VENTANA FUND
NEW MEXICO

An Overview of Building Wealth in Investment Real Estate

FINANCING NEW MEXICO'S AFFORDABLE HOUSING

Investing in New Mexico

Student Handouts

Introduction
Investor 5-Step Course Series

Step 1: Connecting the Pieces to become an Investor

Step 2: The Business of Investments

Step 3: Six Unfounded Fears of Property Management- How to Hire a Professionals including a Property Manager, Fair Housing, Diversity and the Law

Step 4: Five C's of Credit- How the loan process works and discover how to navigate the loan process.

Step 5: Benchmarks Investment Basics A to Z:

Part 1- Speak the Language

Part 2: Know the Numbers (the analysis)

Capstone Course – Introduction by Application

Overview of 5 Steps plus Capstone

1. **Connecting the Pieces to Become an Investor:** This step assembles key skills and knowledge to become a successful investor. It provides a comprehensive overview of the essential skills and knowledge required. This course covers understanding financial components, loan types, and how to build wealth.

2. **The Business of Investing:** How to build wealth by becoming an investor.

3. **Overcoming Unfounded Fears of Property Management - Strategies for Building a Team & Hiring Professional Managers and Understanding Legal Responsibilities**: This course addresses common concerns in property management, provides guidance on hiring professionals, and explains the legal aspects of fair housing and diversity laws.

4. **Understanding the Loan Process Through the 5 C's of Credit and Securing Funding:** This class covers the details of the loan process, explaining the 5 C's of Credit (Character, Capacity, Capital, Collateral, and Conditions) and strategies for securing funding for investment opportunities.

5. **Navigating the Investment Industry Landscape**:

Part 1: This course offers insights into the business side of investing, including understanding market trends, regulatory environment, and investment strategies.
Part 2: **Mastering Investment Analysis: A Deep Dive into Financial Metrics**: This step course focuses on the analytical aspect of investing. This course covers creating financials, IRR, Cap Rates, NOI, understanding key financial metrics, and making informed investment decisions based on these analyses.

6. **Capstone Course: Applying Your Investment Knowledge in Real-World Scenarios**: The final course is a comprehensive overview with an opportunity to use your skills by diving into real property; it allows students to apply the knowledge and skills they've acquired throughout the course in real-world investment scenarios.

Special Thank you Education Initiative

Ventana Fund is a non-profit Community Development Financial Institution Fund (CDFI) headquartered in New Mexico. We are dedicated to financing the creation and preservation of affordable multi-family housing by providing low-interest loans for Developers who serve New Mexico's low income residents in high need communities.

VENTANA FUND
NEW MEXICO
Community Development Financial Institution Fund

Investing in Real Estate

Investing in real estate presents an opportunity to build long-term wealth, create passive income, and have a positive impact on communities.

FINANCING NEW MEXICO'S AFFORDABLE HOUSING

Aligning Your Goals

About the Instructor

Amanda Velarde, MBA, CCIM

- CEO Tamaya Ventures overseeing 1700+/- Acres at Santa Ana Pueblo
- 2024 Biz First Woman of Influence
- Broker Specializing in Land Transactions
- Master of Business Administration, University of Phoenix
- New Mexico Real Estate License 2005 and Qualifying Broker (2017)
- Property Manager Commercial and Multi-housing
- Albuquerque Business First 40 Under Forty (2019)
- Economic Development Leadership Class (2020)

About the Instructor
Todd Clarke, CCIM, CIPS

- NM Apartment Advisors Inc. Owner/Qualifying Broker
- Cantera Consultants & Advisors Owner/Consultant, Inc.
- Co-founder of Commercial Association of Realtors in NM
- Realtor Good Neighbor Award (GAAR) for efforts on behalf of the Ventana Fund (2020)
- CARNM Founders Award (2019)
- Sold over 15,000 Apartment Units
- International Award-Winning instructor for CCIM institute, 25 years, 5,000 students with over 200 classes

FINANCING NEW MEXICO'S AFFORDABLE HOUSING

STEP 1
Connecting the Pieces to become An Investor

Underwritten by Ventana Fund as part of our Education Initiative

VENTANA FUND
NEW MEXICO

Goal Setting

Goal Setting

Write 3 measuerable goals down

Buy Box

Grab a map and start drawing a box around a specific area as the area of focus for future purchase.

Vision Board

Visulize your goals by gathering photos, samples of what you want and images of the goals.

VENTANA FUND
NEW MEXICO

Measurable Goals

Goal 1:	
Description:	
What is the goal?	
Measurable Outcome:	
How will you measure success?	
Action Steps: 1. 2. 3.	
Deadline:	
When do you want to achieve this goal?	
Goal 2:	
Description:	
What is the goal?	
Measurable Outcome:	
How will you measure success?	
Action Steps: 1. 2. 3.	
Deadline:	
When do you want to achieve this goal?	
Goal 3:	
Description:	
What is the goal?	
Measurable Outcome:	
How will you measure success?	
Action Steps: 1. 2. 3.	
Deadline:	
When do you want to achieve this goal?	

Buy Box Checklist for Real Estate

1. Location:	
Neighborhood: Desired neighborhoods or areas	
Proximity: Distance to schools, parks, shopping centers, public transportation	
Growth Potential: Areas with potential for appreciation	
2. Property Type:	
Single-Family Homes	
Multi-Family Homes	
Condos/Townhouses	
Commercial Properties	
Vacant Land	
3. Property Size:	
Square Footage: Minimum and maximum square footage	
Number of Bedrooms: Minimum number of bedrooms	
Number of Bathrooms: Minimum number of bathrooms	
Lot Size: Desired lot size	
4. Property Condition:	
Turnkey: Move-in ready properties	
Fixer-Uppers: Properties needing renovation	
Age of Property: Preferred age range of the property	
Maintenance: Low maintenance requirements	
5. Financial Criteria:	
Purchase Price: Maximum purchase price	
Down Payment: Minimum down payment amount	
Cash Flow: Positive cash flow potential	
Cap Rate: Desired capitalization rate	
GRM (Gross Rent Multiplier): Acceptable GRM range	
CoC (Cash-on-Cash Return): Minimum acceptable cash-on-cash return	

