

MILWAUKEE HARD MONEY

# ***Investing in Multifamily Properties***

REAL ESTATE WORKSHOP  
INTERMEDIATE LEVEL





# ***Meet the Team***

**SCOTT LURIE**

President

**SARAH FLOYD**

Vice President

**MIKE DONEY**

Director, Marketing

# *Today's Discussion*

## ***Outline of Topics***

What is a Multifamily Property?

Why Invest?

How Properties Yield Profits

Difference Between Cash Flow + Profit

Profit + Loss Scenario

Pro Forma

How to Finance Multifamily Properties

Residential vs. Commercial Loans

Request for Finance Letter

How to Get Equity

Rate + Term vs. Cash Out

Questions

# ***House Rules***

1. We are going to cover a lot of material
2. We only have 1 hour of time
3. If you have any questions, please type them in the comments or email to: [md@fstreetgroup.com](mailto:md@fstreetgroup.com)
4. We will be sending out this material after the workshop for you to reference
5. If you would like to discuss this material or a project you have, please visit our website and submit our [Request a Contact](#) form



**NOI**

Net Operating Income (Income minus Expenses)

**CAP RATE**

Rate of return on an investment property based on expected income generation

**ROI**

Return on Investment

**ARV**

After Repair Value

**PRO FORMA**

Method for calculating financial results using projections or assumptions

**AMORTIZATION**

Paying off debt over a scheduled period of time (i.e. 30 Years)

