

Dave Lindahl's Syndication Notes - Formulas and Rules of Thumb

3 Rules to Syndicate:

1. Cash on Cash 12%+
2. Cap Rate close to 8.25%+
3. DCR 1.6+

Rule of Thumb: Minimum 12% Cash on Cash Return to Syndicate

Investor Expectations:

7-10% First year Cash on Cash

8% or above wallets' open faster

18%+ Annualized Return after Resale or Refinance

5-7 Year Hold - 3 Year is Sweet Spot

Debt Financing: Cheapest way to fund (Different with seasoned investors)

No equity participation
10% return on money secured by real estate

No payments to be paid at the time of refinance or resale

Can pool
Need PPM

Equity Financing: Fastest way to fund

Investor gets portion of the equity
Participates in cash disbursements
Participates in profits at resale

Momentum Play:

8-10% COC Return
20-25% Annualized Return

Repositioning:

0-10% COC Return
25%+ Annualized Return

NOI = Yearly Income - Yearly Expenses

ROI = NOI + Principal Reduction / Acquisition Costs

What is **cash on cash**? Tells us how soon we will get our out of pocket money back

COC = NOI - Debt Service / Acquisition Costs (Down payment and any monies out of your pocket)

Annualized Return - The total of all cash flows divided by the number of years in the deal

Year 1 COC 8%
Year 2 COC 9%
Year 3 COC 10%

Total 27%
Resale 43%
Total Cash Flow 70% divided by 3 years = 23.3% Annualized Return

Capitalization Rate: Return you expect to get on your investment with no mortgage

NOI / Value = Cap Rate
NOI / Cap Rate = Value
Cap Rate * Value = NOI

Rule of Thumb: Cap Rates

A: 7%
B: 8-9%
C: 10-11%
D: 12%+

Debt Coverage Ratio = NOI / Debt Service

Lenders want to see a figure above 1.2 and when a market gets tight over 1.25, closest to 1.6% is best.

Gross Rent Multiplier: The number of years to pay off property using Gross Rents. The lower the better

GRM = Fair Market Value / Monthly Gross Income

Income:

Gross Income - Loss to Lease =
Gross Income - Economic Vacancy =
Rental Income +
Utility Reimbursement + Other
Income = Total Income

Gross Potential Income: Income you would receive property was 100% occupied and at market rent

Loss to Lease: Amount of income you are currently not collecting because you units are not at market rent

Gross Income: Amount of money your property would collect if 100% full and everyone paid

Economic Vacancy: Amount of physical vacancy combined with the people who are not paying

Rental Income: All income collected

Rules of Thumb:

Taxes 80% of Purchase Price / City Mil Rate
Insurance \$250/Door
Repair and Maintenance \$300-500/Door
Marketing \$75-\$150/ Door
Payroll \$800-1100/Door
Utilities: Look at Last 2 years
Contracted Services \$300-\$500/Door

Simple Interest: Mortgage Amount * Interest Rate = Annual Debt Service

Rule of Thumb: Expenses are approximately 45-50% of total income or 60% if all bills paid

Acquisition Costs = Down Payment + Closing Costs

Closing Costs:

Legal: \$15,000-\$50,000
Lender Fee: \$15,000-\$25,000
Origination Fee: 1% of Loan
Insurance: First year premium
Lender Escrow: Taxes, Insurance, Immediate Repairs
Survey: \$5,000 - \$12,000
Recording: \$3,000-\$5,000
3rd Party Reports: \$8,000-\$15,000
Other: \$2,000-\$5,000
Funding Accounts: \$10,000-\$30,000
Immediate Repairs: As needed
Expense Reimbursements
Acquisition Fee: 1-5% of Purchase Price

Rule of Thumb: Syndicated Deals have an average closing cost of 5-6% of Purchase Price

Quick Calculation Guide:

RE Taxes: .01 Of Sales Price
Insurance: .007 of Sales Price
Water/Sewer: .005 of Sales Price
Snow Removal: \$500+/yr Small
Trash Removal: \$60-\$100/mo x 12 months
Electric \$30-\$50+ /mo Common
Gas: Owner Paid \$100/mo
Oil: Owner Paid \$100/mo
Legal: \$500 / year
Management Fees: 20+ 6% of Gross Scheduled Rents
Less than 20 Units 8% of Gross Scheduled Rents
Vacancy: 10% of Gross Scheduled Rents
Mortgage: Mortgage Amount x .0075