Twitter Thread by Jay Vasantharajah



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Thought I was going to finish 2020 empty handed, tough real estate market out here.

Managed to snag a great deal at the last minute and wanted to share the details.

Here’s how I analyze multifamily real estate investment opportunities ■

The property was a vacant 4plex, listed for $990k & after a few back and forths, the sellers accepted $950k with no finance condition.

Sellers were an elderly couple who neglected the property, it needed a lot of work. It was in a great neighbourhood/location.

(more pics later)



I first calculated my total equity investment required to acquire and stabilize the property.

During the inspection, did a full walk through with a trusted contractor (worked with for years), receiving quotes unit-by-unit.

Estimated time to complete = 4-6 months.

Down Payment	$	190,000.00
Closing Costs	$	20,000.00
Construction Budget	$	105,000.00
Total Equity Invested	$	315,000.00

Next is the stabilized P&L.

Since I know the area very well, I can estimate rents and opex with great accuracy (I have another property within 15 mins walking distance).

Tenants are responsible for hydro/gas.

Rental Income	Description	Gross Monthly Rent
Unit A	Upstairs 2 bdrm	$ 1,600.00
Unit B	Basement, 2 bdrm	$ 1,250.00
Unit C	Upstairs, 3 bdrm	$ 2,050.00
Unit E	Basement, 2 bdrm	$ 1,300.00
Total Gross Annual Rent		$ 74,400.00
Property Tax		$ 6,200.00
Insurance		$ 2,300.00
Maintenance		$ 3,720.00
Annual Net Operating Income		$ 62,180.00
Annual Mortgage Service		$ 32,400.00
Annual Net Cash		$ 29,780.00

Finally, I put together the key metrics in evaluating the deal.

I look for yield above 15%, cash on cash above 7% and debt service above 1.5.

As you can see, the numbers check out.

Yield on Total Equity Invested	Annual NOI / Total Equity Invested	19.74%
Annual Cash on Cash Return	Annual Net Cash / Total Equity Invested	9.45%
Debt Service Coverage	Annual NOI / Annual Mortgage Service	1.92

Bull case - I'm also looking into adding a 5th rental unit, which if feasible, should cost $50k to $75k to construct & generate $13k to $15k in annual gross rents.

This would improve all of my metrics. But even if it isn't feasible, the base case is good enough for my criteria.

I never speculate on either asset appreciation or future rent increases in my models or decision making criteria. I plan on holding very long term.

But if cap rates on stabilized properties remain around the current 3.5% to 4% range, the property could be worth $1.56m to $1.78m.

For more details on this deal, along with more pics and an explanation on how my real estate investing strategy has evolved, check out my blog post.

I also post free content on investing and personal finance, so be sure to subscribe!

https://t.co/RbSaUEdKt0

Regarding deal sourcing, it was sent to me by a local broker who I have a relationship with.

Regarding financing, no investors or LPs and mortgage is 1.8% with 30 year amortization.