FINANCING NEW MEXICO'S AFFORDABLE HOUSING

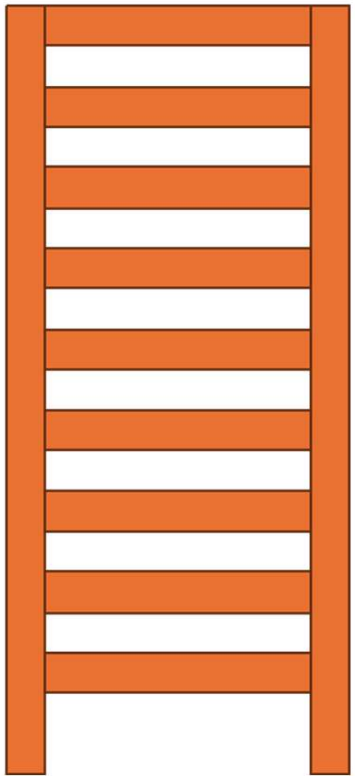
STEP 2
Personal Financial Statement

Underwritten by Ventana Fund as part of our Education Initiative

VENTANA FUND
NEW MEXICO

Property Ladder

Rung	Property Ladder Level	AMI Level	Income Level	Affordable Payment Level	Rental Income Demand	Rental Housing Supply	Ownership Housing Supply	Ownership Income Demand
8	Luxury	300%+	$176,167 and Higher	$4,405 and Higher	4,422	12	37,439	48,245
7	Larger Than Average	200-300%	$117,445 to $176,166	$2,937 to $4,404	9,993	2,434	56,429	73,622
6	Median Priced Home	150-200%	$88,084 to $117,444	$2,203 to $2,936	13,863	2,147	79,807	70,971
5	Luxury Rentals/Single Family /Starter Homes	120-150%	$70,467 to $88,083	$1,763 to $2,202	16,340	6,649	66,294	58,201
4	Workforce Housing Rentals	80-120%	$46,979 to $70,466	$1,175 to $1,762	41,175	46,342	135,242	99,434
3	Naturally Occuring Affordable Housing	50-80%	$29,362 to $46,978	$735 to $1,174	42,893	94,850	77,563	83,620
2	Rental Assistance for Very Low Income	30-50%	$17,618 to $29,361	$441 to $734	40,484	58,149	41,049	54,422
1	Rental Assistance for Extremely Low Income	0-30%	$1 to $17,617	$1 to $440	58,953	22,316	64,286	60,271
0	Emergency Room/Shelters/ Unhoused on Streets	0%	$0	$0	4,776			9,323



Personal Financial Statement

NAME

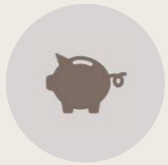
ADDRESS

SOCIAL SECURITY

INCOME

DEBT

CHECKING ACCOUNT



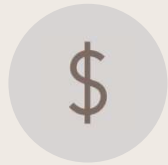
SAVINGS ACCOUNT

STOCKS AND BONDS

CREDIT CARDS

CAR LOANS

ASSETS



NET WORTH

Personal Financial Statements

Assessment

Transparency and Accountability

Key Metrics and Insights

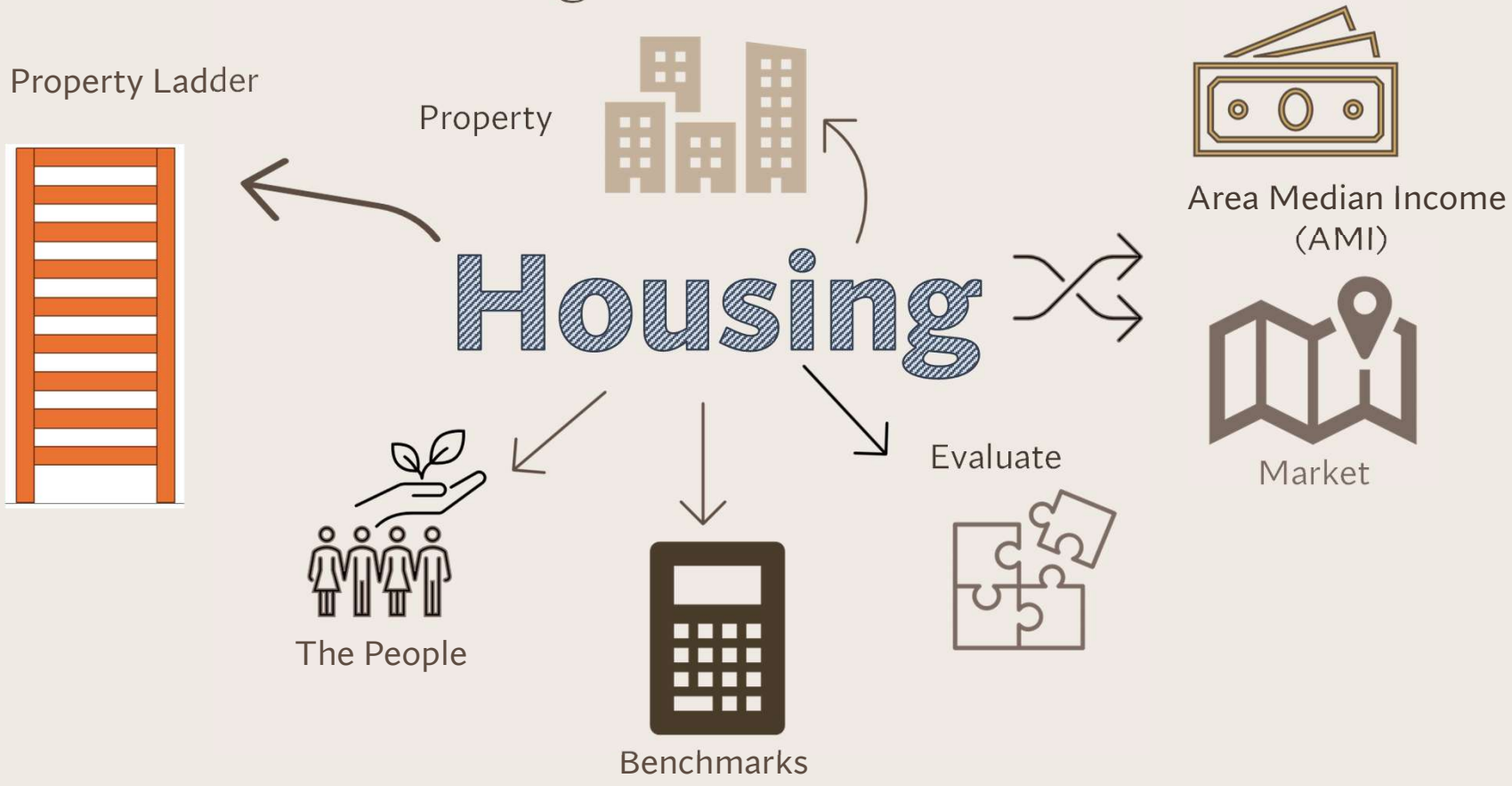
Predicting Future Performance

Investment Confidence

Personal Financial Statement

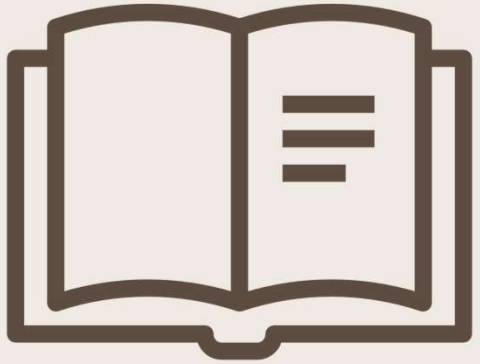
1) Tell your story
2) Scan the QR Code
3) Prepare a draft of your own personal financial statement
4) 15 mins to complete the financial statement

Housing In New Mexico



Loan Success: What is your Story

- Control the Story
- Tell Your Entire Story
- What are you doing?
- What is your Plan and Experience?
- Exit Strategy



If you don't tell your Story…Someone else will tell it for you.

