RENOVO FINANCIAL™

KEY CALCULATIONS

Evaluating Flips

ROI, or Return on Investment, is a performance measure used to evaluate the efficiency of an investment by measuring the amount of return on an investment, relative to the investment's cost. **ROI equals profit (or return) of an investment is divided by the cost of the investment.** The result is expressed as a percentage or a ratio.

ROI (%)

PROFIT *

PURCHASE PRICE + RENOVATION COSTS

ROI is a popular metric because of its versatility and simplicity. Essentially, ROI can be used as a rudimentary gauge of an investment's profitability. The calculation is not complicated, relatively easy to interpret, and has a range of applications. If an investment's ROI is not positive, or if other opportunities with higher ROIs are available, these signals can help investors eliminate or select the best options.

Profit

	Potential List Price ($ Revenue)
less	2.5% of Potential List Price (Negotiation)
less	5% of Potential List Price (Commissions)
less	0.5% of Potential List Price (Sell Side Closing Costs)
less	0.5-1.0% of Potential List Price (Staging)
less	Annual Property Tax (Project Duration/365)
less	Insurance (Project Duration/365)
less	Renovation Costs
less	Purchase Price (including buy side closing costs)
=	Profit ($)

Evaluating Rentals

CAP RATE, or Capitalization Rate, is a rate that helps in evaluating a real estate investment. **CAP RATE equals Net operating Income divided by the Purchase Price of the asset.**

CAP RATE (%)

NET OPERATING INCOME *

PURCHASE PRICE

Simply, it is the rate of return on a real estate investment property based on the income that the property is expected to generate.

In it's most simplistic form, a lower CAP RATE should correspond to a lower level of risk, while a higher cap rate should imply more risk in the deal. Factors that influence risk are location, asset type and interest rates.

The CAP RATE metric is most valuable when used to compare against properties with a similar location, of the same asset type, and which are valued at the same point in time.

Downtown Office Buildings: 3-5 CAP

Southside Apartment Buildings: 10-12 CAP

Net Operating Income (NOI)

	Annual Rent ($ Revenue)
less	5-10% of Annual Rent (Vacancy)
less	5-9% of Annual Rent (Property Management)
less	Annual Property Tax
less	Insurance
less	Reserves (1 months Rent)
=	Annual Net Operating Income ($)