**MFM**

Money for Me

# ***Glossary***



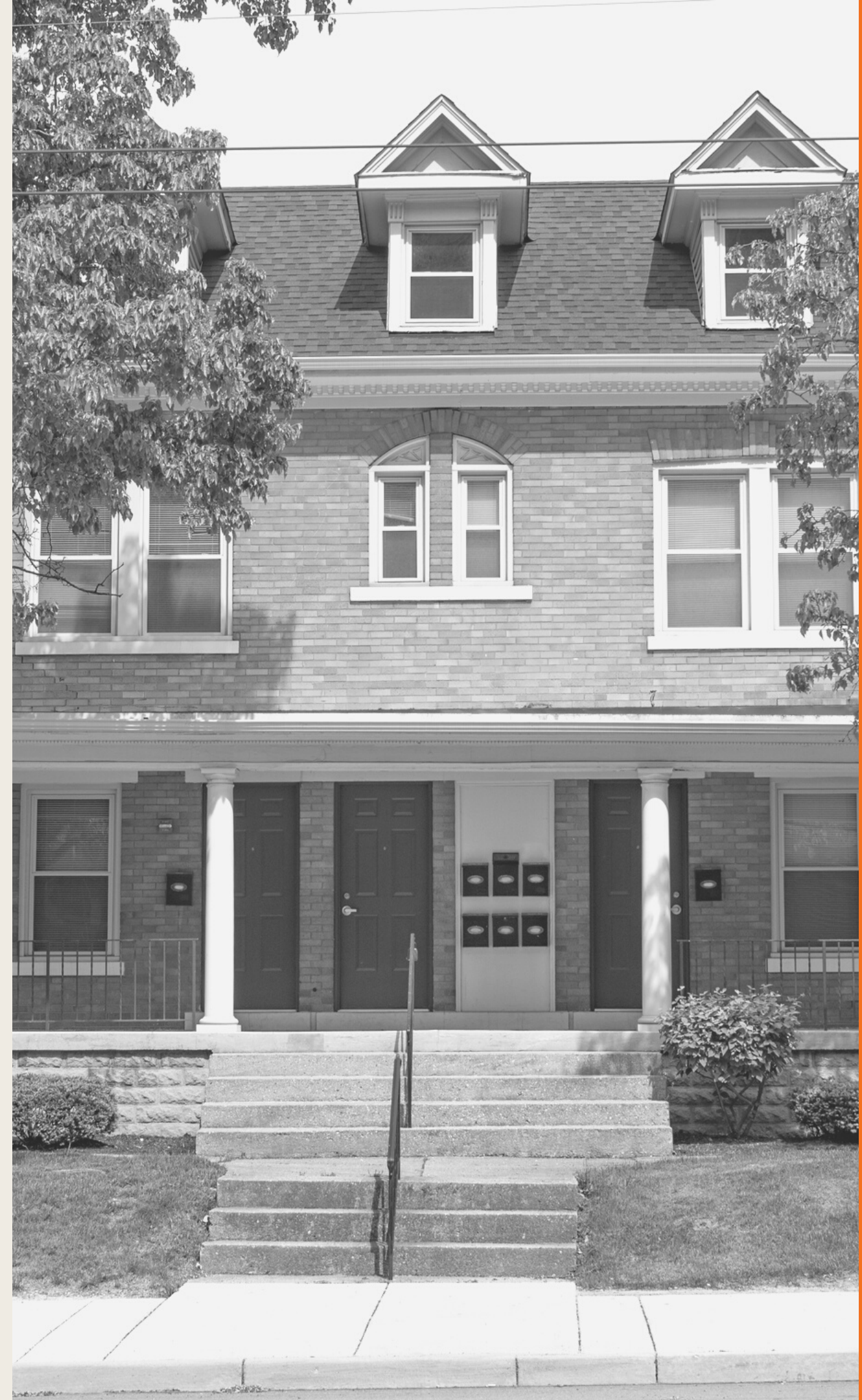
# ***What is a Multifamily Property?***

## ***Definition:***

Any residential building in which more than one space is available for rent.

Residential = 2-4 units

Commercial = 5+ units



**In investing, what is  
comfortable is rarely  
profitable.**

**- ROBERT ARNOTT**

***Are you willing to go beyond your comfort zone?***





# ***Why invest?***

## ***Benefits of Rental Properties***

- Steady income / cash flow
- Build equity
- Leverage assets using debt
- High ROI
- Long-term appreciation
- Portfolio diversification
- Tax benefits



# ***How Property Yields Profit***

## **RENTAL INCOME**

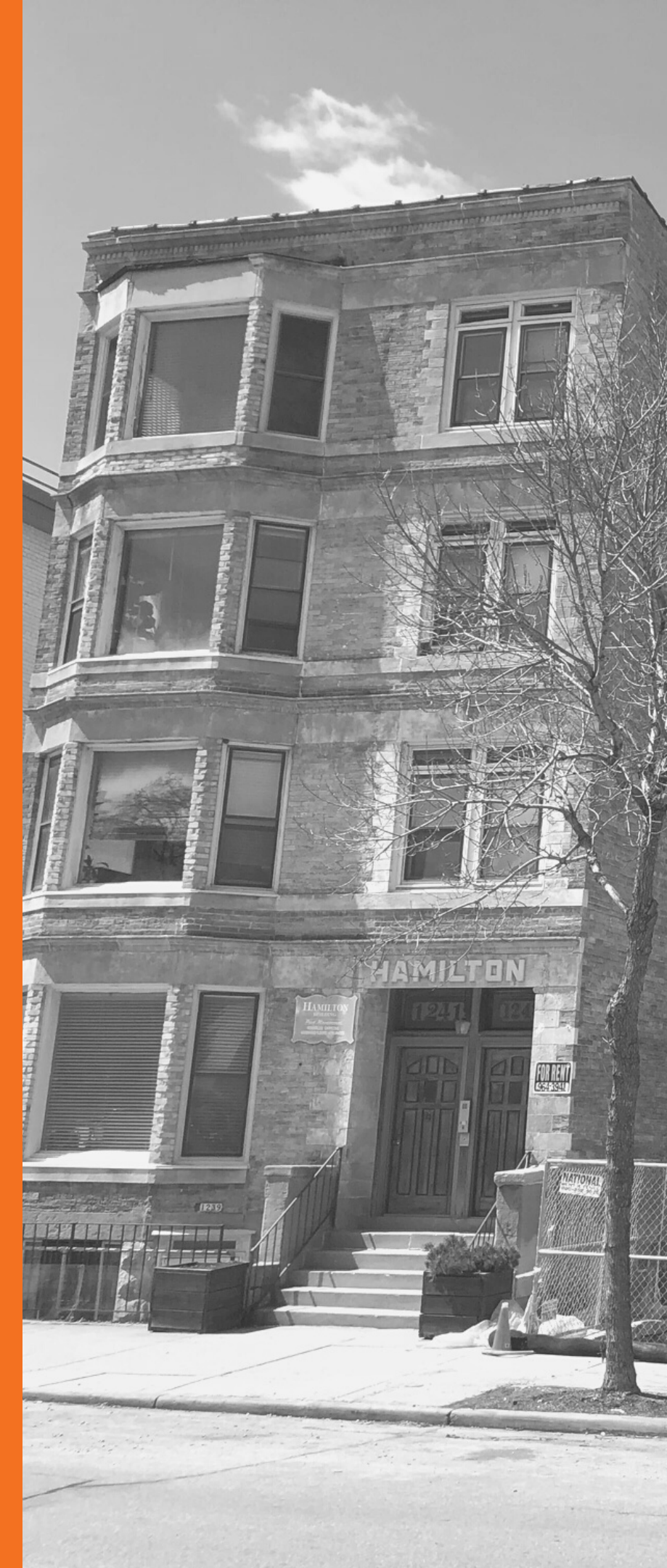
Main (and typically only) source of income for properties.

