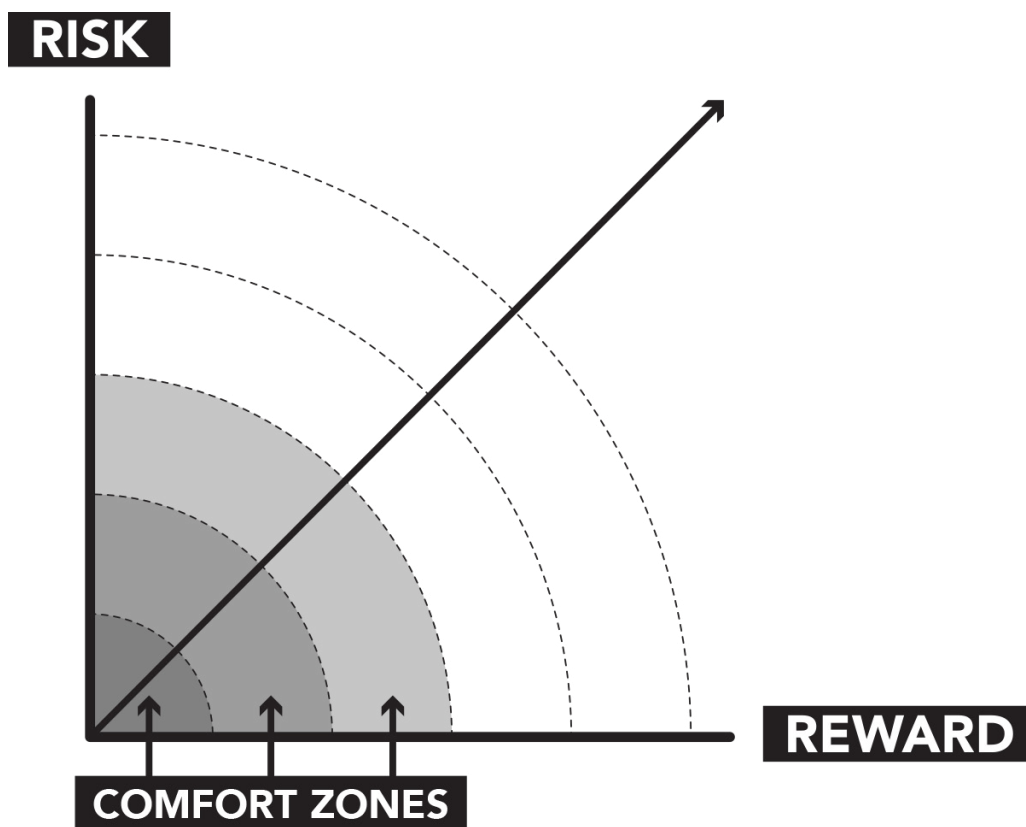


fig. 8



## CHAPTER 2

### The Vehicles of Real Estate Investing

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fig. 9

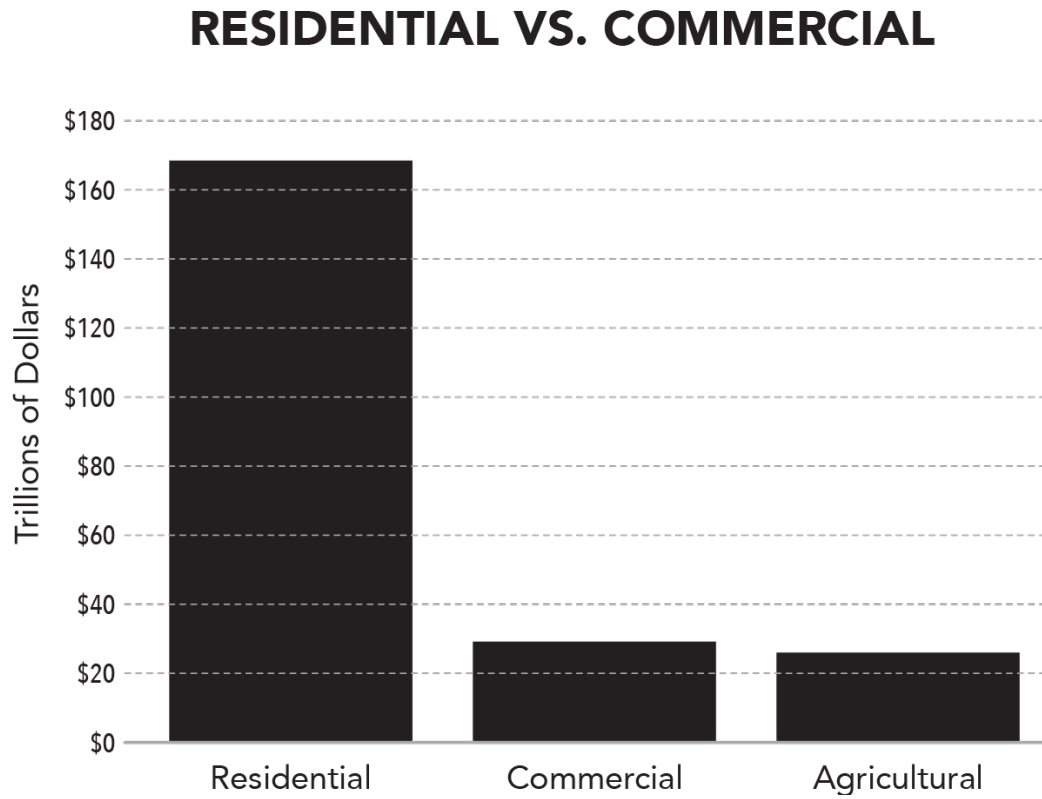


fig. 10



fig. 11

REAL ESTATE SCORECARD				
Single Family Homes (SFH)				
Advantages			Disadvantages	
<ul style="list-style-type: none"><li>• Strong long-term fundamentals</li><li>• Tax advantages</li><li>• Easier to get started</li><li>• Attracts quality tenants</li><li>• Easiest to sell</li><li>• Cheaper financing</li></ul>			<ul style="list-style-type: none"><li>• Limited profit potential per property</li><li>• Concentrated tenant/property/market risk</li><li>• 100% vacancy possible</li><li>• Fewer financing options</li><li>• Repairs and maintenance</li></ul>	
Cost	Cash Flow	Appreciation	Investment Return	Fundamentals
4	5	8	7	9
All scores 1–10 (1 = worst, 10 = best)				

fig. 12



fig. 13

REAL ESTATE SCORECARD				
Multiunit Properties (1 to 4 units)				
Advantages			Disadvantages	
<ul style="list-style-type: none"><li>• Easier to manage</li><li>• More cost-effective per unit</li><li>• Investor can live in a unit</li><li>• Spreads vacancy risk</li><li>• Potential access to commercial financing</li></ul>			<ul style="list-style-type: none"><li>• Living with tenants</li><li>• Higher cost to insure</li><li>• Sometimes lower-quality tenants</li></ul>	
Cost	Cash Flow	Appreciation	Investment Return	Fundamentals
6	8	6	7	9
All scores 1–10 (1 = worst, 10 = best)				

fig. 14



fig. 15

REAL ESTATE SCORECARD				
Townhouses				
Advantages			Disadvantages	
<ul style="list-style-type: none"><li>• Affordable</li><li>• Good locations</li><li>• Less repairs and maintenance</li><li>• Easier to manage</li><li>• Tend to be newer</li><li>• Higher rental yields</li><li>• More tenant amenities</li></ul>			<ul style="list-style-type: none"><li>• HOA fees</li><li>• Costlier than condominiums</li><li>• Tougher to finance</li><li>• Lower appreciation potential</li><li>• Subject to community restrictions</li></ul>	
Cost	Cash Flow	Appreciation	Investment Return	Fundamentals
7	6	4	6	8
All scores 1–10 (1 = worst, 10 = best)				



fig. 16



fig. 17

REAL ESTATE SCORECARD Condominiums				
Advantages			Disadvantages	
<ul style="list-style-type: none"><li>• Affordable</li><li>• Good locations</li><li>• Least repairs and maintenance</li><li>• Easier to manage</li><li>• Tend to be newer</li><li>• Extensive tenant amenities</li></ul>			<ul style="list-style-type: none"><li>• HOA fees</li><li>• Harder to sell</li><li>• Tougher to finance</li><li>• Lower appreciation potential</li><li>• Subject to community restrictions</li><li>• Most sensitive to market cycles</li></ul>	
Cost	Cash Flow	Appreciation	Investment Return	Fundamentals
8	7	3	6	6
All scores 1–10 (1 = worst, 10 = best)				

fig. 18

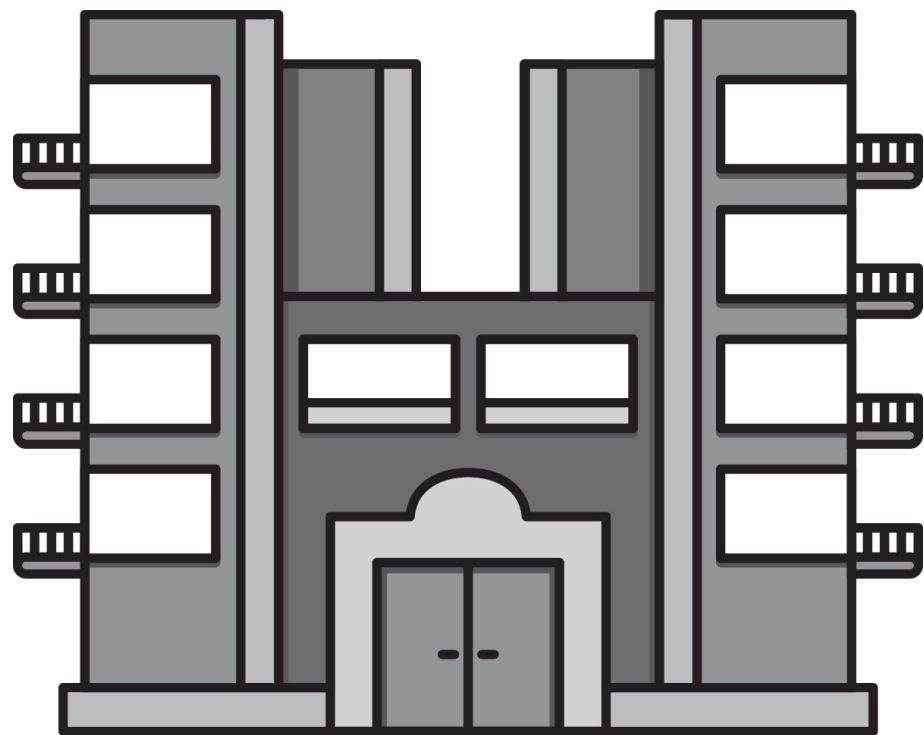


fig. 19

REAL ESTATE SCORECARD				
Condotels (new and developing models)				
Advantages			Disadvantages	
<ul style="list-style-type: none"><li>• Good locations</li><li>• Easy short-term rental conversion</li><li>• On-site management</li><li>• Extensive tenant amenities</li><li>• Cater to new living demands</li></ul>			<ul style="list-style-type: none"><li>• New and unproven</li><li>• Higher association fees</li><li>• Subject to community restrictions</li><li>• Potentially difficult to sell</li></ul>	
Cost	Cash Flow	Appreciation	Investment Return	Fundamentals
7	8	5	5	9
All scores 1–10 (1 = worst, 10 = best)				

fig. 20



fig. 21

REAL ESTATE SCORECARD				
Multifamily (apartments)				
Advantages			Disadvantages	
<ul style="list-style-type: none"><li>• More financing options</li><li>• Additional income sources</li><li>• Tax advantages</li><li>• Strong long-term fundamentals</li><li>• Lowest price per unit</li><li>• Economies of scale</li></ul>			<ul style="list-style-type: none"><li>• Costs more</li><li>• More sophisticated competition</li><li>• More regulations than SFH rentals</li><li>• More complex than SFH rentals</li><li>• Concentrated risk in single property</li><li>• More expenses overall</li></ul>	
Cost	Cash Flow	Appreciation	Investment Return	Fundamentals
3	9	6	5	10
All scores 1–10 (1 = worst, 10 = best)				

fig. 22



fig. 23

REAL ESTATE SCORECARD				
Retail				
Advantages			Disadvantages	
<ul style="list-style-type: none"><li>• More consistent returns than office space</li><li>• Generally long leases</li><li>• More triple net leases</li><li>• Many options in size and type</li><li>• Opportunity for novel models</li><li>• Higher rental yields</li></ul>			<ul style="list-style-type: none"><li>• Sensitive to current economy</li><li>• More susceptible to obsolescence</li><li>• Harder to find tenants</li><li>• Susceptible to market disruptions</li><li>• Growth of e-commerce</li><li>• Experiencing “retail apocalypse” of store closures</li></ul>	
Cost	Cash Flow	Appreciation	Investment Return	Fundamentals
3	9	6	5	10
All scores 1–10 (1 = worst, 10 = best)				

