

# INVESTIMATE® FINANCIALS TUTORIAL

Brought to you by Advantage Asset Management – A Houston Property Management Company

Being a property management company in Houston, we understand the importance of analyzing and understanding earning potential of investment properties. Navigating through the financial jargon on INVESTimate® may seem a little daunting at first, but that is why we have this helpful tutorial to explain some of the financial terms you will see throughout the platform. The good news is that most terms can be scrolled over to see a definition of what you're looking at. If you have questions about anything, please let an Advantage Asset Management ("AAM") representative know!

## Getting Started:

The default screen has a tile view of properties for sale in our default Houston market. Each tile shows 1 property, a picture of the property, and has some investment summary information

The screenshot shows the Advantage Asset Management website interface. At the top, there is a navigation bar with 'PROPERTY SEARCH', 'BROWSE PROPERTIES', 'WATCH LIST', 'PORTFOLIO BUILDER', and 'SELL YOUR PROPERTY'. Below this is a search filter section with dropdown menus for 'Locations' (Houston), 'Investment' (\$500,000), 'Financing' (Financed), and 'Investment Strategy' (Any). There are also buttons for 'More Filters' and 'SAVE SEARCH'. Below the search filters, there is a 'Filter' section with a search box and a 'Sort' dropdown set to 'Gross Yield'. The main content area displays '192 Properties shown with Financing' and a grid of four property tiles. Each tile includes a photo of the property, location, and key financial metrics.

Location	Specs	Gross Yield	Net Operating Income	Purchase Price	Investment	Projected Rent
Houston, TX	4 Beds 3 Baths - 2,408 Sqft - Built 1984	12.31%	\$8,605	\$155,000	\$54,900	\$1,590
Kingwood, TX	3 Beds 3 Baths - 2,465 Sqft - Built 1985	12.07%	\$10,340	\$189,900	\$64,672	\$1,910
Pasadena, TX	5 Beds 3 Baths - 2,464 Sqft - Built 1987	12.06%	\$10,677	\$204,900	\$68,872	\$2,060
Houston, TX	7 Beds 3 Baths - 2,608 Sqft - Built 1981	11.85%	\$8,215	\$159,950	\$56,286	\$1,680

If you adjust to the list view (below), you will see fewer properties but you will see more detailed information about each property. See below. All of this information can be found by clicking on the property, so for now we will just use the Tile View for explanation purposes.

Locations ⓘ

Houston

Investment ⓘ

\$500,000

Financing ⓘ

Financed

Investment Strategy ⓘ

Any

[More Filters](#)
[SAVE SEARCH](#)

Filter:

Sort:

Gross Yield



192 Properties shown with Financing



**12214 Drifting Pine Court**  
 Houston, TX 77066  
 4 Beds · 3 Baths · 2,408 Sqft · Built 1984  
 Days on Market: 100  
 Market: Houston  
 Neighborhood:

Price **\$155,000**  
 Investment **\$54,900**  
 Projected Rent **\$1,590**  
 School(Avg) ⓘ **4.67**  
 Property Age **35 Years**  
 DSCR ⓘ **1.15**

AVAILABLE

	1 YEAR	15 YEAR
Gross Yield ⓘ	<b>12.31%</b>	Yield ⓘ <b>8.73%</b>
NOI ⓘ	<b>\$8,605</b>	Total Return ⓘ <b>21.99%</b>
		Appreciation ⓘ <b>3.81%</b>

### Summary of a Property in Tile View:

**Houston, TX**

4 Beds 3 Baths · 2,408 Sqft · Built 1984

● AVAILABLE

**12.31%**

GROSS YIELD

**\$8,605**

NET OPERATING INCOME

Purchase Price **\$155,000**

Investment **\$54,900**

Projected Rent **\$1,590**

**Neighborhood Rating (House Icon with a letter grade):** This is an automatic grading given to each property based on a variety of market factors: neighborhood rating, school districts, rental rates, crime, etc. Letter A is the best rating while a letter D is the worst. Most of the D ratings are excluded from our search to eliminate seeing everything on the market.