## **PROPERTY EXPENSES**

Insurance, Maintenance, Taxes, Utilities, etc.

## **NET OPERATING INCOME**

Income minus Expenses = NOI



## ***Profit***

The amount of money left after all expenses are paid.

This amount is taxable and takes in to consideration depreciation and amortization.

## ***Cash Flow***

The net flow of cash out of the business or investment property.

Typically, your Cash Flow is what comes after the amortization of debt on a property.

LET'S LOOK AT AN EXAMPLE...





# ***Profit + Loss Scenario***

12TH + LINCOLN / 11-UNIT + 3 RETAIL 2019 Review

Total Income = \$130,675.00

Contract Labor = \$18,572.92

Equipment = \$4,910.72

Insurance = \$7,777.77

Interest Expense = \$7,749.76

Permits / Fees = \$197.64

Security = \$422.76

Taxes - Property = \$10,730.26

Utilities = \$16,161.92

Other Expenses = \$319.45

Total Expense = \$67,702.04

Total Income = \$130,675.00

Total Expense = \$67,702.04

Net Income (**Profit**) = \$62,972.96

Amortization of Debt = \$24,366.80

(\$200,000 loan, 20 years, 3% interest)

**Cash Flow** After Amort. = \$38,606.16

Additional Paydown = \$33,833.44

Net **Cash Flow** = \$4,722.72



## **MHM PRO TIP**

*Use a professional accounting software. You'll never regret paying for this product. Everyone needs to do this, regardless of # of properties.*