fig. 24

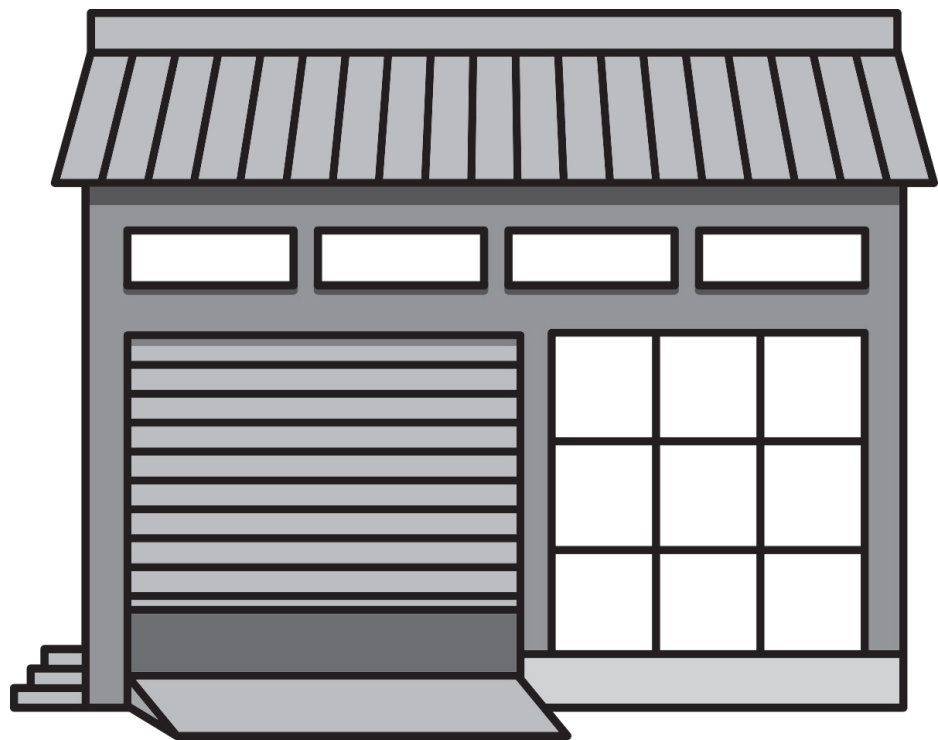


fig. 25

REAL ESTATE SCORECARD				
Industrial				
Advantages			Disadvantages	
<ul style="list-style-type: none"><li>• Medium to long leases</li><li>• More triple net leases</li><li>• Many options in size and type</li><li>• Lower operating expenses vs office and retail</li><li>• More recession resistant</li></ul>			<ul style="list-style-type: none"><li>• Difficult and costly to turn over tenants</li><li>• Larger or single tenant risk</li><li>• Low available supply</li></ul>	
Cost	Cash Flow	Appreciation	Investment Return	Fundamentals
6	9	3	7	7
All scores 1–10 (1 = worst, 10 = best)				

fig. 26

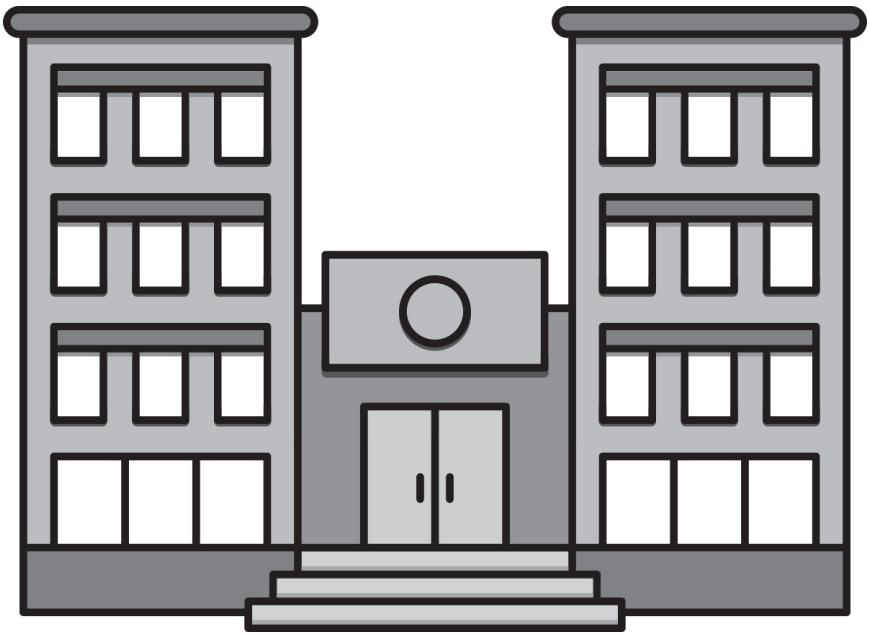


fig. 27

REAL ESTATE SCORECARD				
Office				
Advantages			Disadvantages	
<ul style="list-style-type: none"><li>• Outperformance during strong economic cycles</li><li>• Growth of shared office models</li><li>• Medium- to long-term leases</li></ul>			<ul style="list-style-type: none"><li>• Underperforms in recessions</li><li>• Poor space utilization</li><li>• Concentrated sector risk</li><li>• High capital expenditures per tenant</li><li>• Growing work-from-home trends</li><li>• Difficult and costly to turn over tenants</li></ul>	
Cost	Cash Flow	Appreciation	Investment Return	Fundamentals
3	5	5	7	6
All scores 1–10 (1 = worst, 10 = best)				

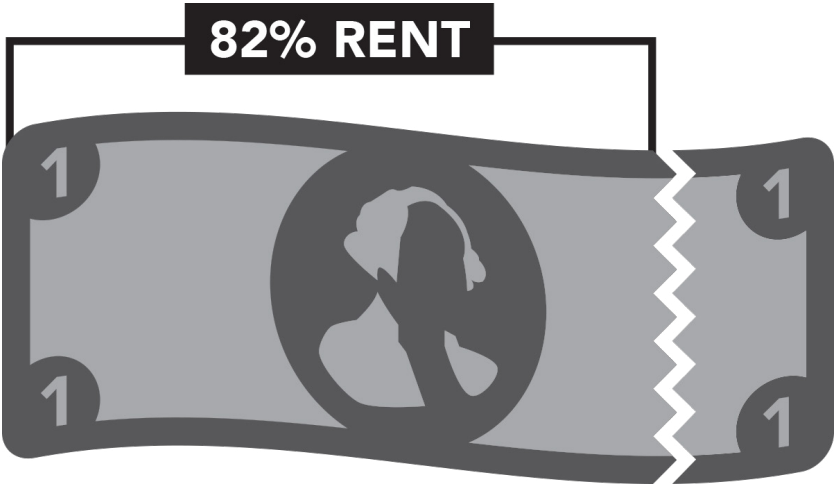
fig. 28

REAL ESTATE SCORECARD				
Mixed-use				
Cost	Cash Flow	Appreciation	Investment Return	Fundamentals
3	8	6	8	9
All scores 1–10 (1 = worst, 10 = best)				

fig. 29



fig. 30



## CHAPTER 3

### Investing Methods

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fig. 31

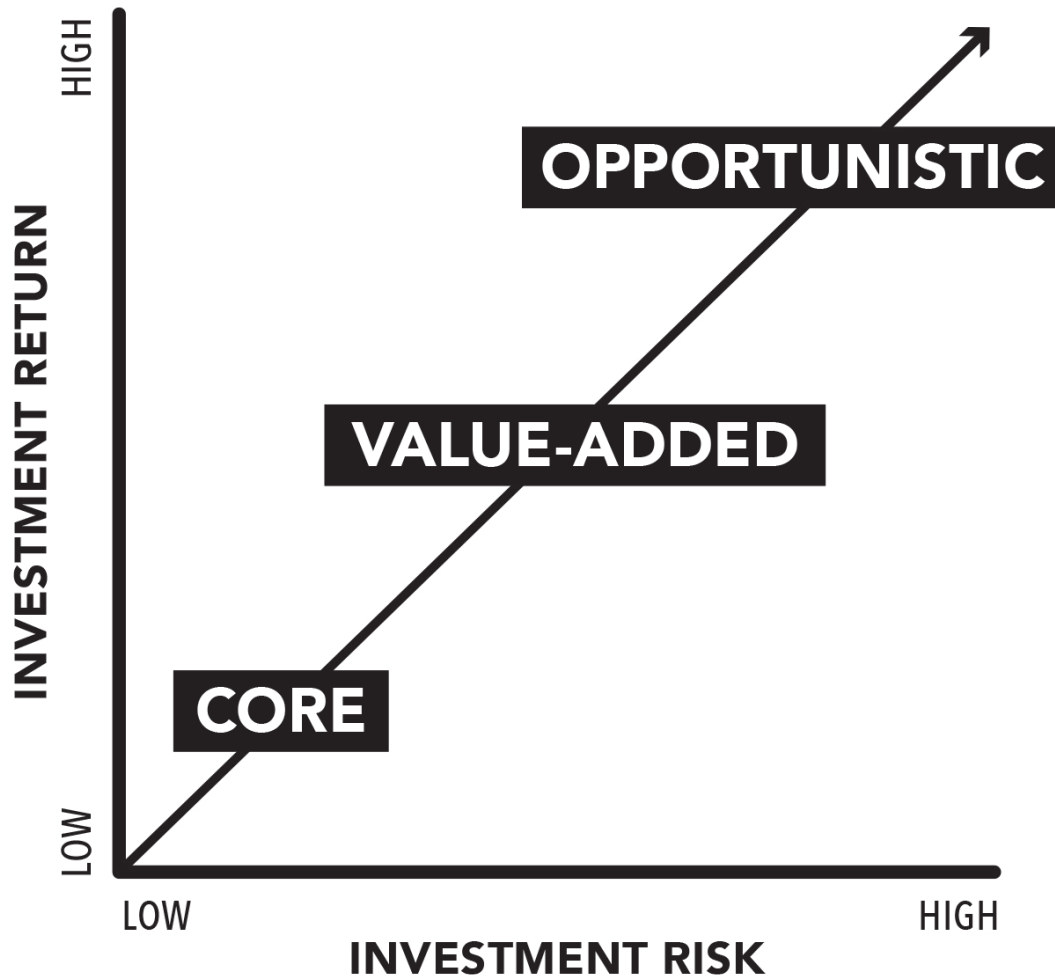
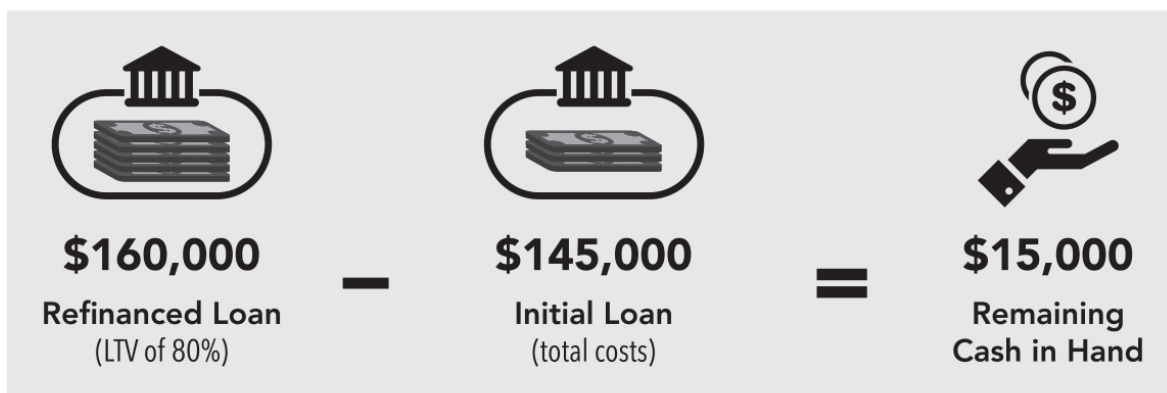
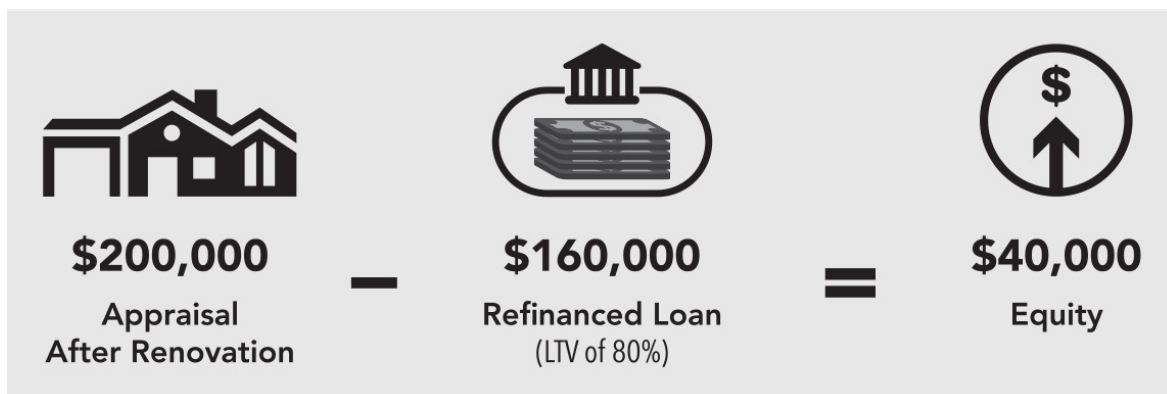