Underwritten by Ventana Fund as part of our Education Initiative

FINANCING NEW MEXICO'S AFFORDABLE HOUSING

STEP 3

Six Unfounded Fears of Property Management- How to Hire Professionals including Property Manager

Underwritten by Ventana Fund as part of our Education Initiative

VENTANA FUND
NEW MEXICO

BUILDING YOUR TEAM

- Lender
- Commercial Broker
- Title Company
- Inspectors
- Contractor/Handman
- Surveyor
- Lawyer
- Tax Accountant
- Property Manager

Property Manager Task

Examples: Property Manager Tasks

- **Accounting and reporting**
- **Leasing**
- **Maintenance and repair**
- **Rent rates setting and collection**
- **Acquisitions and dispositions**
- **Rehabilitate schedules and feasibility**
- **Financing**
- **Leasing**
- **Paying taxes**
- **Marketing**
- **Move in/Move Outs**
- **Remolding/upgrades**

VENTANA FUND
NEW MEXICO

FAIR HOUSING PROTECTS

- The Fair Housing Act prohibits discrimination in housing because of:
- Race
- Color
- National Origin
- Religion
- Sex (including gender identity and sexual orientation)
- Familial Status
- Disability

NEW MEXICO UNIFORM OWNER RESIDENT RELATION ACT UORRA – 2019

Lenders


HOUSING
NEW MEXICO | MFA


FannieMae
FreddieMac

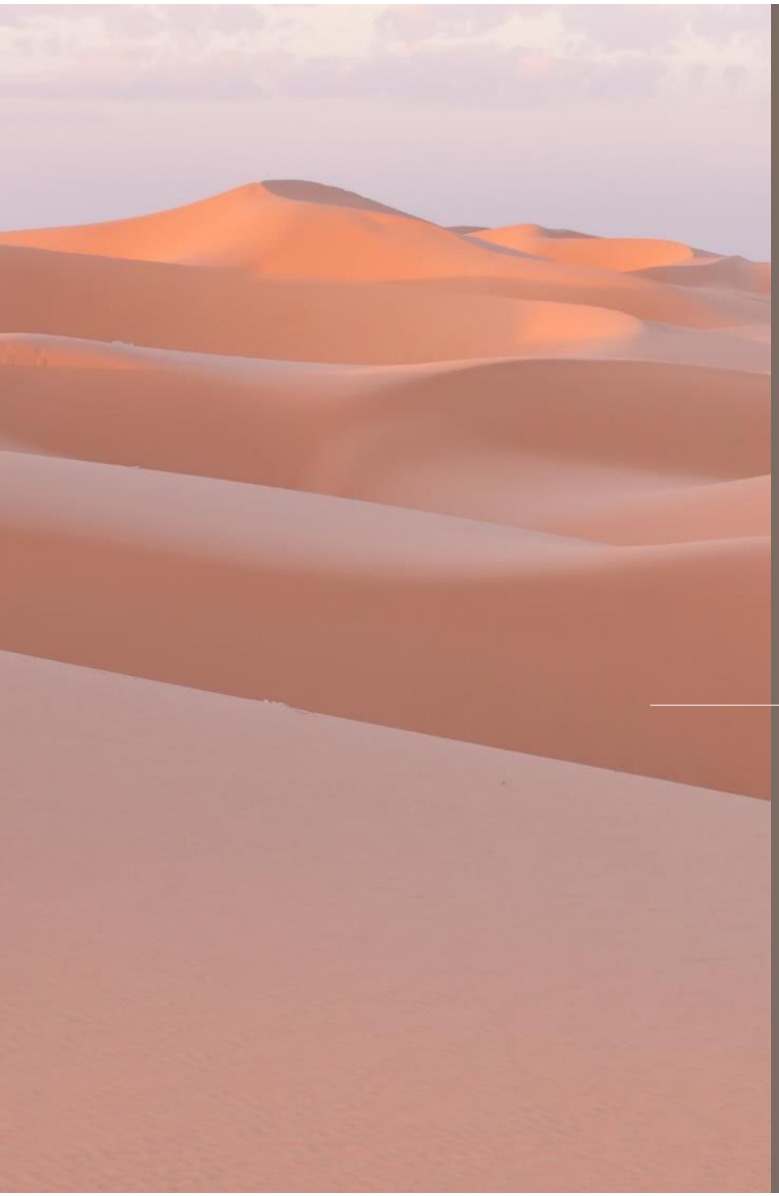

NEWMEXICO
BANK & TRUST®
a division of HTLF Bank


VENTANA FUND
NEW MEXICO


Sandia Laboratory
Federal Credit Union


BANK OF
ALBUQUERQUE
Powered by BOK Financial


Bank of America



FINANCING NEW MEXICO'S AFFORDABLE HOUSING

STEP 4

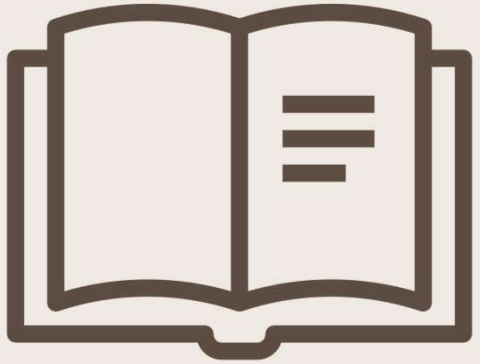
Five C's of Credit- How the loan process works and discover how to navigate the loan process.

; }lm£¤ ¤¥¥m}#j "#<m}¥h}h#*ƒ}l#h/#h£¥#-n#-ƒ£# lƒkh¥u-}#}u¥uh¥u§m#

VENTANA FUND
NEW MEXICO

Loan Success: What is your Story

- Control the Story
- Tell Your Entire Story
- What are you doing?
- What is your Plan and Experience?
- Exit Strategy



If you don't tell your Story…Someone else will tell it for you.

Start the Loan Application

1) Prepare a draft of your own Loan Application
2) Scan the QR Code
3) 15 mins to review the Loan Application
4) Prepare 2 to 3 questions about the Loan Application