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	A	B	C	D	E	F	G	H	I	J
1							Jan - Dec 19			
2						Ordinary Income/Expense				
3						Income				
4						Late Fees Income	1,100.00			
5						Maintenance Charges	825.00			
6						Rental Income	128,750.00			
7						Total Income	130,675.00			
8						Gross Profit	130,675.00			
9						Expense				
10						Building Materials	858.84			
11						Contract Labor				
12						Contract Labor - Appliances	184.70			
13						Contract Labor - Cleaning	270.00			
14						Contract Labor - Electrical	763.00			
15						Contract Labor - Fire Protectio	537.21			
16						Contract Labor - Flooring	5,103.63			
17						Contract Labor - General Repair	6,201.77			
18						Contract Labor - Hauling/Moving	580.00			
19						Contract Labor - HVAC	785.66			
20						Contract Labor - Lawn Care	95.00			
21						Contract Labor - Locksmithing	157.35			
22						Contract Labor - Painting	672.46			
23						Contract Labor - Plumbing	2,267.68			
24						Contract Labor - Snow Removal	954.46			
25						Total Contract Labor	18,572.92			
26						Equipment				
27						Stoves & Refrigerators	1,087.68			
28						Total Equipment	1,087.68			
29						Exterminator Services	319.45			
30						Garbage Disposal	3,823.04			
31						Insurance Expense				
32						Liability Insurance	1,103.13			
33						Property Insurance	5,913.98			
34						Umbrella Insurance	760.66			
35						Total Insurance Expense	7,777.77			
36						Interest Expense	7,749.76			
37						Permits/Fees	197.64			
38						Security	422.76			
39						Taxes - Property	10,730.26			
40						Utilities				
41						Gas & Electric	10,934.78			
42						Water Utility	5,227.14			
43						Total Utilities	16,161.92			
44						Total Expense	67,702.04			
45						Net Ordinary Income	62,972.96			
46						Net Income	62,972.96			
47										
48						Amortization of Debt	24,366.80			
49						Cashflow After Amortization	38,606.16			
50										
51						Additional Mortgage Paydown	33,883.44			
52										
53						Net Cashflow	4,722.72			
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QuickBooks Desktop Export Tips Sheet1										

# Quickbooks

# Export

Net Income (**Profit**) = \$62,972.96 +  
Interest Expense = \$7,749.76  
NOI = \$70,722.72 / 7.5 Cap Rate = \$942,969

Building was purchased for \$280,000 in 2008.



# Amortization

Loan Amount = \$200,000  
Term = 15 Years  
Interest Rate = 3%  
Monthly Payment = \$1,382  
Total Interest Paid = \$48,610

Loan Amount = \$200,000  
Term = 20 Years  
Interest Rate = 3%  
Monthly Payment = \$1,110 (+\$3,264/Yr)  
Total Interest Paid = \$66,207

Loan Amount = \$200,000  
Term = 25 Years  
Interest Rate = 3%  
Monthly Payment = \$949 (+\$5,196/Yr)  
Total Interest Paid = \$84,527

Loan Amount = \$200,000  
Term = 30 Years  
Interest Rate = 3%  
Monthly Payment = \$844 (+\$6,456/Yr)  
Total Interest Paid = \$103,555



## MHM PRO TIP

*Get the longest amortization term possible, but be disciplined enough to pay extra when you are able. **Create flexibility for yourself.***



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2		123 W Capitol - Projected Revenue							
3		Note		\$320,000					
4									
5		Total		\$320,000					
6									
7		Rent			\$ 55,440.00				
8		parking			\$ -				
9		laundry			\$ -				
10		vacancy factor			\$ -				
11		Effective Gross Revenue			\$ 55,440.00				
12									
13		Expenses							
14			utilities		\$ 1,000.00				
15			Real estate taxes		\$ 7,500.00				
16			Insurance		\$ 1,000.00				
17			Garbage		\$ -				
18			cleaning		\$ -				
19			Manager		\$ -				
20			elevator maint		\$ -				
21			Repair/Maint.		\$ 5,000.00				
22		Total expenses			\$ 14,500.00				
23									
24		NOI			\$ 40,940.00				
25									
26									
27			Mortgage Payment		\$28,629.00				
28									
29		Annual Before Tax Cash Flow			\$ 12,311.00				
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31			cap rate		12.79%				
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33			cash on cash return		#DIV/0!				
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Sheet1

Sheet3

+

Let's manipulate some numbers...





# ***Finance Multifamily***

## ***Review Your Options***



### **MHM PRO TIP**

*Ask your lender for interest-only loans. Get creative with your requests, because they won't say yes if you don't ask.*

### **LOCAL BANKS**

Traditional lending with institution (i.e. Waterstone, Tri City, TruStone, etc.)