fig. 32

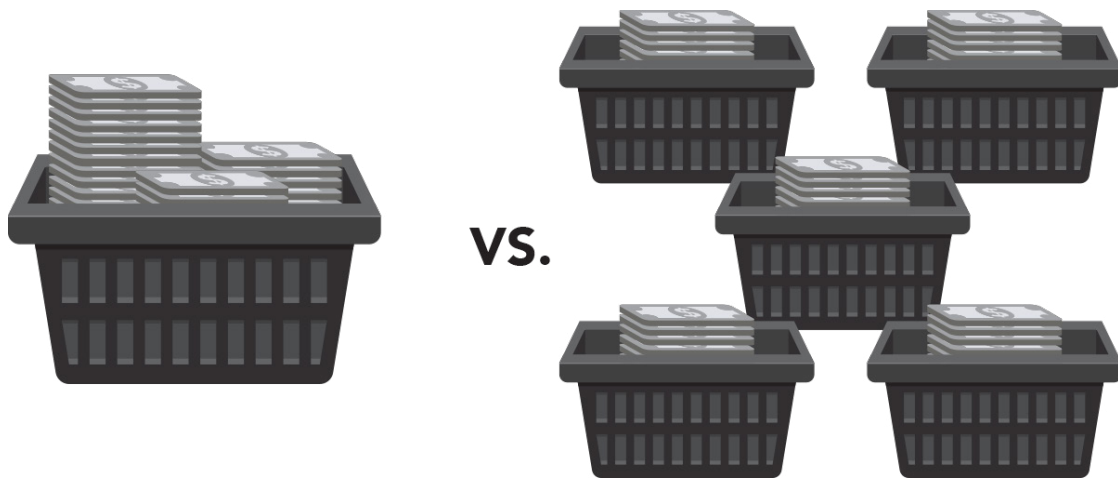


## CHAPTER 4

### Recruiting the Dream Team

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fig. 33



## CHAPTER 5

### Finding Your First Deal

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fig. 34

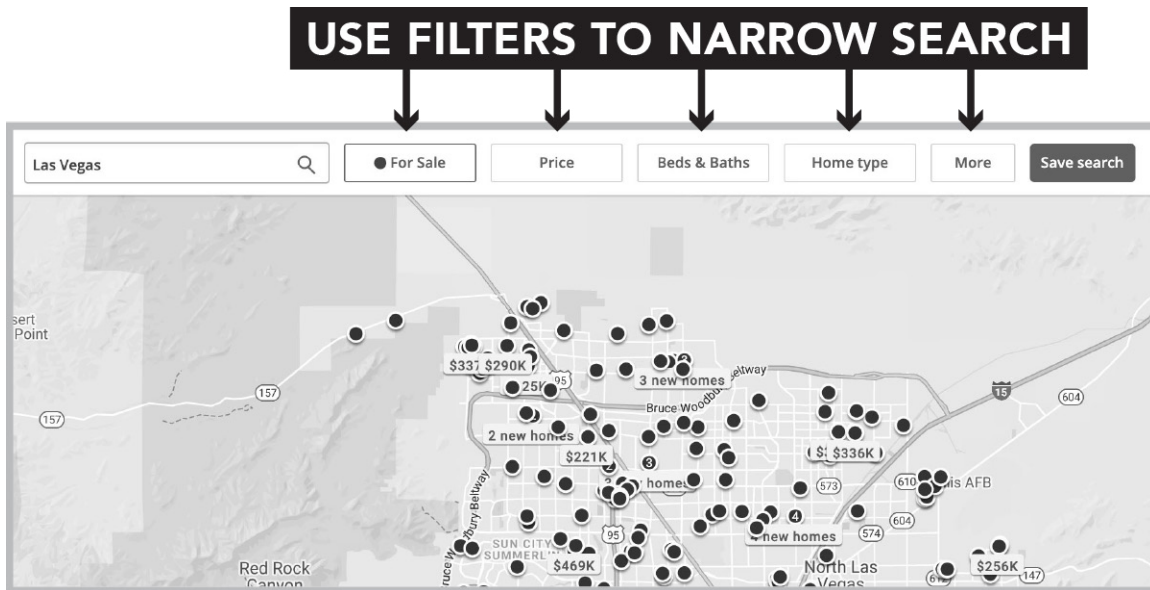


fig. 35



fig. 36

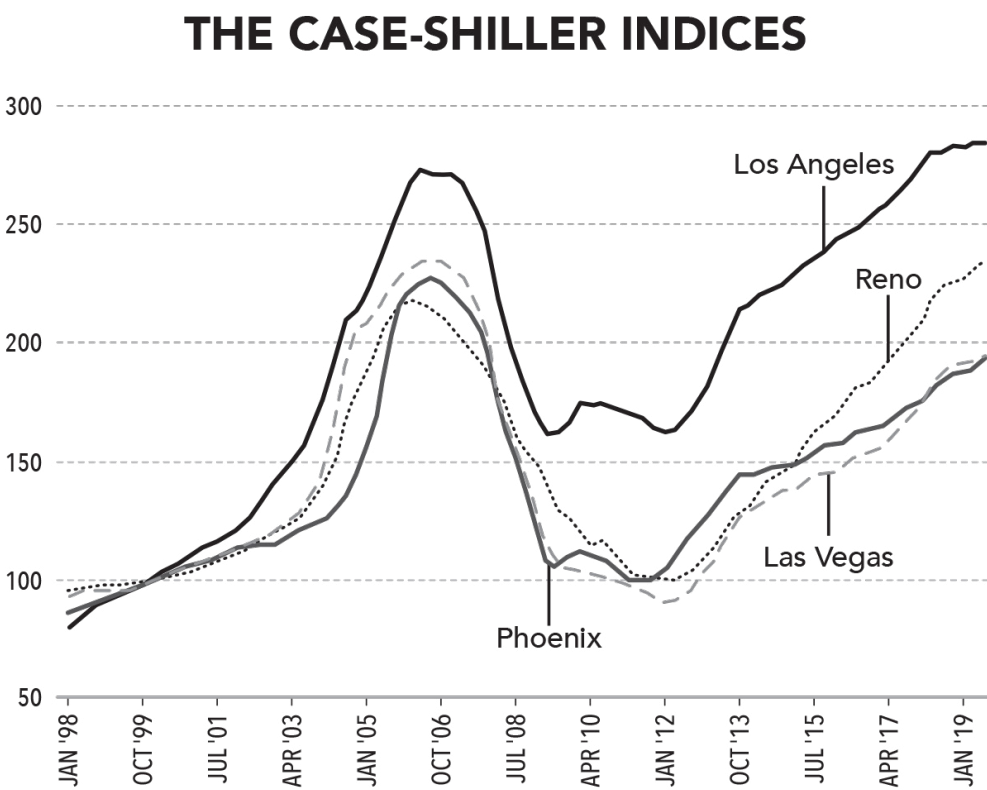


fig. 37

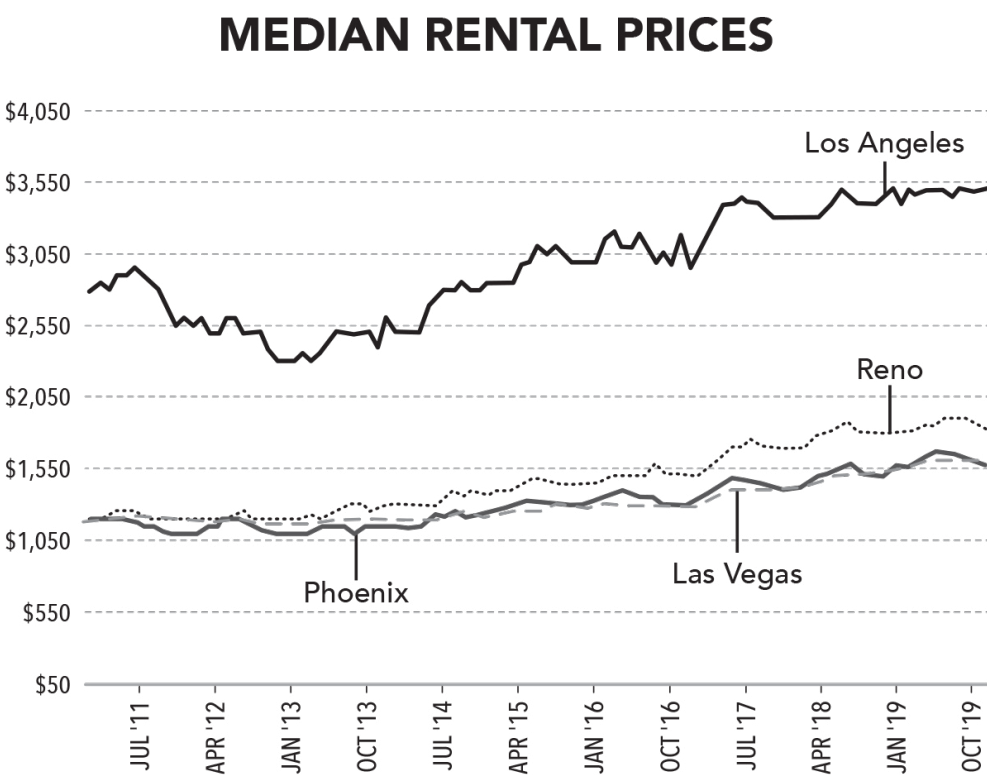
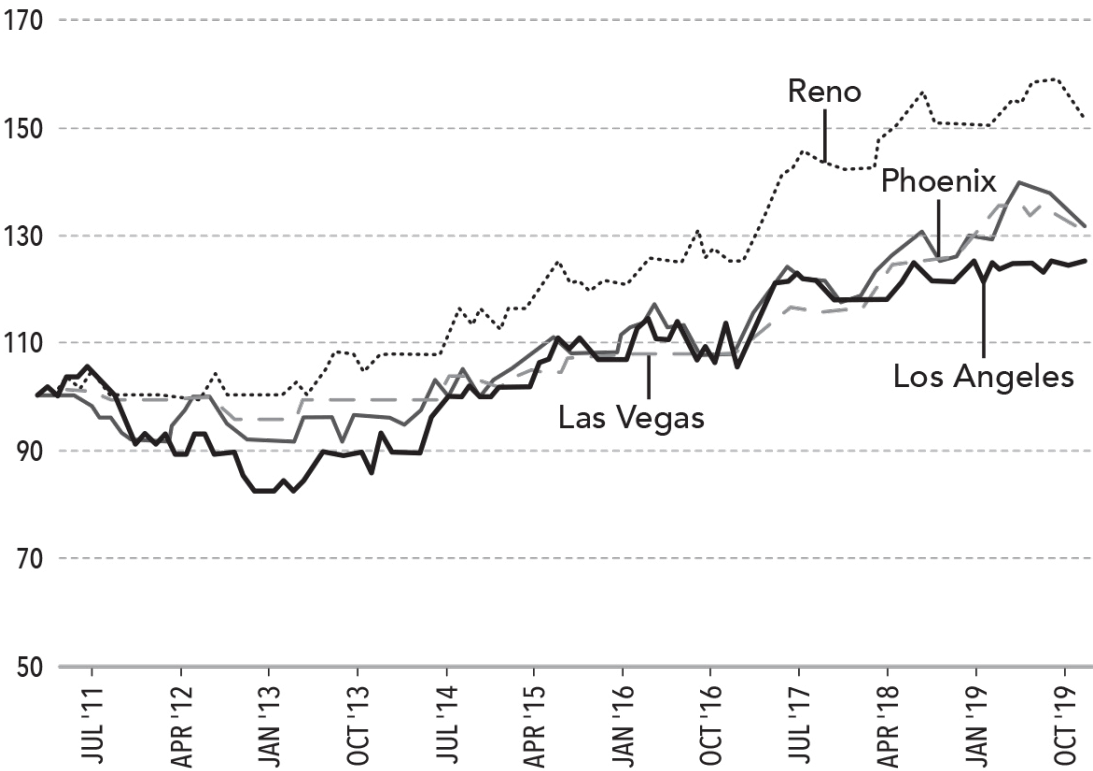


fig. 38

# MEDIAN RENTAL PRICE GROWTH INDEX

OCT '10 HOME PRICES = 100



## CHAPTER 6

### Deal or No Deal?

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fig. 39



fig. 40



fig. 41



fig. 42



fig. 43



fig. 44

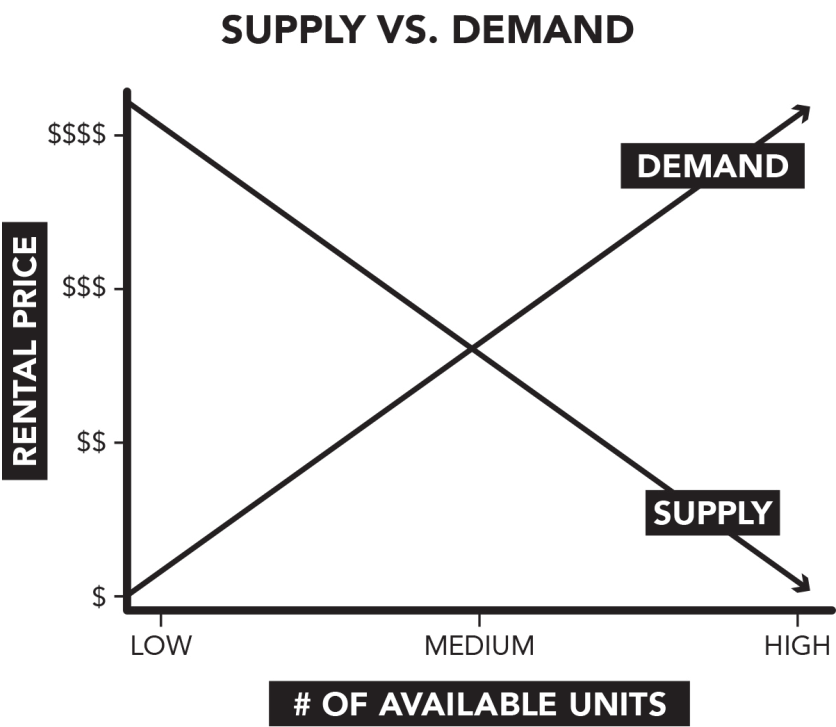


fig. 45

UNIT TYPE	BATHS	S.F.	ASKING RENT	ADJUSTED BASE RENT	DEDICATED PARKING SPACE	WATER	ELECTRIC
1B	1	900	\$1,000	<b>\$990</b>	0	1	0
2B	1.5	1100	\$1,150	<b>\$1,090</b>	1	1	0
1B	1	975	\$1,050	<b>\$990</b>	1	1	0
2B	1	1050	\$1,250	<b>\$1,190</b>	2	1	0
1B	1	1000	\$1,075	<b>\$975</b>	2	1	0
2B	2	1200	\$1,050	<b>\$1,015</b>	0	1	0
Studio	1	650	\$700	<b>\$640</b>	1	1	0
1B	1	850	\$950	<b>\$890</b>	1	1	0
Studio	1	700	\$750	<b>\$670</b>	1	1	1
1B	1	875	\$975	<b>\$905</b>	1	1	0
2B	1.5	1150	\$1,100	<b>\$1,040</b>	1	1	0
3B	2.5	1151	\$1,101	<b>\$901</b>	2	2	1



