

Real Estate Financial Modeling's

Apartment Building Acquisition and Renovation Modeling



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Goals

1. Understand the value creation opportunity
2. Understand the approach and steps in the analysis
3. Put the model to work
4. Run sensitivity analyses using 2-variable Data Tables

Is The Asset's Potential Being Realized?



Value Creation Through Renovation



Nicer Product ► Higher Rents ► Greater Asset Value

Approach and Steps

1. Identify the critical pieces of information:
 - a) Historical Operating Data
 - b) Current Rent Roll
 - c) Rent Control Regulations
 - d) Renovation Budget
 - e) Capitalization Rates Now and Future
2. Input them into the model
3. What can I afford to pay given all of my assumptions and given my target profit margin?

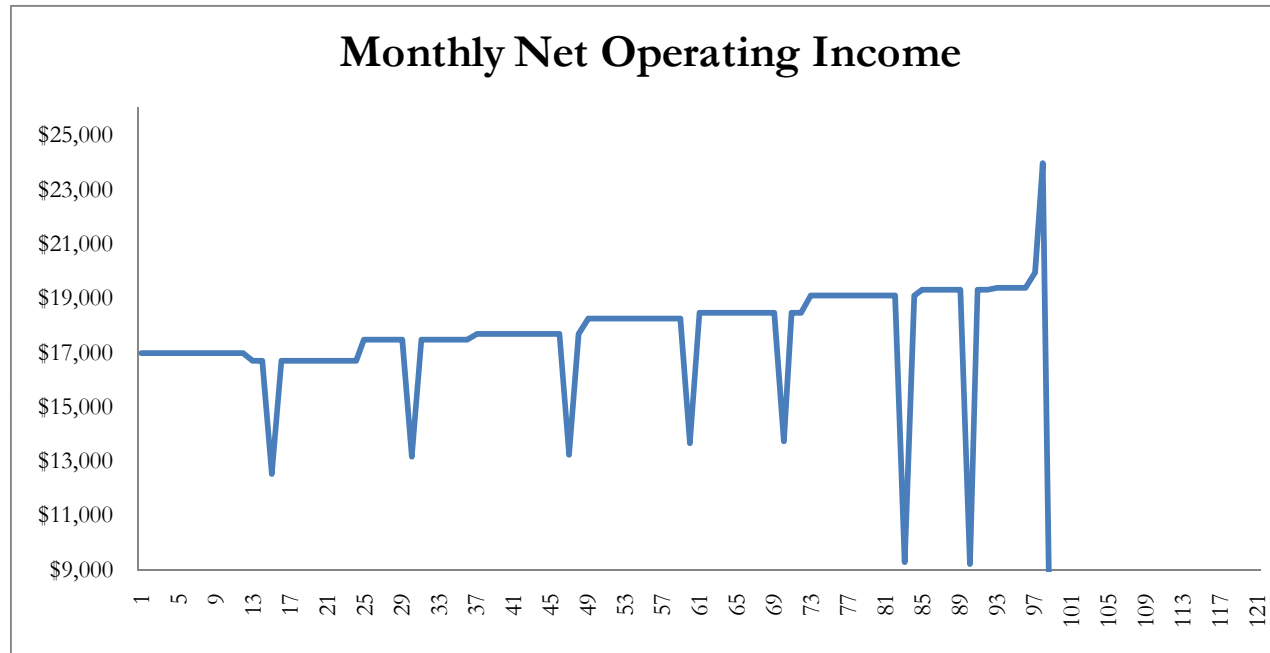
Approach and Steps

1. What can I afford to pay given all of my assumptions and given my target profit margin?
 - a) Rents
 - b) Operating Expenses
 - c) Financing Costs
 - d) Growth Rates
 - e) Exit Timing
 - f) Exit Capitalization Rate

Basic Relationships

1. Values will be growing over time
 - a) Expense inflation
 - b) Income inflation
2. Transaction's performance relies heavily on:
 - a) Purchase Price (“you make money on the buy”)
 - b) Exit Capitalization Rate
3. We have little visibility into the order in which units will be available to be renovated, so we use an “average” unit as our proxy

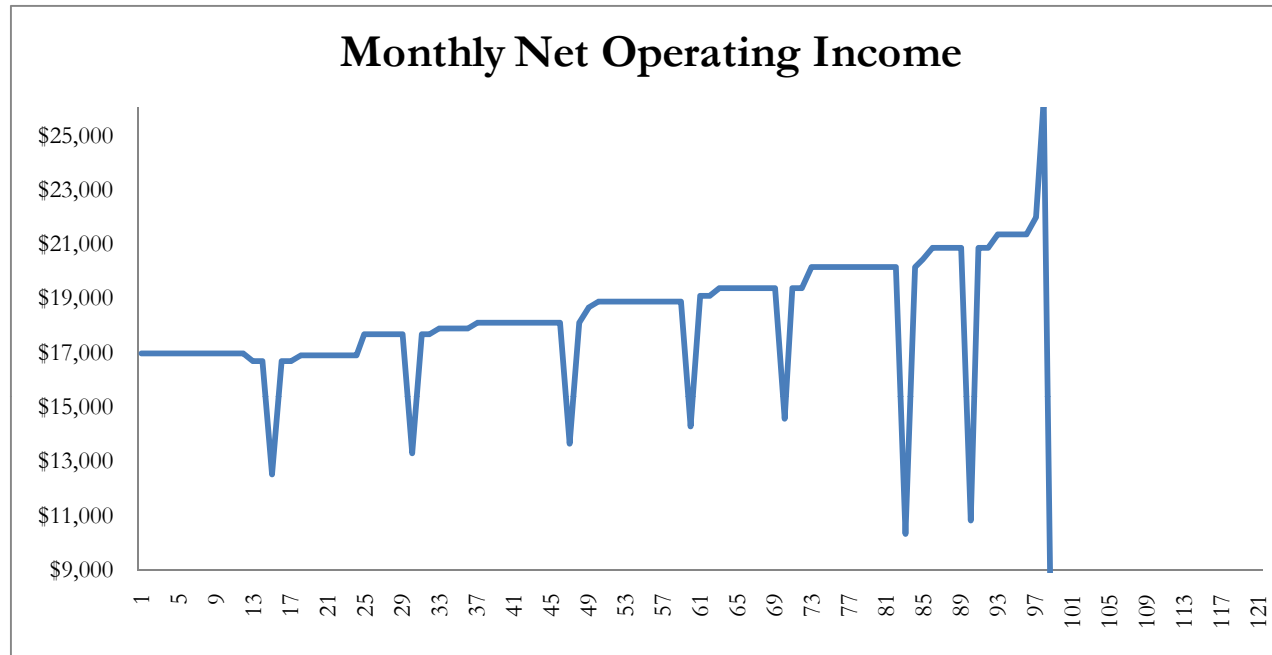
Hopeful Expectations – Without Renovations



INVESTMENT SUMMARY

Purchase Cap Rate	6.36%
GRM	8.96x
Per Unit	\$152,381
Per RSF	\$187
Net Profit	\$589,367
Levered IRR	6.89%
Total Equity	\$1,192,009
Multiple on Equity	1.49x

Hopeful Expectations – Renovated



INVESTMENT SUMMARY

Purchase Cap Rate	6.36%
GRM	8.96x
Per Unit	\$152,381
Per RSF	\$187
Net Profit	\$930,403
Levered IRR	10.00%
Total Equity	\$1,139,828
Multiple on Equity	1.82x