### **PRIVATE MONEY**

Hard money or private lending (i.e. Milwaukee Hard Money, Grandma, etc.); will require refinance

### **TYPE OF LOAN**

Residential vs. Commercial



# ***Prepare for a Lender***

## ***Financing Request Letter***

You need to be prepared when meeting with lenders, especially if you want to maximize your position and leverage. Some questions to ask:

*What are my closing costs?*

*What are your requirements for refinance?*

*What is the LTV on refinance?*

*How quickly can you fund a loan or refinance?*



### REQUEST FOR FINANCING



4949 W. Brown Deer Rd.  
Brown Deer, WI

On November 2<sup>nd</sup>, 2020, F Street Development Group (via Hayden Properties, LLC) placed under contract an approximately 60,000 square foot vacant office building, a vacant commercial bank branch and approximately 22 acres of land in Brown Deer, Wisconsin (collectively, the "Property").

The building is well-located and directly off the heavily trafficked Brown Deer Road just a few miles west of Interstate 43. The property is on the west side of Brown Deer Road, in the heart of a main commercial corridor, which is home to many large office users in Brown Deer including Badger Meter, TAPCO, etc.

The property is owned by Associated Bank. The office building is currently assessed at \$7,000,000 and has been written down to \$3,500,000. As a result of negotiations with the Seller and our ability to close by the end of fiscal 2020, Associated Bank has agreed to take a further write-down, as they have agreed to sell the property to us for \$2,300,000. This price not only includes the purchase of the office building, but also the bank branch and 22 acres of land directly to the west.

What is FSDG's plan? What is the opportunity?

**Office Building:** We plan to reposition the vacant office building to attract a single or multiple tenant(s) to the building. The building is in excellent condition and is best suited to house one or multiple office users. We will be working directly with Colliers' office leasing team and RINKA+ to optimize the building and attract a suitable user. We will not limit our search on traditional office users, but rather contemplate a school's use, medical/healthcare use, and other ancillary uses.

**Bank Branch:** We plan to work with the Colliers leasing team/investment sales team to attract a bank branch that desires great visibility and an additional location. This may result in a triple net lease deal or an investment sale to a bank.

**Vacant Land:** We are working with the Village of Brown Deer to create a PUD (Planned Unit Development) and gain our entitlements for this land. Once completed, we will market the vacant land for sale to 3<sup>rd</sup> party developers, which will include, but not be limited to, senior housing, manufacturing/light industrial, other housing types, and other commercial uses.

We are excited to offer you this opportunity and look forward to your proposal.

Details of the Acquisition:

- Real Estate Entity: Hayden Properties, LLC and/or its assigns (FSDG BD, LLC will be the purchasing entity of the Property)
- F Street Development Group will be providing and sourcing necessary equity.

F Street Development Group | fstreetdevgroup.com



## ***Residential Pros***

- Longer-term debt
- Fully amortized
- Lower monthly payments
- Increased cash flow
- Lower interest rate

## ***Residential Cons***

- Titled in personal name
- Reports to credit
- Impact debt to income ratio
- Limit up to 10 properties