fig. 46

	S.F.	ASKING RENT	PARKING	WATER	OVEN
Neil's Unit	900	\$1,000	No	Yes	No
Unit A	975	\$1,050	Yes	Yes	No
Unit B	850	\$950	Yes	Yes	No
Unit C	875	\$975	Yes	Yes	Yes

fig. 47

	S.F.	ASKING RENT	ADJUSTED BASE RENT	PARKING (\$25)	WATER	OVEN (\$10)
Unit A	900	\$1,000	\$970	No (-\$25)	Yes	No (-\$10)
Unit B	975	\$1,050	\$1,040	Yes	Yes	No
Unit C	850	\$950	\$930	Yes	Yes	No
Unit D	875	\$975	\$980	Yes	Yes	Yes

fig. 48

Investment	IRR	DAY 1 1/1/20	YEAR 1 1/1/21	YEAR 2 1/1/22	YEAR 3 1/1/23	YEAR 4 1/1/24	YEAR 5 1/1/25	YEAR 6 1/1/26	YEAR 7 1/1/27	YEAR 8 1/1/28	YEAR 9 1/1/29	YEAR 10 1/1/30	Total Cash Flow
#1	49%	-200	100	100	100	100	100	100	100	100	100	100	1,000
#2	51%	-200	100	100	100	200	0	100	100	100	200	0	1,000
#3	54%	-200	100	100	200	100	0	100	100	200	100	0	1,000
#4	59%	-200	100	200	100	100	0	100	200	100	100	0	1,000
#5	69%	-200	200	100	100	100	0	200	100	100	100	0	1,000
#6	27%	-200	0	0	0	0	500	0	0	0	0	500	1,000
#7	28%	-200	0	0	0	0	500	0	0	0	500	0	1,000
#8	31%	-200	0	0	0	500	0	0	0	0	0	500	1,000

fig. 49

Investment	IRR	DAY 1 1/1/20	YEAR 1 1/1/21	YEAR 2 1/1/22	YEAR 3 1/1/23	YEAR 4 1/1/24	YEAR 5 1/1/25
A	86.2%	-200	172.7	172.7	172.7	172.7	172.7
B	86.2%	-200	0	0	0	0	0

Investment	IRR	YEAR 6 1/1/26	YEAR 7 1/1/27	YEAR 8 1/1/28	YEAR 9 1/1/29	YEAR 10 1/1/30	Total Cash Flow
A	86.2%	172.7	172.7	172.7	172.7	172.7	\$1,727
B	86.2%	0	0	0	0	100,000	\$100,000

fig. 50

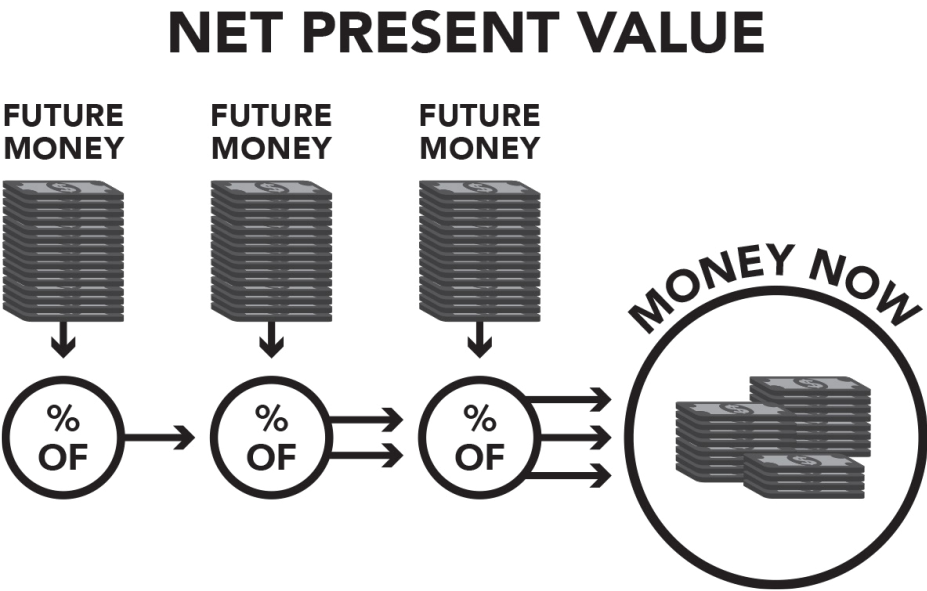


fig. 51

Investment	D.R.	NPV	IRR	DAY 1 1/1/20	YEAR 1 1/1/21	YEAR 2 1/1/22	YEAR 3 1/1/23	YEAR 4 1/1/24	YEAR 5 1/1/25
A	8%	\$959	86%	-200	173	173	173	173	173
B	8%	\$92,393	86%	-200	0	0	0	0	0

Investment	YEAR 6 1/1/26	YEAR 7 1/1/27	YEAR 8 1/1/28	YEAR 9 1/1/29	YEAR 10 1/1/30	Total Cash Flow
A	173	173	173	173	173	\$1,727
B	0	0	0	0	100,000	\$100,000

fig. 52

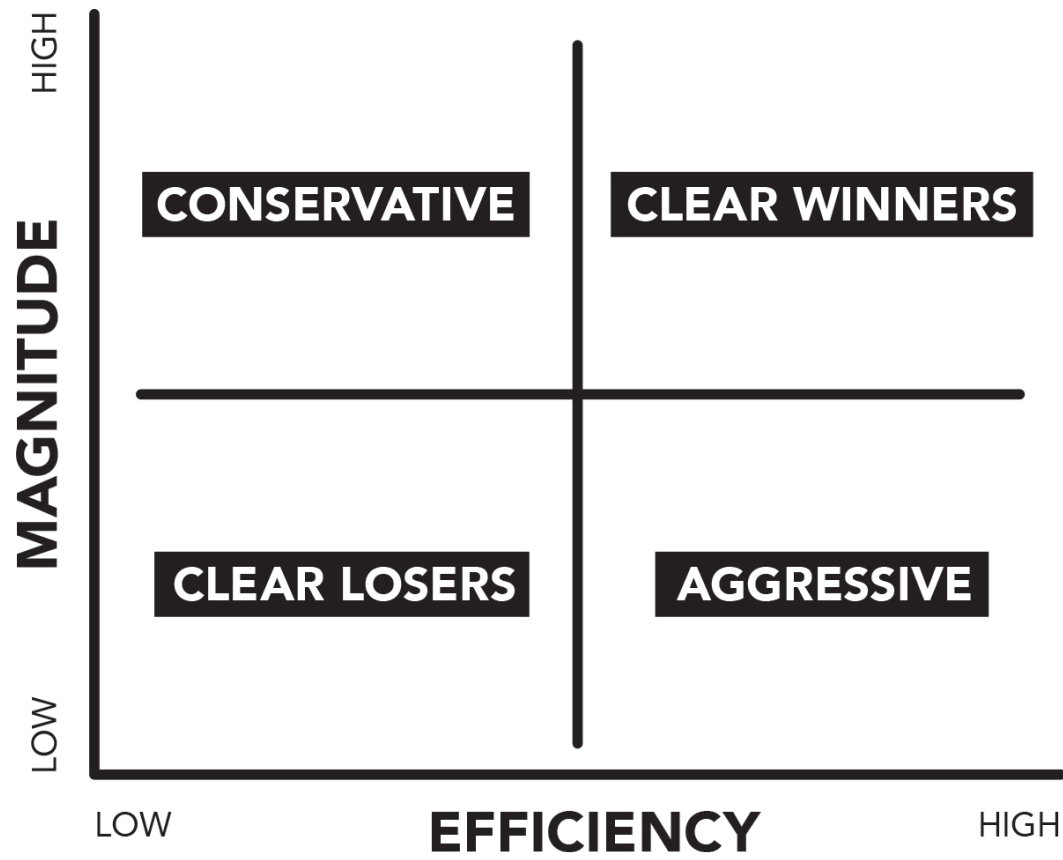


fig. 53

Investment	IRR	DAY 1 1/1/20	YEAR 1 1/1/21	YEAR 2 1/1/22	YEAR 3 1/1/23	YEAR 4 1/1/24	YEAR 5 1/1/25
A	6.6%	-350,000	12,000	12,000	12,000	12,000	12,000
B	8.3%	-390,000	16,800	16,800	16,800	16,800	500,000

Investment	IRR	YEAR 6 1/1/26	YEAR 7 1/1/27	YEAR 8 1/1/28	YEAR 9 1/1/29	YEAR 10 1/1/30	Total Cash Flow
A	6.6%	12,000	12,000	12,000	12,000	512,000	\$620,000
B	8.3%	0	0	0	0	0	\$567,200

fig. 54

Investment	D.R.	NPV	Cash Multiple	Annual Yield	IRR	DAY 1 1/1/20	YEAR 1 1/1/21	YEAR 2 1/1/22	YEAR 3 1/1/23
A	5%	\$49,617	1.8	3.4%	6.6%	-350,000	12,000	12,000	12,000
B	7%	\$23,398	1.5	4.3%	8.3%	-390,000	16,800	16,800	16,800

YEAR 4 1/1/24	YEAR 5 1/1/25	YEAR 6 1/1/26	YEAR 7 1/1/27	YEAR 8 1/1/28	YEAR 9 1/1/29	YEAR 10 1/1/30	Total Cash Flow
12,000	12,000	12,000	12,000	12,000	12,000	512,000	\$620,000
16,800	500,000	0	0	0	0	0	\$567,200

fig. 55

	OPTION A	OPTION B
Net Rental Yield	3.4%	4.3%
Total Profit	\$270,000	\$177,200
Internal Rate of Return	6.6%	8.3%
Net Present Value	\$49,617	\$23,398
Cash Multiple	1.8	1.5