Proforma- Know the Numbers

Assessment

Property Brochure

Including Rents, Expenses, and Taxes

Benchmarks

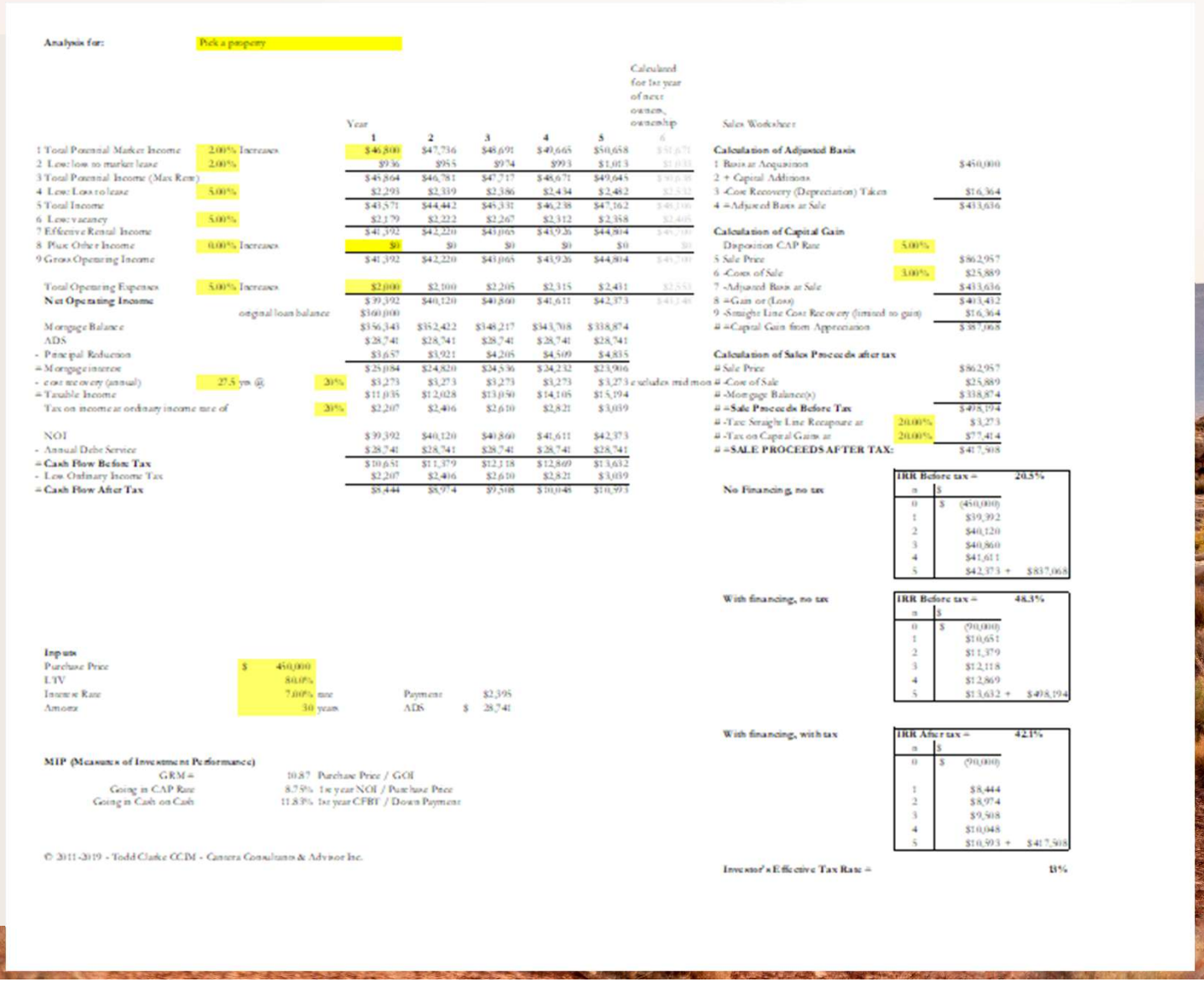
Cheat Sheet

Proforma

Blank proforma

Comparison of Benchmarks For the Property

Proforma



Analysis for: Pick a property

			Year 1	2	3	4	5	Calculated for 1st year of next owners ownership 6
1 Total Potential Market Income	2.00% Increases		$46,800	$47,736	$48,691	$49,665	$50,658	$51,671
2 Less:low to market lease	2.00%		$936	$955	$974	$993	$1,013	$1,033
3 Total Potential Income (Max Rent)			$45,864	$46,781	$47,717	$48,671	$49,645	$50,638
4 Less: Loss to lease	5.00%		$2,293	$2,339	$2,386	$2,434	$2,482	$2,532
5 Total Income			$43,571	$44,442	$45,331	$46,238	$47,162	$48,106
6 Less:vacancy	5.00%		$2,179	$2,222	$2,267	$2,312	$2,358	$2,405
7 Effective Rental Income			$41,392	$42,220	$43,065	$43,926	$44,804	$45,701
8 Plus: Other Income	0.00% Increases		$0	$0	$0	$0	$0	$0
9 Gross Operating Income			$41,392	$42,220	$43,065	$43,926	$44,804	$45,701
Total Operating Expenses	5.00% Increases		$2,000	$2,100	$2,205	$2,315	$2,431	$2,553
Net Operating Income			$39,392	$40,120	$40,860	$41,611	$42,373	$43,148
		original loan balance	$360,000					
Mortgage Balance			$356,343	$352,422	$348,217	$343,708	$338,874	
ADS			$28,741	$28,741	$28,741	$28,741	$28,741	
- Principal Reduction			$3,657	$3,921	$4,205	$4,509	$4,835	
= Mortgage interest			$25,084	$24,820	$24,536	$24,232	$23,906	
- cost recovery (annual)	27.5 yrs @	20%	$3,273	$3,273	$3,273	$3,273	$3,273	excludes mid-mon
= Taxable Income			$11,035	$12,028	$13,050	$14,105	$15,194	
Tax on income at ordinary income rate of		20%	$2,207	$2,406	$2,610	$2,821	$3,039	
NOI			$39,392	$40,120	$40,860	$41,611	$42,373	
- Annual Debt Service			$28,741	$28,741	$28,741	$28,741	$28,741	
= Cash Flow Before Tax			$10,651	$11,379	$12,118	$12,869	$13,632	
- Less Ordinary Income Tax			$2,207	$2,406	$2,610	$2,821	$3,039	
= Cash Flow After Tax			$8,444	$8,974	$9,508	$10,048	$10,593	

Inputs

Purchase Price	$ 450,000			
LTV	80.0%			
Interest Rate	7.00% rate	Payment	$2,395	
Amortz	30 years	ADS	$ 28,741	

MIP (Measures of Investment Performance)

GRM =	10.87	Purchase Price / GOI
Going in CAP Rate	8.75%	1st year NOI / Purchase Price
Going in Cash on Cash	11.83%	1st year CFBT / Down Payment

Sales Worksheet

Calculation of Adjusted Basis

1 Basis at Acquisition		$450,000
2 + Capital Additions		
3 -Cost Recovery (Depreciation) Taken		$16,364
4 =Adjusted Basis at Sale		$433,636

Calculation of Capital Gain

Disposition CAP Rate	5.00%	
5 Sale Price		$862,957
6 -Costs of Sale	3.00%	$25,889
7 -Adjusted Basis at Sale		$433,636
8 =Gain or (Loss)		$403,432
9 -Straight Line Cost Recovery (limited to gain)		$16,364
# =Capital Gain from Appreciation		$387,068

Calculation of Sales Proceeds after tax

# Sale Price		$862,957
# -Cost of Sale		$25,889
# -Mortgage Balance(s)		$338,874
# =Sale Proceeds Before Tax		$498,194
# -Tax Straight Line Recapture at	20.00%	$3,273
# -Tax on Capital Gains at	20.00%	$77,414
# =SALE PROCEEDS AFTER TAX:		$417,508

No Financing, no tax — **IRR Before tax =** 20.5%

n	$	
0	$ (450,000)	
1	$39,392	
2	$40,120	
3	$40,860	
4	$41,611	
5	$42,373 +	$837,068