**Gross Yield:** Monthly Rent x 12 months, divided by purchase price.

**Net Operating Income:** First year net cash flow received after all operating expenses, capital expenditures, property taxes, and assuming 8.01% vacancy and no debt.

**Purchase Price:** this is the estimated purchase price based on the list price of the home

**Investment:** Initial required investment to acquire the property - includes down payment, rehab, closing costs, etc.

**Projected Rent:** Estimate of monthly rent if the property was leased in the current rental market

## Getting into the Details:

Once you click on a property, you will see more detailed information. Anything with will give you a definition. Check for words with an underline which will also give you definitions.

The screenshot shows a real estate website interface. At the top, there is a navigation bar with links for PROPERTY SEARCH, BROWSE PROPERTIES, WATCH LIST, PORTFOLIO BUILDER, and a button for SELL YOUR PROPERTY. The main content area displays property details for '12214 Drifting Pine Co...' in Houston, TX 77066, with 4 beds, 3 baths, 2,408 sqft, and built in 1984. A summary box titled 'INVESTimate™' shows a list price of \$155,000, a monthly rent estimate of \$1,590, and an investment estimate of \$54,900. Below this, a 1-year forecast shows a total return of \$165,029 (+6.47%). A table below the summary provides financial details for 1-year and 15-year periods. To the right, there are buttons for 'SHARE' and 'SAVE TO', and a 'REQUEST INFO' section with a 'SCHEDULE APPOINTMENT' button.

1 YEAR		15 YEAR		
12.31%	\$8,605	8.73%	3.81%	21.99%
GROSS YIELD ⓘ	NET OPERATING INCOME ⓘ	YIELD ⓘ	APPRECIATION ⓘ	TOTAL RETURN ⓘ

The top of this screen will show you a summary of the property with:

**List Price:** The list price of the property on the market.

**Rent EST:** Estimate of monthly rent if the property was leased in the current rental market

**Investment EST:** Initial required investment to acquire the property - includes down payment, rehab, closing costs, etc.

**1 Year Forecast:** the estimated market value of a property after one year

You will then see a 1 year and a 15 year table summarizing the financial details over that time period:

### 1 Year:

**Gross Yield:** Monthly Rent x 12 months, divided by purchase price.

**Net Operating Income:** First year net cash flow received after all operating expenses, capital expenditures, property taxes, and assuming 8.01% vacancy and no debt.

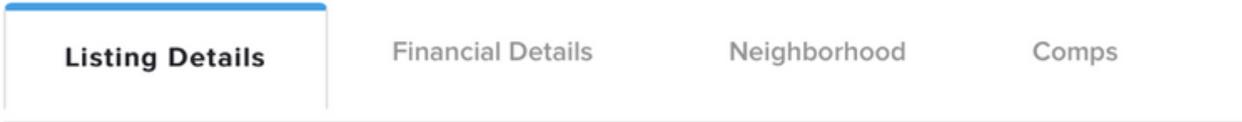
### 15 Year:

**Yield:** 15-year estimated annualized return from cash flow plus loan principal paydown.

**Appreciation:** Projected compound annual growth rate of the asset's value over 15 years.

**Total Return:** 15-year estimated annualized return from Cash Flow and equity accumulation after asset disposition.

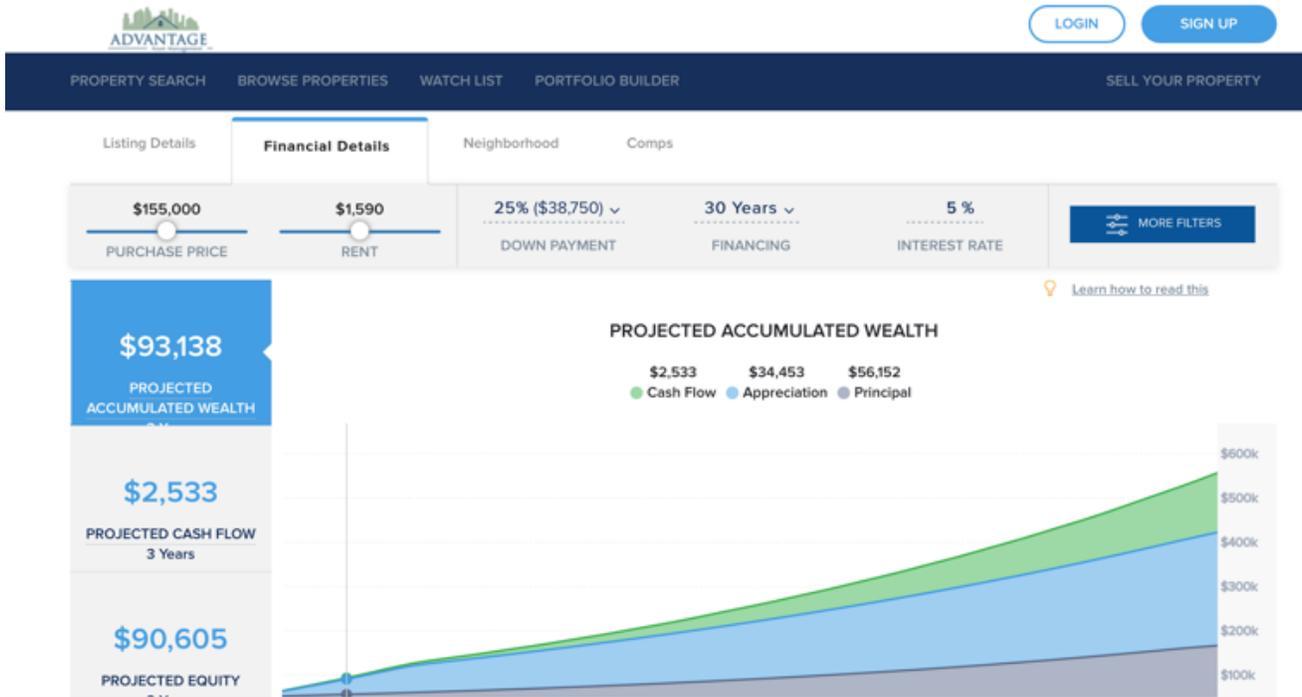
Below this information, you will see 4 tabs. The first tab is information about the listing (Listing Details), next is the Financial Detail, then the Neighborhood information, and last are Comps.



Listing Details gives you the information you would expect to see for a typical listing. We won't go into the details here, but it's a good place to see general information about the property. Where we are going to focus is on the Financial Details tab.

**Financial Details:**

The first thing you will see on this tab is a graph that shows projected accumulated wealth over 30 years. This is where you can adjust inputs and assumptions if needed.



The top row allows you to adjust the purchase price, down payment, rent, terms of a mortgage loan, and interest rate of the mortgage loan. If you would like to edit more assumptions, you can click on the "more filters" tab in blue. Here you can adjust more detailed figures like expense inflation, vacancy, length of stay, appreciation, rental growth, and maintenance cost for years 1-5 and separately for years 6-15. You can also adjust the rehab costs which are estimated in that tab.



**Terms in this area:**

**Expense Inflation:** Estimate of how much expenses are expected to increase ever year.

**Vacancy:** Estimated annual vacancy rate as a percentage of rental income

**Length of Stay:** Estimated annual duration a tenant is expected to occupy the property. Reducing tenant turnover increases cash flow and reduces expenses.

**Appreciation:** Annual projected increase in the asset's value.

**Rental Growth:** The rate that Rental Income is projected to change on an annual basis.

**Maintenance:** Estimated annual maintenance rate as a percentage of rental income.

**Rehab Costs:** The costs required to rehab the property to maximize rents and simultaneously increase its value.

**Reinvest Cashflow:** Activate this to see what will happen if you reinvest the Cash Flow and apply it as an extra payment toward the loan principal. This saves interest fees and shortens the time it will take to pay off the loan.