fig. 56

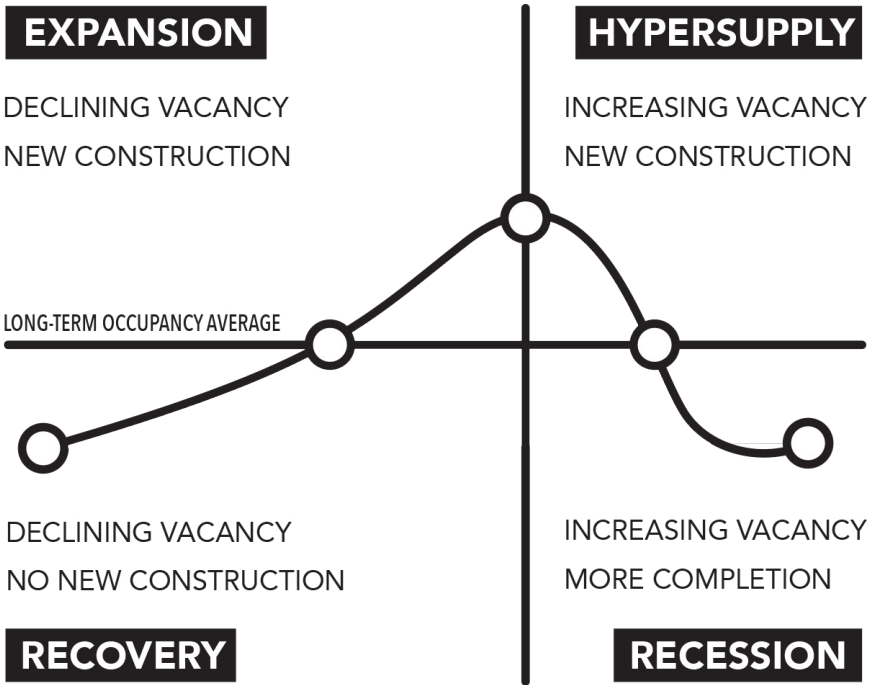


fig. 57

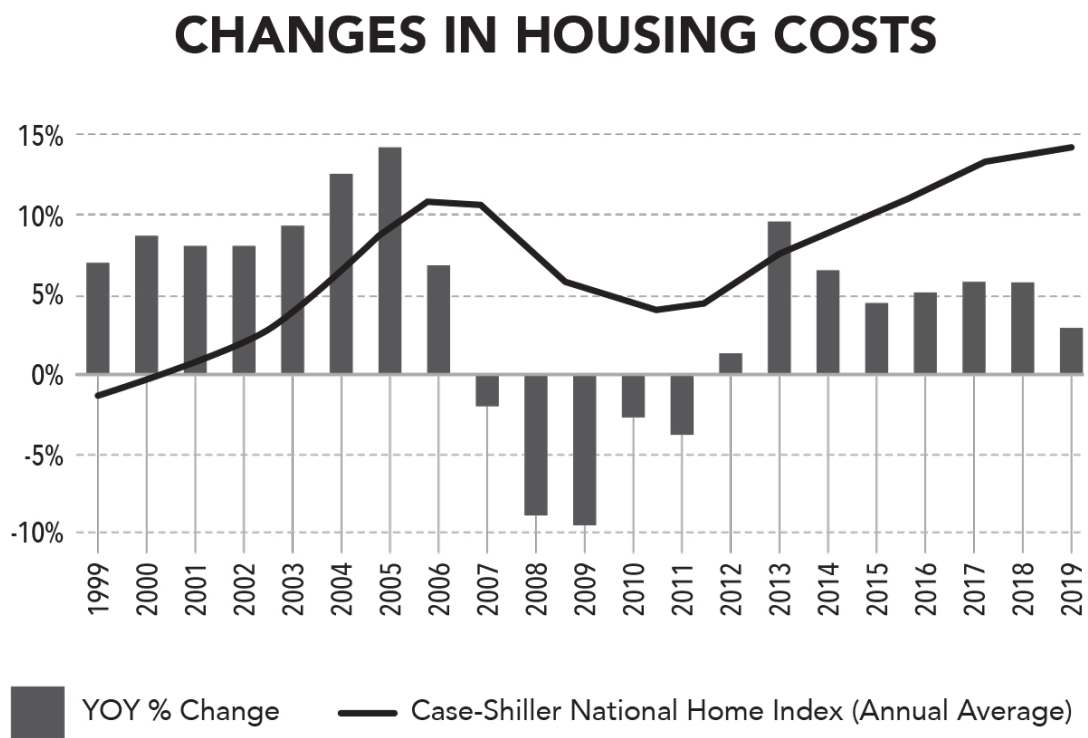
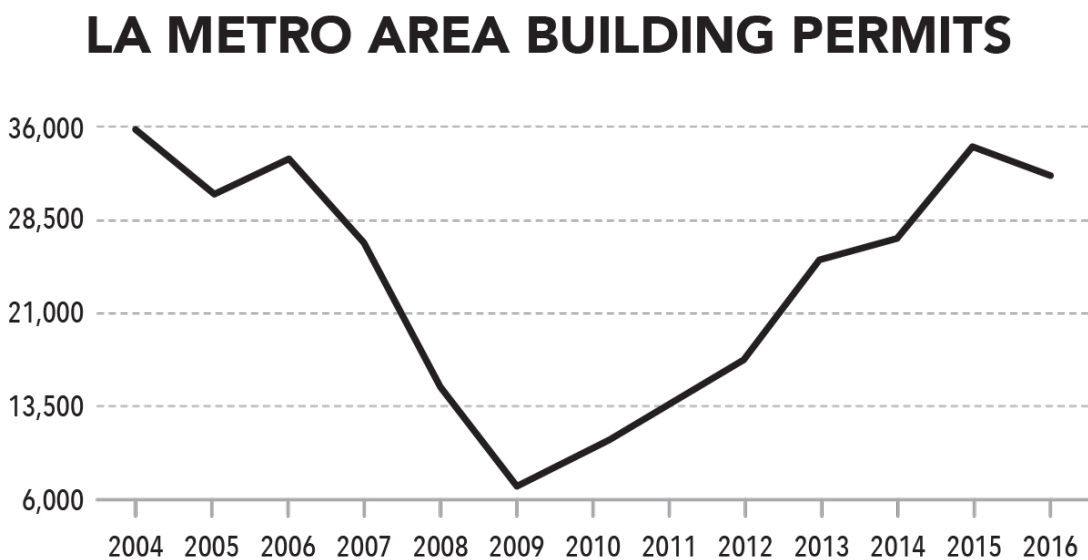


fig. 58



## CHAPTER 8

### Right on the Money: Financing

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fig. 59

#### POSITIVE LEVERAGE

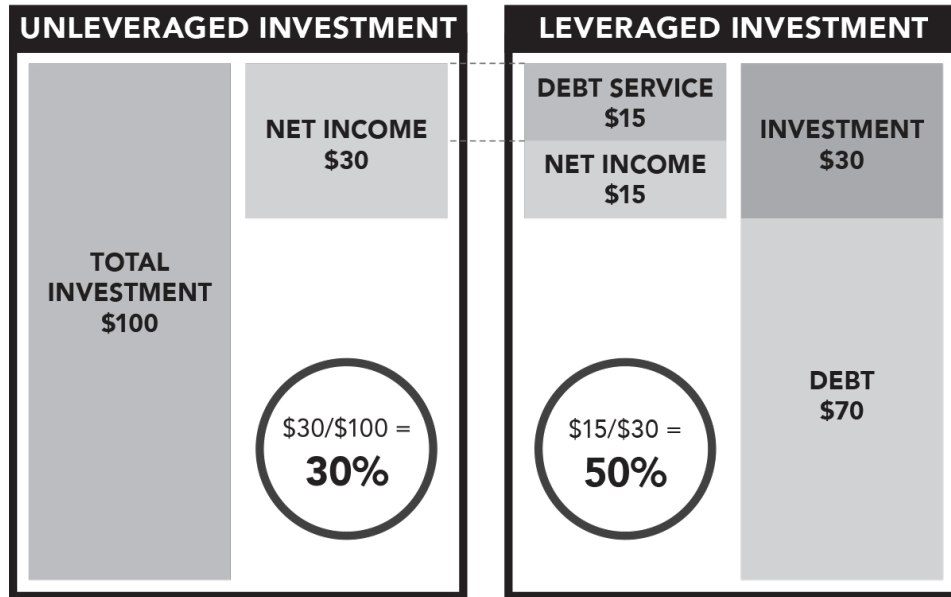


fig. 60

#### NEGATIVE LEVERAGE

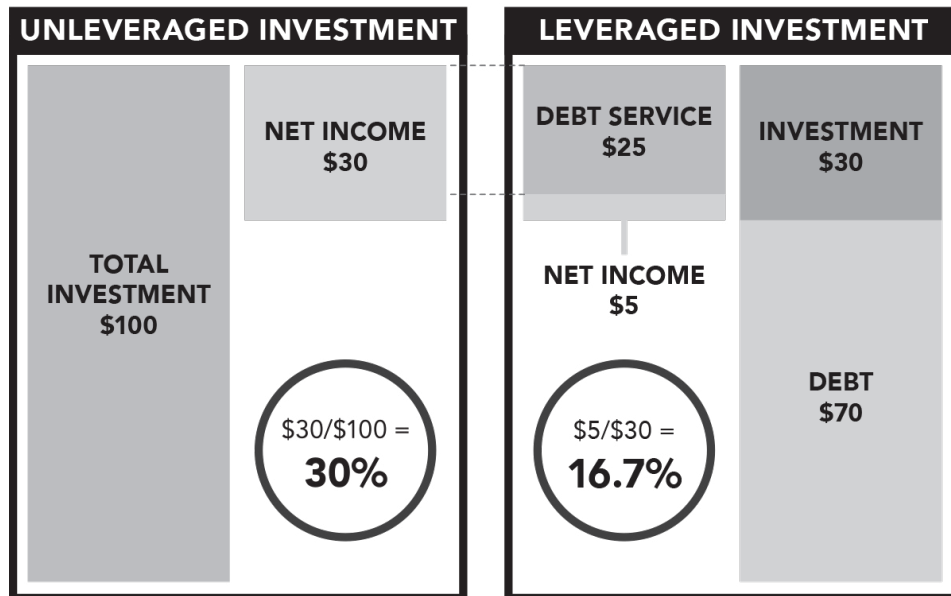


fig. 61

$$\text{DSCR} = \frac{\text{NET OPERATING INCOME}}{\text{TOTAL DEBT SERVICE}}$$

fig. 62

$$\text{LOAN TO COST} = \frac{\text{LOAN AMOUNT}}{\text{TOTAL PROJECT COST}}$$

fig. 63

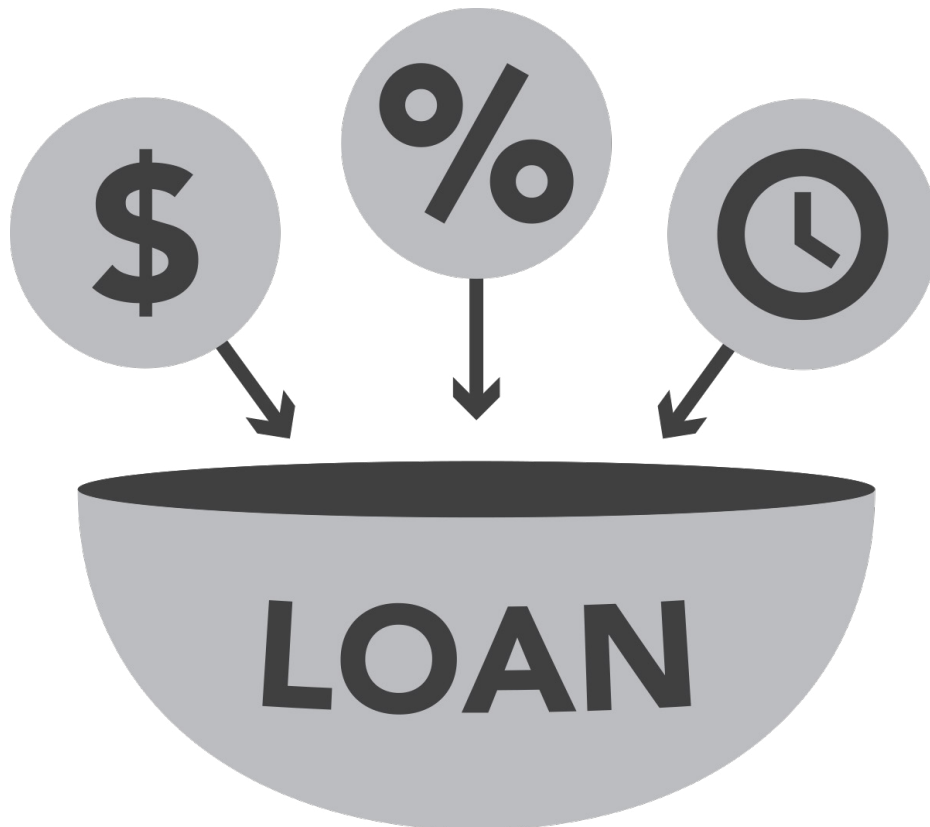
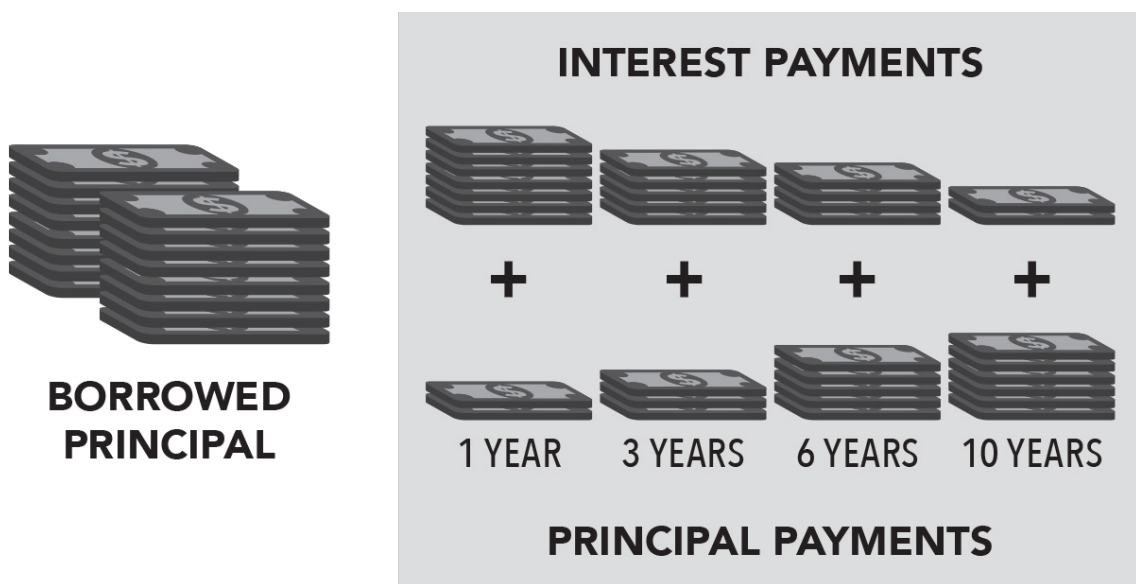


fig. 64



fig. 65





## CHAPTER 10

### Protecting Your Investment

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fig. 66

PRIZE VALUE	HOLE-IN-ONE INSURANCE COST	COST FOR ADDITIONAL WINNER
\$5,000	\$101	\$10
\$10,000	\$202	\$20
\$15,000	\$302	\$30
\$20,000	\$403	\$40

fig. 67



fig. 68



fig. 69



# CHAPTER 11

## Adding Value

fig. 70

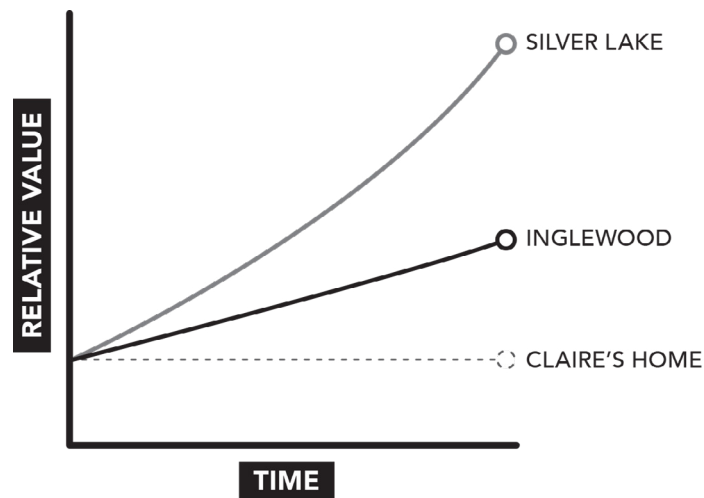


fig. 71

SAFETY WORK	
Foundation – earthquake retrofitting	New cement
Garage	New rafters, new door
Living room	Ceiling – water damage
Systems	Replace cooling system