With financing, no tax — **IRR Before tax =** 48.3%

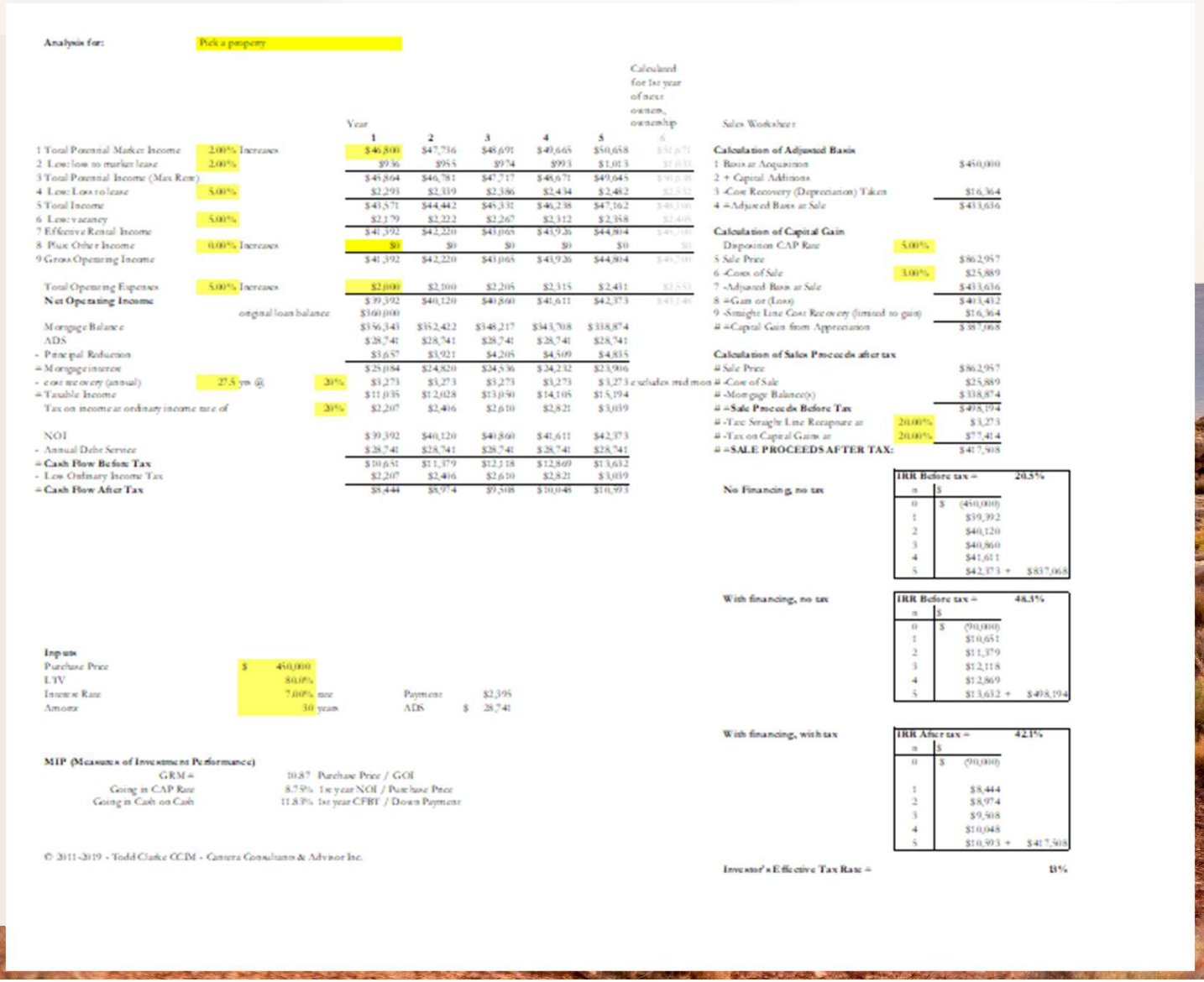
n	$	
0	$ (90,000)	
1	$10,651	
2	$11,379	
3	$12,118	
4	$12,869	
5	$13,632 +	$498,194

With financing, with tax — **IRR After tax =** 42.1%

n	$	
0	$ (90,000)	
1	$8,444	
2	$8,974	
3	$9,508	
4	$10,048	
5	$10,593 +	$417,508

Investor's Effective Tax Rate = 15%

Proforma



Analysis for: Pick a property

			Year 1	2	3	4	5	Calculated for 1st year of next owners ownership 6
1 Total Potential Market Income	2.00% Increases		$46,800	$47,736	$48,691	$49,665	$50,658	$51,671
2 Less:low to market lease	2.00%		$936	$955	$974	$993	$1,013	$1,033
3 Total Potential Income (Max Rent)			$45,864	$46,781	$47,717	$48,671	$49,645	$50,638
4 Less: Loss to lease	5.00%		$2,293	$2,339	$2,386	$2,434	$2,482	$2,532
5 Total Income			$43,571	$44,442	$45,331	$46,238	$47,162	$48,106
6 Less:vacancy	5.00%		$2,179	$2,222	$2,267	$2,312	$2,358	$2,405
7 Effective Rental Income			$41,392	$42,220	$43,065	$43,926	$44,804	$45,701
8 Plus: Other Income	0.00% Increases		$0	$0	$0	$0	$0	$0
9 Gross Operating Income			$41,392	$42,220	$43,065	$43,926	$44,804	$45,701
Total Operating Expenses	5.00% Increases		$2,000	$2,100	$2,205	$2,315	$2,431	$2,553
Net Operating Income			$39,392	$40,120	$40,860	$41,611	$42,373	$43,148
		original loan balance	$360,000					
Mortgage Balance			$356,343	$352,422	$348,217	$343,708	$338,874	
ADS			$28,741	$28,741	$28,741	$28,741	$28,741	
- Principal Reduction			$3,657	$3,921	$4,205	$4,509	$4,835	
= Mortgage interest			$25,084	$24,820	$24,536	$24,232	$23,906	
- cost recovery (annual)	27.5 yrs @	20%	$3,273	$3,273	$3,273	$3,273	$3,273	excludes mid-mon
= Taxable Income			$11,035	$12,028	$13,050	$14,105	$15,194	
Tax on income at ordinary income rate of		20%	$2,207	$2,406	$2,610	$2,821	$3,039	
NOI			$39,392	$40,120	$40,860	$41,611	$42,373	
- Annual Debt Service			$28,741	$28,741	$28,741	$28,741	$28,741	
= Cash Flow Before Tax			$10,651	$11,379	$12,118	$12,869	$13,632	
- Less Ordinary Income Tax			$2,207	$2,406	$2,610	$2,821	$3,039	
= Cash Flow After Tax			$8,444	$8,974	$9,508	$10,048	$10,593	

Inputs

Purchase Price	$ 450,000			
LTV	80.0%			
Interest Rate	7.00% rate	Payment	$2,395	
Amortz	30 years	ADS	$ 28,741	

MIP (Measures of Investment Performance)