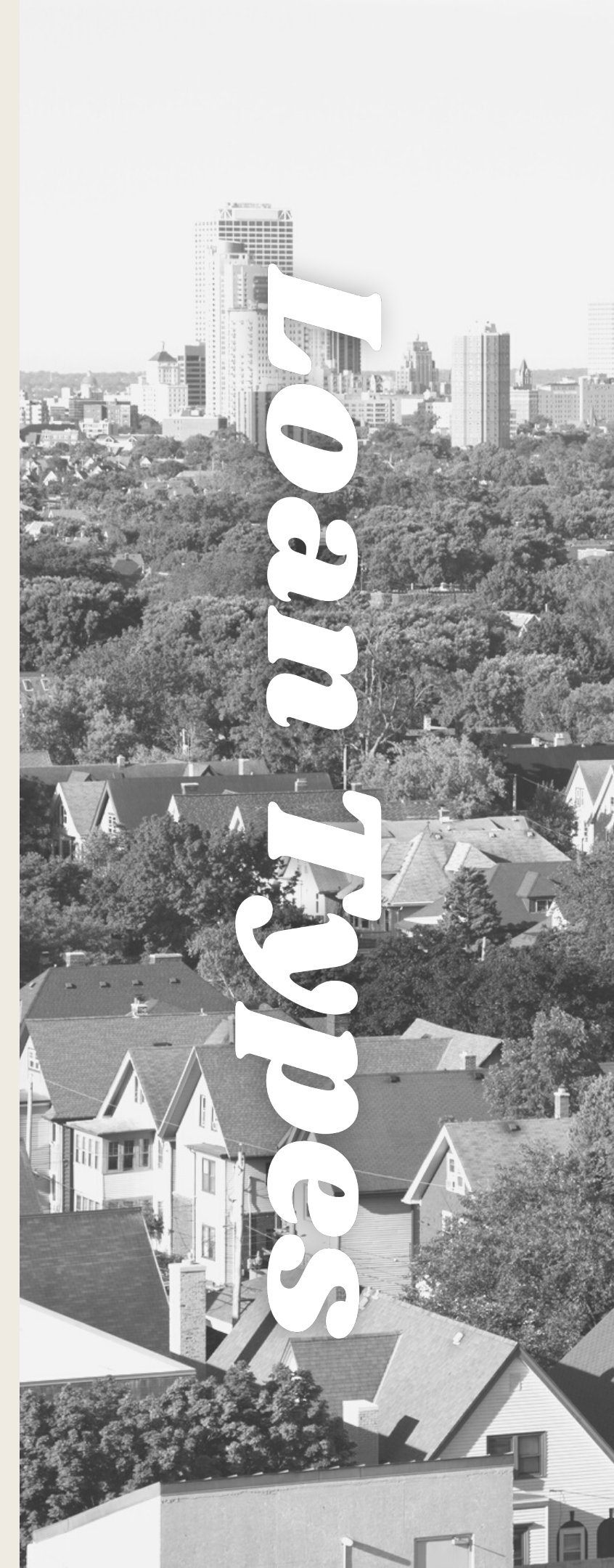
## ***Commercial Cons***

- Shorter term debt
- Amortization (typ. 20-25 years)
- Higher monthly payments
- Reduced cash flow
- Higher interest rate

## ***Commercial Pros***

- Titled in business name
- Does not report to credit
- Does not impact personal finances
- No limit on # of properties

Loan Types





# ***How to Get Equity***

## **DISTRESSED ASSET**

Purchase, Rehab, Get Stabilized

## **OPM (OTHER PEOPLE'S MONEY)**

Find people to invest in your strategy

## **FIO (FIGURE IT OUT)**

HELOC, 401k loans, Raise Money



# ***Refinance Types***

## ***Rate + Term vs. Cash Out***

Rate + Term is the process of refinancing an existing debt amount to lower the rate or extend the term of the loan agreement.

Cash Out is when a mortgage is refinanced for more than what is owed and the borrower takes out the difference in cash.



# ***Take Charge of Your Investments***



Create Flexibility



Remain Disciplined



Improve Process



Can you use existing personal property (single-family home with mortgage) as collateral?

How do you finance the rehab for investment properties?

Is hard money good for NNN (triple net) lease on commercial property?

How do you develop a plan to present to a hard money lender?

***Let's talk about  
your questions***

How do you scale from a multifamily property to small apartment buildings?

What do you think about the \$5,000 homes in Milwaukee?

Is it possible to purchase a multifamily with no money down?



How do you calculate if a property is a good investment?

When I refinance to a conventional lender, is that considered paying off the loan early if prior to term end date?

Are there disadvantages to selling vs. reinvesting, like tax implications?

***Let's talk about your questions***

How can I leverage free and clear property to purchase additional property?

Is house-hacking something you would recommend if you can make additional units?





# ***Get Expert Advice, 24/7***



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/milwaukeehardmoney



**YOUTUBE**

/milwaukeehardmoney



**TWITTER**

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**LINKEDIN**

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**INSTAGRAM**

@mkehardmoney



**WEBSITE**

[milwaukeehardmoney.com](http://milwaukeehardmoney.com)





# ***Thank You!***

LET'S START YOUR  
INVESTMENT JOURNEY  
TOGETHER