MUST-HAVE AMENITIES	
Kitchen	New applications, cabinets/counters, flooring
Bathroom	Shower, vanity, flooring, tiling
Bedrooms	Carpet, closets
Walls	Plasterboard, paint
Backyard	Landscaping
Exterior	Siding, paint, porch

EXTRA AMENITIES	
Garden shed	Build from scratch
Interior	New windows
Tech upgrades	Smart home devices, wired speakers
Second floor	Balcony

fig. 72

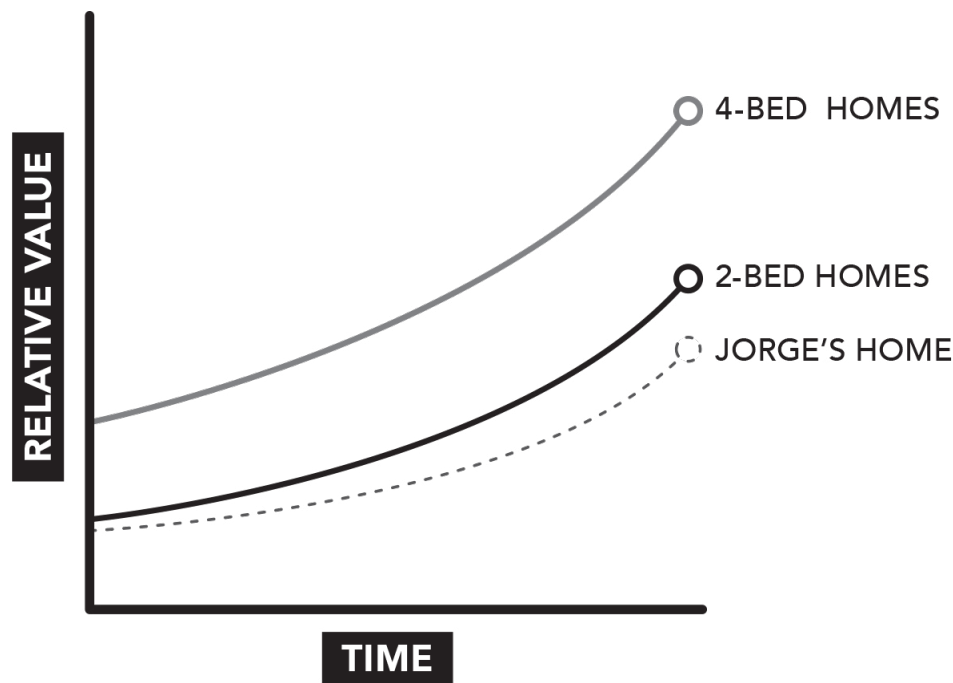


fig. 73

RENOVATIONS	COST (\$)	DURATION
Permitting/Approvals	\$6,500	9 months
Preconstruction (e.g., third-party A&E)	\$ 9,500	2 months
Total construction (est. to be \$32,000)	\$469,000	5 months
Months needed to sell	\$4,500	2 months

## CHAPTER 12

### Planning Your Exit

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fig. 74

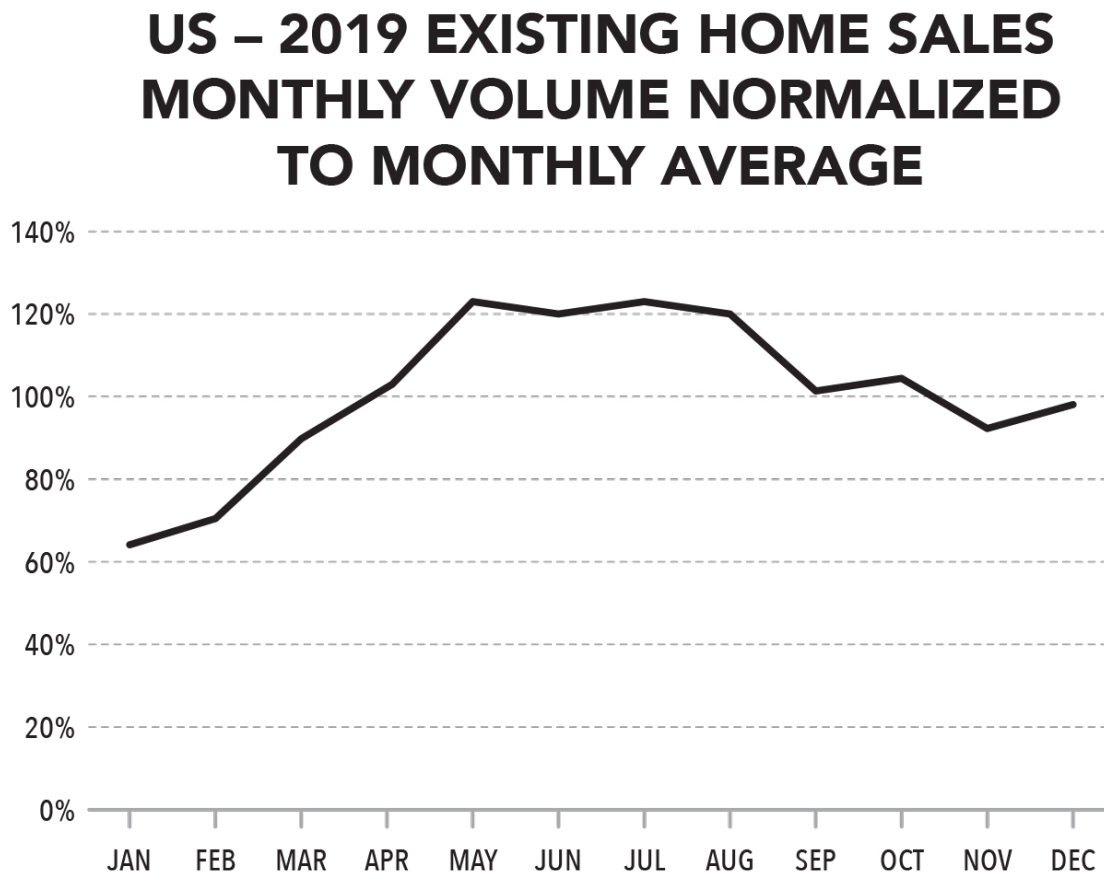


fig. 75

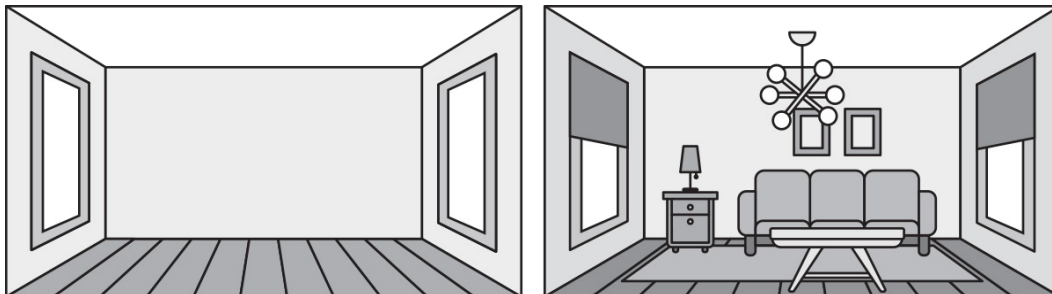


fig. 76

	IRR	DAY 1 1/1/20	YEAR 1 1/1/21	YEAR 2 1/1/22	YEAR 3 1/1/23	YEAR 4 1/1/24	YEAR 5 1/1/25
Projection (no financing)	6.6%	-350,000	12,000	12,000	12,000	12,000	12,000
Actual (if no financing)	8.0%	-355,329	12,010	12,409	12,818	13,237	460,167
Actual (60% financing)	12.5%	-142,132	-204	195	605	1,023	254,721

	IRR	YEAR 6 1/1/26	YEAR 7 1/1/27	YEAR 8 1/1/28	YEAR 9 1/1/29	YEAR 10 1/1/30	Total Cash Flow
Projection (no financing)	6.6%	12,000	12,000	12,000	12,000	512,000	\$620,000
Actual (if no financing)	8.0%	-	-	-	-	-	\$510,641
Actual (60% financing)	12.5%	-	-	-	-	-	\$256,340

fig. 77

	Cash Multiple	Investment	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	Total Cash Flow
Actual (if without financing)	1.44	\$355,329	12,010	12,409	12,818	13,237	460,167	\$510,641
Actual (with financing)	1.80	\$142,132	-204	195	604	1,023	254,721	\$256,339

## CHAPTER 13

### Multifamily Real Estate

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fig. 78

#### URBANIZATION OF THE US POPULATION

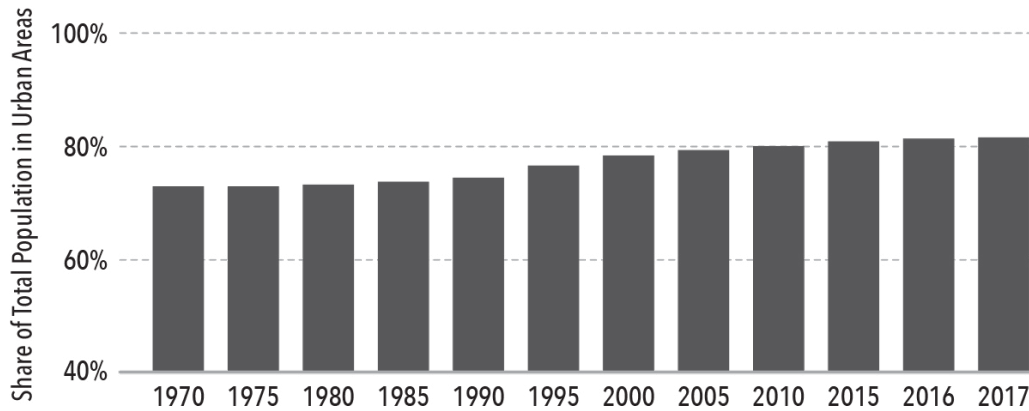


fig. 79

$$\text{YIELD} = \frac{\text{ANNUAL CASH INCOME}}{\text{TOTAL CASH INVESTMENT}}$$

fig. 80

$$\frac{72}{\text{CASH-ON-CASH RETURN}} = \text{YEARS TO DOUBLE}$$

fig. 81

Unit Name	Unit Type	Tenant Name	Lease Start	Term	Move-in Date	Lease Expiration	Security Deposit	Rent
101	Studio	Linley, Thomas	3/1/13	12	3/3/13	2/28/14	\$850.00	\$850.00
102	3br	Millhouse, Kinsey	12/1/00	12	12/1/00	11/30/01	\$1,200.00	\$1,200.00
103	2br	Marlowe, Philip	2/1/11	12	2/1/11	1/31/12	\$1,050.00	\$1,050.00
104	2br	Spade, Sam	7/1/99	MTM	7/1/99	6/30/00	\$1,200.00	\$1,100.00
105	3br	Alleyn, Roderick	6/1/13	12	6/1/13	5/31/14	\$1,200.00	\$1,200.00
106	3br	Maigret, Jules	2/1/11	12	2/1/11	1/31/12	\$1,200.00	\$1,200.00
107	Studio	Wimsey, Peter	2/1/00	12	2/1/00	1/31/01	\$850.00	\$850.00
108	3br	Marple, Jane	6/1/13	12	6/1/13	5/31/14	\$1,200.00	\$1,200.00
109	2br	Poirot, Hercule	2/1/12	6	2/1/13	7/31/13	\$1,050.00	\$1,050.00
110	2br	Holmes, Sherlock	9/1/12	MTM	9/1/12	8/31/13	\$1,050.00	\$1,050.00

Unit Name	Last Increase	Concession	Parking	Other	Amount Paid	Balance Due
101	-	\$0.00	\$50.00	\$0.00	\$850.00	\$0.00
102	12/1/13	\$0.00	\$50.00	\$0.00	\$600.00	\$600.00
103	2/1/13	\$0.00	\$50.00	\$0.00	\$1,050.00	\$0.00
104	7/1/12	\$0.00	\$0.00	\$25.00	\$1,200.00	\$0.00
105	-	\$0.00	\$50.00	\$0.00	\$800.00	\$400.00
106	2/1/13	\$0.00	\$0.00	\$25.00	\$1,200.00	\$0.00
107	-	\$0.00	\$50.00	\$0.00	\$0.00	\$1,700.00
108	-	\$0.00	\$50.00	\$25.00	\$700.00	\$500.00
109	2/1/13	\$0.00	\$0.00	\$33.00	\$1,050.00	\$0.00
110	-	\$0.00	\$50.00	\$25.00	\$1,000.00	\$50.00