GRM =	10.87	Purchase Price / GOI
Going in CAP Rate	8.75%	1st year NOI / Purchase Price
Going in Cash on Cash	11.83%	1st year CFBT / Down Payment

Sales Worksheet

Calculation of Adjusted Basis

1 Basis at Acquisition		$450,000
2 + Capital Additions		
3 -Cost Recovery (Depreciation) Taken		$16,364
4 =Adjusted Basis at Sale		$433,636

Calculation of Capital Gain

Disposition CAP Rate	5.00%	
5 Sale Price		$862,957
6 -Costs of Sale	3.00%	$25,889
7 -Adjusted Basis at Sale		$433,636
8 =Gain or (Loss)		$403,432
9 -Straight Line Cost Recovery (limited to gain)		$16,364
# =Capital Gain from Appreciation		$387,068

Calculation of Sales Proceeds after tax

# Sale Price		$862,957
# -Cost of Sale		$25,889
# -Mortgage Balance(s)		$338,874
# =Sale Proceeds Before Tax		$498,194
# -Tax Straight Line Recapture at	20.00%	$3,273
# -Tax on Capital Gains at	20.00%	$77,414
# =SALE PROCEEDS AFTER TAX:		$417,508

No Financing, no tax — **IRR Before tax =** 20.5%

n	$	
0	$ (450,000)	
1	$39,392	
2	$40,120	
3	$40,860	
4	$41,611	
5	$42,373 +	$837,068

With financing, no tax — **IRR Before tax =** 48.3%

n	$	
0	$ (90,000)	
1	$10,651	
2	$11,379	
3	$12,118	
4	$12,869	
5	$13,632 +	$498,194

With financing, with tax — **IRR After tax =** 42.1%

n	$	
0	$ (90,000)	
1	$8,444	
2	$8,974	
3	$9,508	
4	$10,048	
5	$10,593 +	$417,508

Investor's Effective Tax Rate = 15%

Proforma

1) Prepare a draft of your own proforma
2) Find a property online or one you have saved (5 mins)
3) 60 mins to complete the proforma

FINANCING NEW MEXICO'S AFFORDABLE HOUSING

STEP 5

Benchmarks Part 1- Speak the Language & Know the Numbers.

Underwritten by Ventana Fund as part of our Education Initiative

VENTANA FUND
NEW MEXICO

Discover Major Investment Benchmarks

- GRM (Gross Rent Multiplier)
- CAP Rate (Capitalization Rate)
- Cash on Cash
- IRR unleveraged with/without taxes
- IRR with leverage with/without taxes

Analysis for: Citadel Apartments

			Year 1	2	3	4	5	Calculated for 1st year of next owners, ownership 6
1 Total Potential Market Income	2.00% Increases		$1,540,008	$1,570,808	$1,602,224	$1,634,269	$1,666,954	$1,700,293
2 Less: loss to market lease	0.00%		$0	$0	$0	$0	$0	$0
3 Total Potential Income (Max Rent)			$1,540,008	$1,570,808	$1,602,224	$1,634,269	$1,666,954	$1,700,293
4 Less: Loss to lease	0.00%		$0	$0	$0	$0	$0	$0
5 Total Income			$1,540,008	$1,570,808	$1,602,224	$1,634,269	$1,666,954	$1,700,293
6 Less: vacancy	5.60%		$86,240	$87,965	$89,725	$91,519	$93,349	$95,216
7 Effective Rental Income			$1,453,768	$1,482,843	$1,512,500	$1,542,750	$1,573,605	$1,605,077
8 Plus: Other Income	2.00% Increases		$50,104	$51,106	$52,128	$53,171	$54,234	$55,319
9 Gross Operating Income			$1,503,872	$1,533,949	$1,564,628	$1,595,921	$1,627,839	$1,660,396
Total Operating Expenses	1.00% Increases		$833,879	$842,218	$850,640	$859,146	$867,738	$876,415
Net Operating Income			$669,993	$691,731	$713,988	$736,774	$760,101	$783,981
	original loan balance		$6,450,000					
Mortgage Balance			$6,348,681	$6,242,549	$6,131,375	$6,014,920	$5,892,932	
ADS			$399,103	$399,103	$399,103	$399,103	$399,103	
- Principal Reduction			$101,319	$106,132	$111,174	$116,455	$121,987	
= Mortgage interest			$297,784	$292,971	$287,929	$282,648	$277,116	
- cost recovery (annual)	27.5 yrs @	80%	$250,182	$250,182	$250,182	$250,182	$250,182	excludes mid mont
= Taxable Income			$122,027	$148,579	$175,877	$203,945	$232,804	
Tax on income at ordinary income rate of		35%	$42,709	$52,003	$61,557	$71,381	$81,481	
NOI			$669,993	$691,731	$713,988	$736,774	$760,101	
- Annual Debt Service			$399,103	$399,103	$399,103	$399,103	$399,103	
= **Cash Flow Before Tax**			$270,890	$292,628	$314,885	$337,671	$360,998	
- Less Ordinary Income Tax			$42,709	$52,003	$61,557	$71,381	$81,481	
= **Cash Flow After Tax**			$228,180	$240,626	$253,328	$266,291	$279,517	

Inputs

Purchase Price	$ 8,600,000			
LTV	75.0%			
Interest Rate	4.65%	rate	Payment	$33,259
Amortz	30	years	ADS	$ 399,103

MIP (Measures of Investment Performance)

GRM =	5.72	Purchase Price / GOI
Going in CAP Rate	7.79%	1st year NOI / Purchase Price
Going in Cash on Cash	12.60%	1st year CFBT / Down Payment

Sales Worksheet

Calculation of Adjusted Basis

1 Basis at Acquisition		$8,600,000
2 + Capital Additions		
3 -Cost Recovery (Depreciation) Taken		$1,250,909
4 =Adjusted Basis at Sale		$7,349,091

Calculation of Capital Gain

Disposition CAP Rate	7.79%	
5 Sale Price		$10,063,935
6 -Costs of Sale	3.50%	$352,238
7 -Adjusted Basis at Sale		$7,349,091
8 =Gain or (Loss)		$2,362,606
9 -Straight Line Cost Recovery (limited to gain)		$1,250,909
=Capital Gain from Appreciation		$1,111,697

Calculation of Sales Proceeds after tax

Sale Price		$10,063,935
-Cost of Sale		$352,238
-Mortgage Balance(s)		$5,892,932
=Sale Proceeds Before Tax		$3,818,764
-Tax: Straight Line Recapture at	25.00%	$312,727
-Tax on Capital Gains at	20.00%	$222,339
=SALE PROCEEDS AFTER TAX:		$3,283,698

No Financing, no tax

IRR Before tax =		**10.4%**
n	$	
0	$ (8,600,000)	
1	$669,993	
2	$691,731	
3	$713,988	
4	$736,774	
5	$760,101 +	$9,711,697

With financing, no tax

IRR Before tax =		**23.9%**
n	$	
0	$ (2,150,000)	
1	$270,890	
2	$292,628	
3	$314,885	
4	$337,671	
5	$360,998 +	$3,818,764