## CHAPTER 14

### Commercial Real Estate

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fig. 82



fig. 83



fig. 84

WAREHOUSE EXAMPLES BY CLASS			
	CLASS A	CLASS B	CLASS C
Year built	2017	2001	1970
Ceiling height	50'	30'	20'
Location	2 minutes off major exit from 3 regional major highways, near heart of major city.	5 minutes off major exit from major highway, in major city.	20 minutes off exit from major highway, in suburb or outskirts of major city.
Loading docks	30	12	6
Additional amenities	Temperature and humidity controlled, food grade, LEED Platinum, inventory management system, large office, 250 covered parking spaces, robot automation ready.	LEED Silver, moderate office, 120 parking spaces.	No office, 80 parking spaces.

fig. 85

COMMERCIAL REAL ESTATE INVESTMENTS

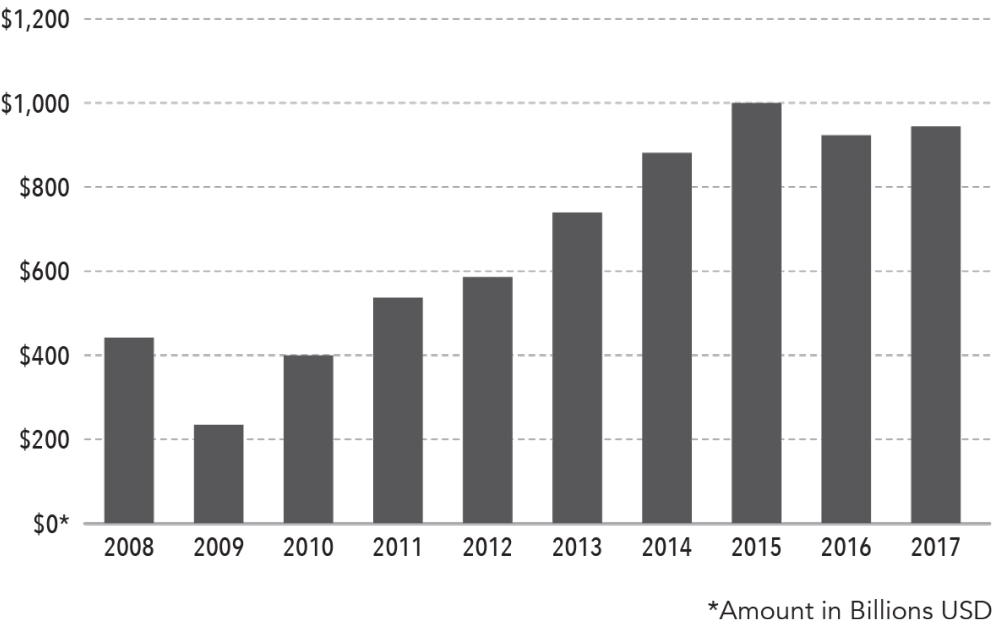


fig. 86

GROSS RENT MULTIPLIER =

PURCHASE PRICE

ANNUAL GROSS RENTS

fig. 87

NET OPERATING INCOME FORMULA

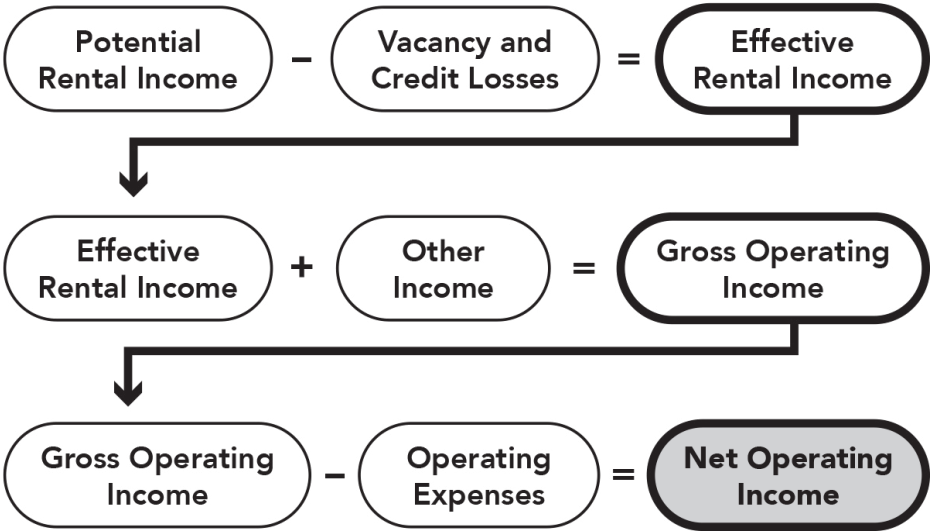


fig. 88

Potential Rental Income	\$1,000,000
Vacancy and Credit Losses	(\$50,000)
Effective Rental Income	\$950,000
Other Income	\$60,000
Gross Operating Income	\$1,010,000
Operating Expenses	(\$400,000)
Net Operating Income	\$610,000

fig. 89

$$\text{CAP RATE} = \frac{\text{NET OPERATING INCOME}}{\text{CURRENT MARKET VALUE OF ASSET}}$$

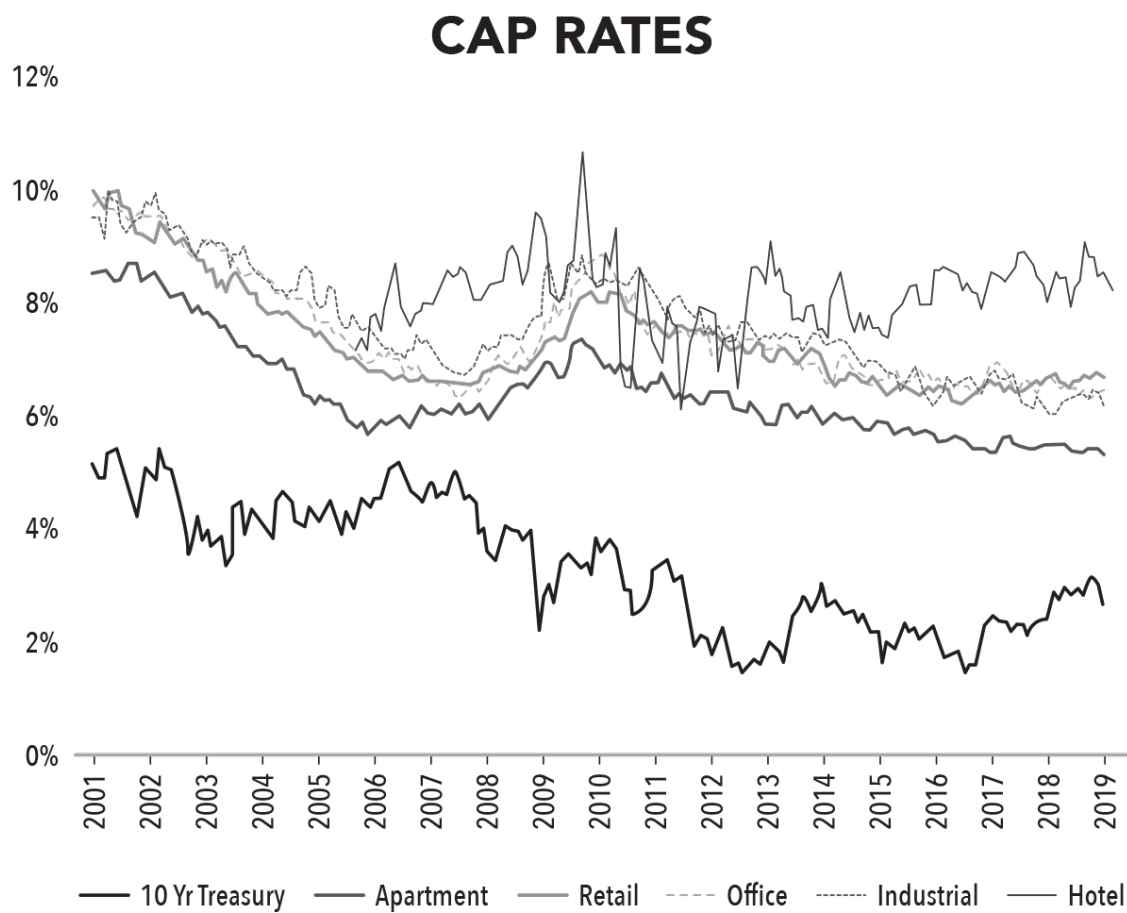
fig. 90



fig. 91



fig. 92



## CHAPTER 15

### Working with Partners

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fig. 93

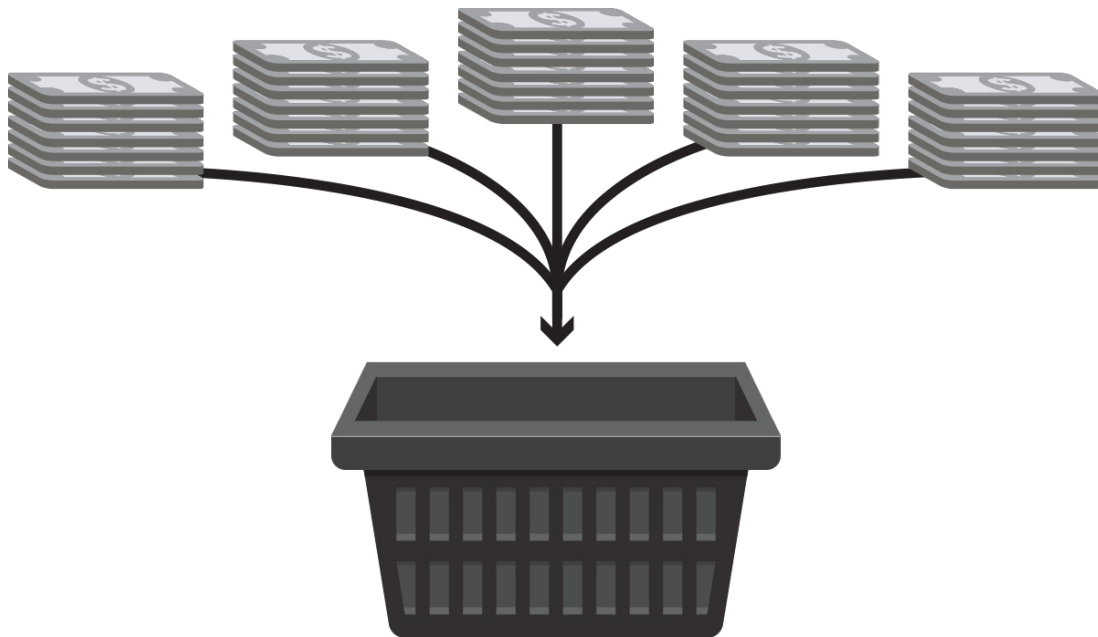


fig. 94

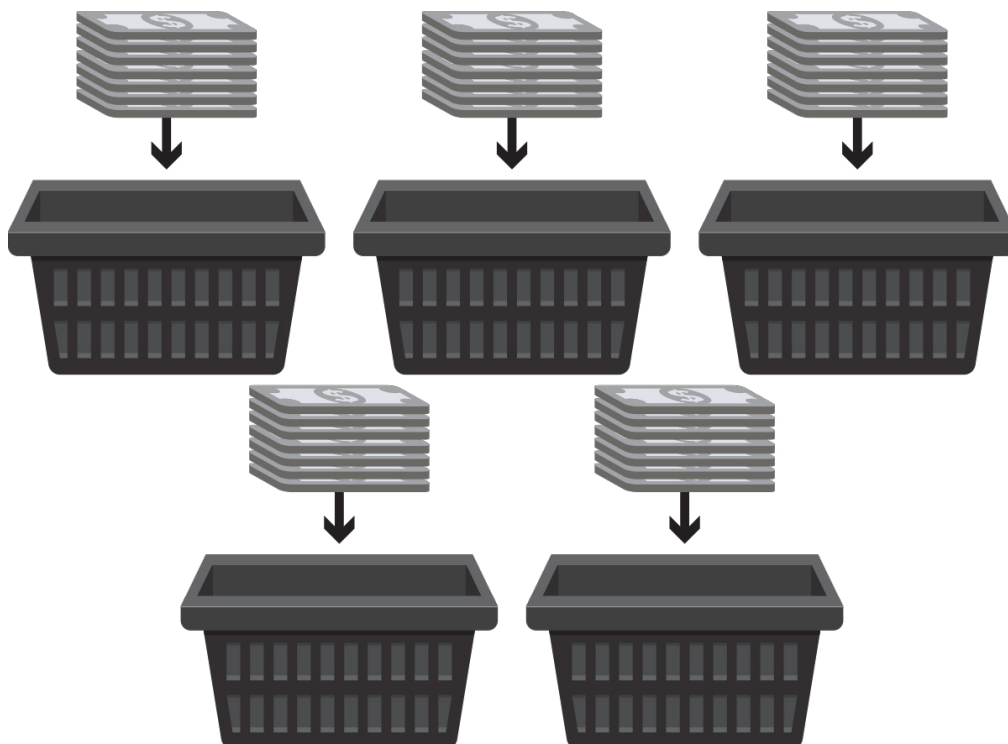


fig. 95

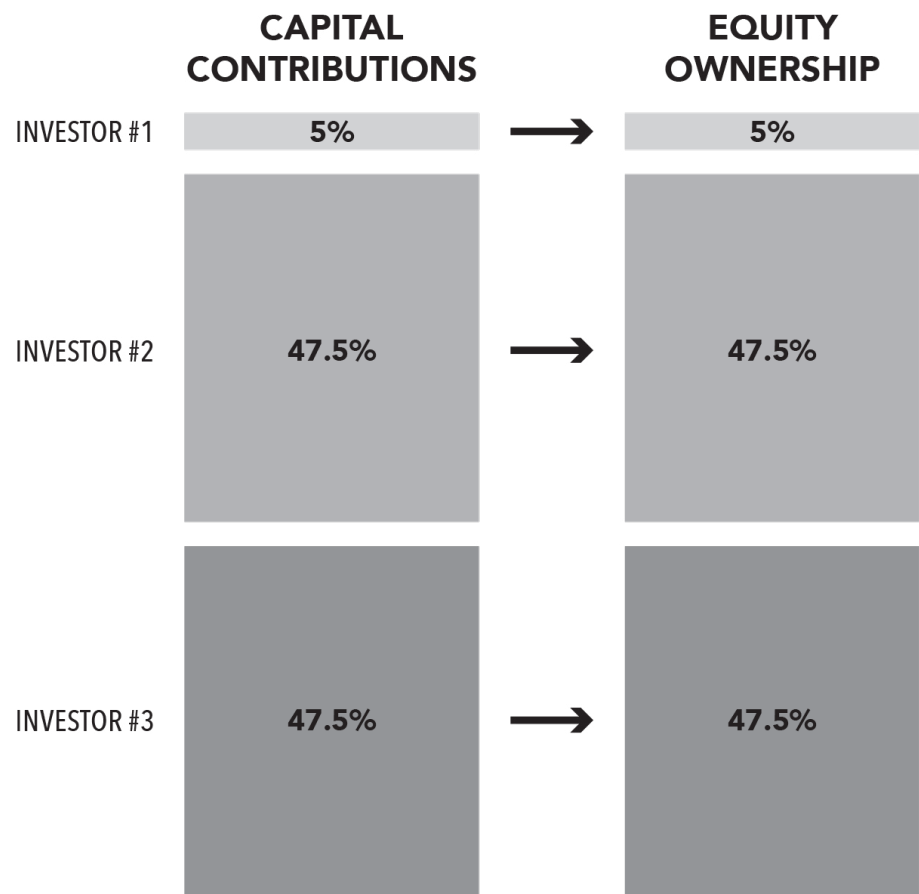


fig. 96

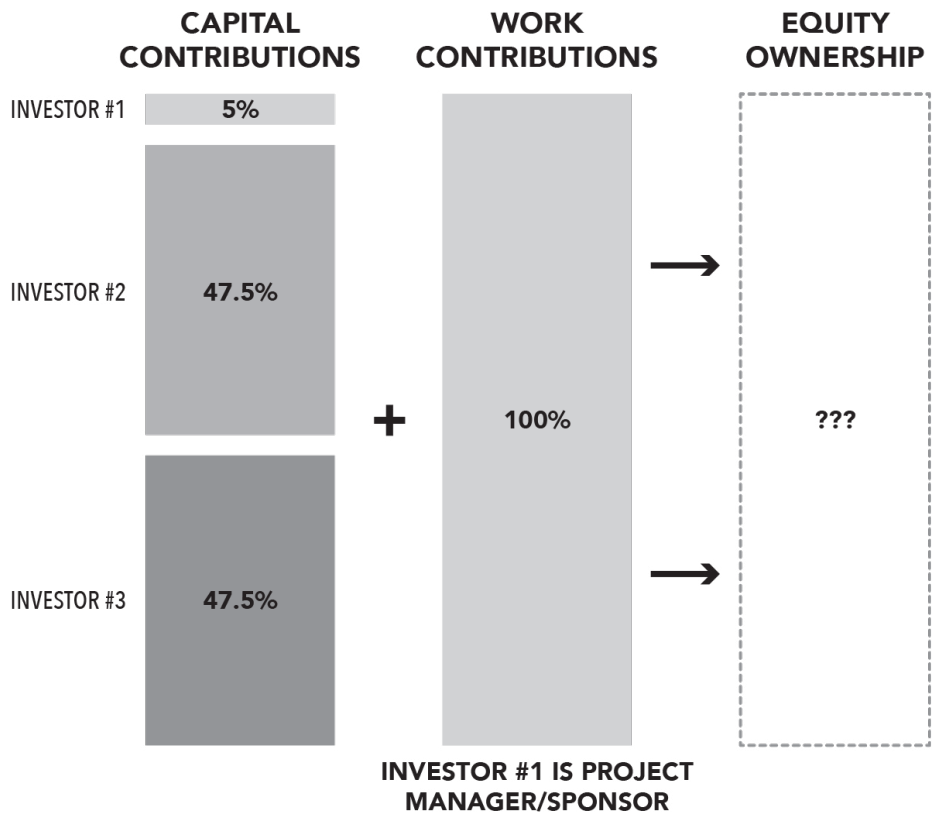


fig. 97

PARTNER RETURNS BEFORE AND AFTER PREFERRED RATE				
	Initial Investment	For Returns < \$100,000/mo	For Returns > \$100,000/mo	
		Preferred Return	30% Carry Interest	70% Rest of Returns
Neil	5.0%	5.0%	100%	5.0%
Eric	47.5%	47.5%	0%	47.5%
John	47.5%	47.5%	0%	47.5%

SCENARIO 1		
	Initial Investment	\$80,000/mo Return
		Total Return to Each
Neil	5.0%	\$4,000/mo
Eric	47.5%	\$38,000/mo
John	47.5%	\$38,000/mo

SCENARIO 2					
	Initial Investment	\$150,000/mo Return			
		First \$100K	\$15K (30% of \$50K)	\$35K (70% of \$50K)	Total Return to Each
Neil	5.0%	\$5,000/mo	\$15,000/mo	\$1,750/mo	\$21,750/mo
Eric	47.5%	\$47,500/mo	\$0/mo	\$16,625/mo	\$64,125/mo
John	47.5%	\$47,500/mo	\$0/mo	\$16,625/mo	\$64,125/mo



# GLOSSARY

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## Actuarial Tables

Spreadsheets of tables used to determine the probability of risk. Insurance companies input data points to assess the likelihood of risk and calculate insurance policy premiums from the results.

## Amenities

The features of a location or building that make it appealing.

## Amortization

The scheduled paying down of a loan over a period of time. A fully amortized loan schedule calculates the repayments to incorporate both the principal and interest payments to be repaid by the maturity date of the loan.

## Anchor

A large, well-known retail store that draws in lots of consumer traffic, such as Walmart or Best Buy. Smaller stores situate themselves near these popular locations in the hope of skimming off some business for themselves.

## Appreciation

The increase in the value of an asset over time.

## Asset Class

A group of investments that behave in a similar fashion in the marketplace. There can be several types of investments within an asset class, but they all generally respond the same way to market conditions.

## Balloon Payment

The final payment due at the end of a loan that is much larger than the scheduled repayments, common in short-term loans or commercial loans.

## Capitalization (Cap) Rates

A real-estate-specific measurement for comparing two investments. The metric is the ratio of the net operating income and the initial cost to purchase the property.

## Capital

The value of money and possessions used to produce wealth. In the real estate world, capital is money, raised through debt or provided by the investor.

## Case-Shiller Home Price Index

A widely accepted method for measuring trends in the real estate market through the purchase and resale prices of single-family homes in nine major divisions in the United States. Through repeat sales, the index measures the price increases and decreases of these homes, standardized to the number 100 in January 2000.

## Cash Multiple

A simple metric that calculates the cash going in and coming out of an investment. Cash flow is divided by the cash invested to determine the multiple, equating to the return an investor can expect for each dollar invested.

## Commercial Real Estate

Real estate with the sole purpose of creating a profit, as opposed to creating a domicile for a tenant. Residential buildings with five or more units are classified as commercial property.

## Commodity

A financial term that describes a tangible material that can be bought and sold and that holds inherent value.

## Condotel

A condo hotel, also known as a condotel, operates as vacation rental properties. Individual units in the building are serviced by a reception desk and hotel management but can be owned by investors for primary use or to be rented out as hotel rooms, operated by the management of the building.

## Contingency

Creating provisions, either as plans or in a contract, for a future event that is liable to happen but is not expected.

## Density

Cities and counties place restrictions on the allowable uses of a defined parcel of land. Zoning laws measure floor space or housing units per land unit, which dictates the number of properties built in that area. As population goes up, zoning laws increase the allowable density, raising the number of units that can be built on that land.

## Discount Rate

The interest rate investors use to determine the present value of the future returns they expect to receive with a conservative investment.

## Diversification

An investment strategy to manage risk by mixing the types of investments in one's portfolio.

## Economic Cycle

The standard, measurable cyclical movement of the market on a macro scale across the entire country.

## Entitlements

Rights to develop raw land as granted by the governing entity, such as zoning, permits, road approval, utilities, and landscaping.

## Equities

Shares held in the part ownership of a company.

## Equity

The dollar amount of an investment that one would expect to receive if the asset was sold and all debts were paid off.

## Federal Housing Administration

A U.S. federal government agency designed to protect housing standards and stabilize the mortgage market by providing home financing.

## Financing

The process of securing funding for an investment.

## Gentrification

The renovation and rebuilding of a deteriorated neighborhood, usually attracting higher-income residents.

## Global Financial Crisis

The term for the 2007-08 housing bubble collapse that caused a global recession.

## Gross Rent Multiplier

A "quick and dirty" metric to compare rental returns within a given market. The formula is the market value divided by the gross income for the year.

**Hard Money Loan**

A debt financed through a private lender outside of traditional banks or credit unions.

**Homeowners Association (HOA)**

A community-led organization that dictates and enforces regulations about that community. It can be based on a suburb, a condominium, or a planned development.

**Inflation**

The general increase in the price of goods and the decrease in buying power of a unit of currency over time.

**Interest**

A fee incurred by a debtor for the right to borrow money, paid over the life of the loan.

**Internal Rate of Return**

An analysis measurement that determines how efficient an investment is at making returns, excluding factors like inflation and external risks.

**Last-mile zone**

The stage of delivery from a facility or distribution center to the end user of the goods.

**Leverage**

The use of debt to finance the purchase of a property, thus increasing the potential returns from that investment.

**Liability Insurance**

The portion of an insurance policy that protects the holder of the policy against claims, payouts, and legal costs incurred if the property causes injury or harm.

**Liquidity**

The state of being capable of quickly turning an investment into cash.

**Market**

A specific system in which one commodity (in this case, real estate) can be bought or sold. Can also refer to a specific location, e.g., the Las Vegas market.

**Market Cycles**

The natural flow of real estate market conditions between recognizable states of recession, recovery, expansion, and hypersupply. See also Economic Cycles.

**Multiple Listing Service (MLS)**

A network of active listings accessible by licensed real estate agents. Public listing services sourcing data from the MLS often have limited information available.

**Negative Leverage**

The state in which the cost of borrowing money for an investment is more than the expected returns on that investment.

**Net Migration**

The flow of a population into a defined area, calculated as the number of people moving into the area less the number of people moving out.

**Net Operating Costs**

All costs involved in the maintenance and management of a property.

**Net Operating Income (NOI)**

The income generated by a property after all operational expenses are deducted.

**Net Present Value**

The calculation of the expected returns of an investment, translated into present-day dollar values, to determine an investment's viability.

**Net Rental Yield**

An evaluative metric using the annual rents divided by the property value of an investment, determined as a percentage.

**Passive Income**

Money that is paid to someone regardless of their involvement in the investment.

**Permit**

Approval for any work to be done to a property, given by the governing body overseeing the area.

**Pocket Listing**

A property for sale that is not publicly listed on any forums or websites.

**Principal**

The sum of money borrowed for an investment upon which the interest is calculated.

**Private Mortgage Insurance (PMI)**

An insurance policy that is designed to protect the lender in the event the borrower does not continue making scheduled repayments on a mortgage. PMI is required when the down payment amount is less than the agreed-upon percent value of the home, often set at 20 percent.

**Property Manager**

A professional person or service that oversees the daily operations of a property including tenants, maintenance, and marketing.

**Refinance**

A reevaluation performed by a lender to determine the new value of a property, often resulting in issuance of a loan at a lower interest rate according to the new value.

**REIT**

Real Estate Investment Trusts (REITs) are companies that operate real estate assets and allow investors to indirectly own a portion of those assets, often within a portfolio of several properties.

**Residential Real Estate**

Real estate with the sole purpose of housing tenants. Residential buildings with more than five units are not included in this category. See Commercial Real Estate.

**Returns**

The cash flow that is due to the investor from an investment, in the form of monthly rent or as a lump sum after the sale of the investment.

**ROI (Return on Investment)**

A measure used to determine the money an investor can expect to receive in proportion to the capital invested in a property, expressed in the form of a percentage.

**Rule of 72**

A simple, back-of-the-envelope calculation to determine the length of time (in years) an investment will take to double in value.

**Seasoning Period**

The length of time a borrower must hold a loan before the lender will consider a refinancing of the investment.

**Secondary Property**

A property one owns that is not their primary residence, often used for investment purposes.

**Subprime Mortgage**

A mortgage issued to borrowers who do not meet the required credit score minimum to qualify for a conventional mortgage.

**Tenant**

The person or business that occupies a property that is rented from the owner of the property.

**Term**

The length of time until a loan is fully repaid or due back to the lender.

**Vacancy**

A property that is unoccupied or without a paying tenant.

**Zoning Map**

A map determined by a municipal council to show the districts of a region and the approved use of those districts.