With financing, with tax

IRR After tax =		**18.8%**
n	$	
0	$ (2,150,000)	
1	$228,180	
2	$240,626	
3	$253,328	
4	$266,291	
5	$279,517 +	$3,283,698

Investor's Effective Tax Rate = **21%**

FACTS AND FIGURES

Property Name	**CITADEL APARTMENTS**
Location	Albuquerque, New Mexico
Type of Property	Multi-Family Investment
Size of Property	232 (Units)
Purpose of analysis	**2014 PROJECTION**

Assessed/Appraised Values

Land	1,408,900	30%
Improvements	3,229,800	70%
Personal Property	0	0%
Total	4,638,700	100%

Adjusted Basis as of 2014 Valuation $8,607,500

Annual Property Operating Data

Purchase Price	8,600,000
Plus Acquisiition Costs	7,500
Plus Loan Fees/Costs	64,500
Less Mortgages	6,450,000
Equals Initial Investment	2,222,000

	Balance	Periodic Pmt	Pmts/Yr	Interest	Amort Period	Loan Term
1st	$6,450,000	$35,617	12	5.25%	30	30
2nd			12			

	ALL FIGURES ARE ANNUAL	$/SQ FT or $/Unit	% of GOI			COMMENTS/FOOTNOTES
1	**POTENTIAL RENTAL INCOME**				1,540,008	Annualized Actual Rent Roll + Asking Price Vacancies
2	Less: Vacancy & Cr. Losses		(5.6% of PRI)		86,240	Based on Sept. 2013 Apartment Market Survey
3	**EFFECTIVE RENTAL INCOME**				1,453,768	
4	Plus: Other Income (collectable)				50,104	3 year average - Laundry Income + Water Reimbursement
5	**GROSS OPERATING INCOME**				1,503,872	
	OPERATING EXPENSES:					
7	Real Estate Taxes			65,817		2013 Actual
8	Personal Property Taxes			1,292		2013 Actual
9	Property Insurance			36,880		Actual 2013 2nd half 2013 annualized
10	Off Site Management			80,457		5% of gross revenue plus NMGRT
11	Payroll			82,652		2013 - 8 month annualized
12	Expenses/Benefits					
13	Taxes/Worker's Compensation			28,044		2013 - 8 month annualized
14	Repairs and Maintenance			170,695		$1.30/SF/YR industry average
	Utilities:					
15	Gas/Electric/Water/Sewer			181,642		3 year average
16	Garbage/Trash Removal			16,103		3 year average
17						
18	Telephone/Cable/Internet			7,547		2013 - 8 month annualized
19	Accounting and Legal			17,538		2013 - 8 month annualized
20	Licenses/Permits					
21	Advertising			21,053		2013 - 8 month annualized
22	Supplies			6,648		2013 - 8 month annualized
23	Miscellaneous Contract Services:					
24	Extermination			5,105		2013 - 8 month annualized
25	Courtesy/Grounds Patrol			42,959		2013 - 8 month annualized
26	Grounds Maintenance			36,354		2013 - 8 month annualized
27	Janitorial			23,735		2013 - 8 month annualized
28	Miscellaneous Expenses			9,358		2013 - 8 month annualized
29	TOTAL OPERATING EXPENSES				833,879	
30	**NET OPERATING INCOME**				669,993	7.8% Capitalization Rate
31	Less: Annual Debt Service				427,406	
32	Less: Participation Payments					
33	Less: Leasing Commissions					
34	Less: Funded Reserves					
35	**CASH FLOW BEFORE TAXES**				$242,587	10.9% Cash on Cash Return

The statements and figures herein, while not guaranteed, are secured from sources we believe authoritative

Prepared for: Prospective Buyers

Prepared by: Brian R. Anderson, CCIM and Mark Hammond

Benchmarks

GRM

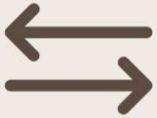
Gross Rent Multiplier

Cap Rate

Capitalization Rate

Cash on Cash

Cash Flow Before Tax (CBFT)/Down Payment



IRR

Internal Rate of Return (Net Present Value)

With and without leverage

Effective Rate

With/Without Taxes

GRM (Gross Rent Multiplier)

- **Measures:** How much of a return an investor might make on a specific investment

Property Price/Gross Rental Income

CAP (Capitalization Rate)

Measures: the yield (return) of the property over one year

$$\frac{\text{Net Operating Income}}{\text{Current Market Value}}$$

Cash on Cash Return

- **Measures: the total cash earned on the total cash (equity) invested in a deal.**
- **CBFT (Cash Flow Before Tax)**

$$\frac{\text{CBFT}}{\text{Down Payment}}$$

Internal Rate Return (Net Present Value))

- **<u>Measures:</u> profitability of potential investments. IRR is a discount rate that makes the net present value (NPV) of all cash flows equal to zero.**

$$NPV = \frac{\text{CASH FLOW}}{(1\text{-I})t} - \text{Initial investment}$$

IRR is Cap Rate plus Appreciation

Benchmarks

By adjusting these formulas we have discussed, you can develop your own grading scale for assessing investment properties in a specific market. This approach helps you become more knowledgeable about the key metrics to consider before making a purchase.

Benchmarks Cheat Sheet

GRM

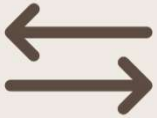
Property Price/Gross Rental Income

Cap Rate

$$\frac{\text{Net Operating Income}}{\text{Value}}$$

Cash on Cash

$$\frac{\text{CBFT}}{\text{Down Payment}}$$



IRR

$$\text{NPV} = \frac{\text{Cash Flow}}{\text{(1-I)t minus Initial Investment}}$$

Effective Rate

<u>Measures:</u> overall taxes paid by the investor

Use Proforma Sheet

An Overview of Building Wealth in Investment Real Estate
Terminology:

Terminology: Step 1: Connecting the Pieces to become an Investor

Demographics: Pertaining to characteristics of the population, such as race, sex, age, household size, and to population growth and density.

Construction Loan: One that finances subdivision costs and/or improvements to real estate.

Benchmarks: Standard or point of reference against which things may be compared or assessed.

Affordable/Attainable/Low Rents: See Website: Current Borrowers - Ventana Fund

Exit Strategy: a means of selling a specific investment. Typically put in place before an offer is made on the investment property.

Stabilize Value: The value of a property after it reaches a normal occupancy rate and operating expenses.

Risk- Uncertainty or variability. The possibility that the returns from an investment will be greater or less than forecasted. Diversification of investments provides some protection against risk.

Refinance Risk Analysis: designed to indicate how sensitive an investment is to change in underlying future conditions. May include indicators of how volatile the investment is or simulations of likely effects of different economic scenarios.

Threshold Loan: Predetermined level or limit triggers a specific action or requirement.

Terminology: Step 2: The Business of Investment Real Estate

Annual Property Operating Data: A financial statement that summarizes a rental property's income, and expenses over a year.

Comparative or Competitive Market Analysis (CMA): An estimate of the value of property using only a few indicators taken from sales of comparable properties, such as price per

An Overview of Building Wealth in Investment Real Estate
Terminology:

square foot. These value estimates, often provided by a broker or salesperson, are not appraisals and do not meet the standards of appraisal as defined by USPAP.

Capitalization Rate: Measures: The yield of the property over one year

Cash on Cash Measures: The total cash earned on the total cash (equity) invested in a deal

Discount Rate:

1. A compound interest rate used to convert expected future income into present value. See capitalization rate, present value of annuity, present value of one.

2. The rate charged by members of banks who borrow from the Federal Reserve System. Same as the rediscount rate.

Effective Tax Rate (With/Without Taxes) Measures: Overall taxes paid by the investor

Gross Rent Multiplier Measures: How much of a return an investor might make on a specific investment

Internal Rate of Return (IRR) unleveraged Measures: Profitability of potential investments. IRR is a discount rate that makes the net present value (NPV) of all cash flows equal to zero

Internal Rate of Return (IRR) With/without taxes with leverage Measures: Profitability of potential investments. IRR is a discount rate that makes the net present value (NPV) of all cash flows equal to zero with financing/leverage.

Low Income Housing: Housing that is eligible for special tax credits. Strict rules must be followed concerning tenants' qualifications, certificate, and project financing.

Market Rents: The rent that a comparable unit would command if offered in the competitive market.

Net Operating Income (NOI): Income from property or business after operating expenses have been deducted, but before deducting income taxes and financing expenses (interest and principal). Formula NOI= gross income- operating expense.

Net Present Value: A method of determining whether expected performance of a proposed investment promises to be adequate.

Proforma: A financial statement showing what is expected to occur as opposed to actual results.

An Overview of Building Wealth in Investment Real Estate
Terminology:

Terminology: STEP 3 Course Outline-Six Unfounded Fears of Property Management

Property Management: A property manager is an individual or company hired to oversee the day-to-day operations of a real estate property.

Property Manager: A broker who, for a fee, salary, commission or other valuable consideration, is engaged in managing property for others including owner associations. A residential property manager is an agent of the owner(s) of the property for the purpose of performing the obligations of the owner(s) under the Uniform Owner-Resident Relations Act and under the rental or lease agreement. A commercial property manager may be an agent of the owner(s) as determined by the contract with the owner(s)

Lease: A contract by which one party conveys land, property, services, etc. to another for a specified time, usually in return for a periodic payment:

Lease Term: Defined as the period of time in which a contracted lease is in place, lease term establishes the time period to both the lessee and lessor.

Fair Market Rate Rents: The rent that a specific property type is anticipated to earn per month is known as the fair market rent or FMR. This value is determined by the U.S. Department of Housing and Urban Development (or the HUD).

Resident Relations Act: The purpose of the Uniform Owner-Resident Relations Act [47-8-1 to 47-8-51 NMSA 1978] is to simplify, clarify, modernize and revise the law governing the rental of dwelling units and the rights and obligations of owner and resident, and to encourage the owners and the residents to maintain and improve the quality of housing in New Mexico. Chap. 47, Art. 8, §47-8-2

Federal Fair Housing: A federal law that forbids discrimination on the basis of race, color, sex, religion, handicap, familial status, or national origin in selling or renting of homes and apartments.

Diversity: The state of being diverse; variety: "there was considerable diversity in the style of the reports", a range of different things: "newspapers were obliged to allow a diversity of views to be printed"

An Overview of Building Wealth in Investment Real Estate
Terminology:

Terminology: Step: 4 Understanding the Loan Process

- Assets: Something of value. Example: land, house, cars, furniture, cash, bank deposit, and securities are owned assets.
- Liability: A debt or financial obligation.
- Borrower: A person who has received a loan and is obligated to repay the amount borrowed (principal) with interest and other fees, according to the loan terms.
- Lender: General term applied to any party that originates or holds loans, thrift, credit unions, mortgage bankers, and mortgage brokers.
- Cash Flow: Periodic amounts available to an equity investor after deducting all periodic cash payments from rental income.
- Pro-forma Statement: Financial statement showing what is expected to occur, as opposed to actual results.
- Debt service: The periodic payments, generally principal and interest, made on a loan.
- Debt Coverage Ratio: The relationship between net operating income (NOI) and annual debt service (ADS). Often used as an underwriting criterion for income property mortgage loans.
- Interest Only Loans: A loan in which interest is payable at regular intervals until maturity, when the full loan balance is due. Does not require amortization, as opposed to self-amortizing mortgage.
- Amortization: A gradual paying of debt by periodic installments.
- Appraisal: A professional opinion or estimate of the value of the property. Also, the act or process of estimating value.
- Loan to Value Ratio (LTV): The portion of the amount borrowed compared to the cost or value of the property purchased- that is, mortgage debt divided by the value of the property. Lenders are often constrained as to the maximum loan to value ratio on

loans they originate. Loans on commercial property by pension funds, banks, and insurance companies are typically limited to a maximum of 70-80% of value. Loans on owner-occupied houses or condominiums may reach a 90-95% ratio when mortgage insurance is used.

- Present Value: The equivalent lump-sum value today of expected future cash flow calculated according to a specific discount rate. See Net Present Value
- Future Value: Refers to a method of calculating how much the present value (PV) of an asset or cash will be worth at a specific time in the future.
- Personal Liability or Guarantee: An individual's responsibility for a debt. Most mortgage loans on real estate are recourse (i.e. the lender can look to the property and the borrower for repayment). Contrast no recourse, exculpatory clause. See Deficiency judgement
- Net Present Value: A method of determining whether expected performance of a proposed investment promises to be adequate.

Step 5: Benchmarks (Part 1: Speak the Language Part 2: Know the Numbers)

Discount Rate:

1. A compound interest rate used to convert expected future income into present value. 2. The rate charged member banks who borrow from the federal reserve system. Same as the rediscount rate.

GRM (Gross Rent Multiplier) Measures: How much of a return an investor might make on a specific investment

Proforma- Financial statement showing what is expected to occur, as opposed to actual results.

Internal Rate of Return- Measures: How much of a return an investor might make on a specific investment

NOI- Net Operating Income

An Overview of Building Wealth in Investment Real Estate

Terminology:

Cap Rate-Measures: The yield (return) of the property over one year

NPV - Net Present Value: A method of determining whether expected performance of a proposed investment promises to be adequate. See also internal rate of return, present value of one.

Investor 5-Step Course Series

1. Step 1: Connecting the Pieces to become an Investor
2. Step 2: The Business of Investments
3. Step 3: Unfound Fear of Property Management- How to Hire a Professional Property Manager, Fair Housing, Diversity and the Laws
4. Step 4: Understanding the Loan Process Through the 5 C's of Credit and Securing Funding
5. Step 5: Business of Investing:
   - Part 1- Speak the Language Investment Basics A to Z
   - Part 2: Know the Numbers (the analysis)
6. Step 6: Capstone Course – Apply your knowledge

Thank you

FINANCING NEW MEXICO'S AFFORDABLE HOUSING

Todd Clarke, CCIM, CIPS
505.440.TODD
tclarke@nmapartment.com

Amanda Velarde, MBA, CCIM
505.385.7732
velarde.amanda@gmail.com