Once you adjust those figures, you will see the chart change and the summary financials on the left side of the chart will adjust accordingly.

**Projected Accumulated Wealth:** The sum of cash flow, loan principal paid down, and the appreciation gained.

**Projected Cashflow:** The estimated amount of money generated after all operating expenses and debt service obligations.

**Projected Equity:** Estimated equity in the property over time.

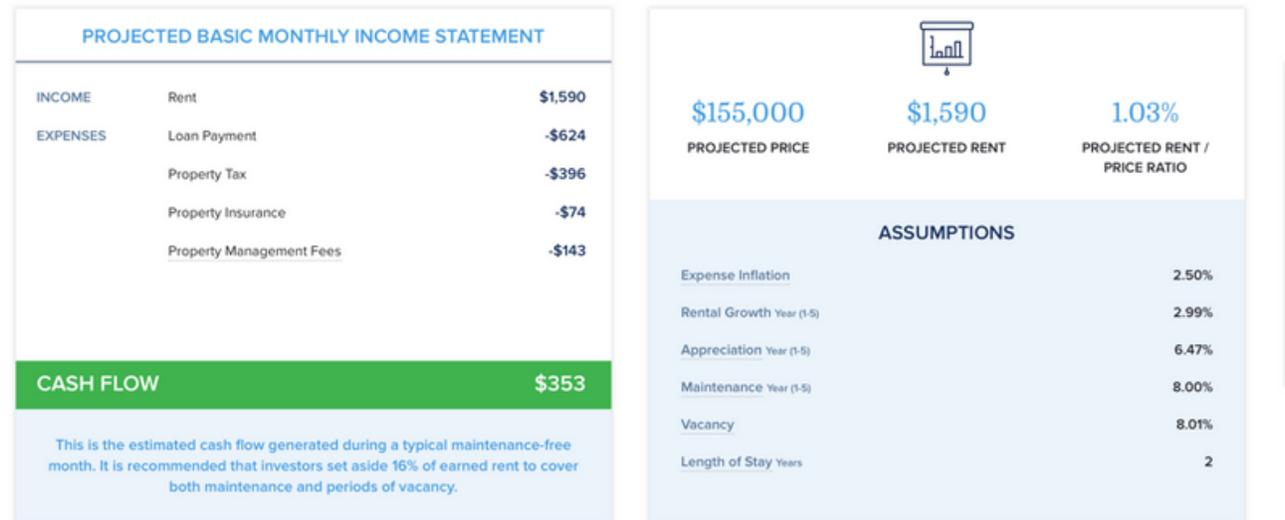


The chart area is the main area for adjusting assumptions and seeing various scenarios playing out. Below that chart you will see more detailed financials that will adjust based on your inputs and assumptions in that graph (more filters) section.

**Financials:**

There are 2 tables here: 1 (left) - the Projected Basic Monthly Statement and 2 (right) - shows the rent to price ratio with some other assumptions.

## FINANCIALS



**Projected Basic Monthly Statement:** This is the estimated cash flow generated during a typical maintenance-free month. It is recommended that investors set aside 16% of earned rent to cover both maintenance and periods of vacancy.

This shows your income less expenses. Rent minus Loan Payment, Property Taxes, Property Insurance and Property Management Fees.

**Property Management Fees:** The amount assessed for ongoing financial reporting, market intelligence, property management and other services. The service fee for this property is 9 percent of monthly rent when occupied, minimum \$100/month.

The table to the right shows the projected price (current price on market) and projected rent for a price/rent ratio.

### Assumptions:

These are some of the same assumptions that can be adjusted in the chart area under "More Filters."

Definitions:

**Expense Inflation:** Estimate of how much expenses are expected to increase ever year.

**Rental Growth:** The rate that Rental Income is projected to change on an annual basis.

**Appreciation:** Appreciation Rate is the actual CAGR for the market for the next 5 years according to FHFA House Price Index.

**Maintenance:** Estimated annual maintenance rate as a percentage of rental income.

**Vacancy:** Estimated annual vacancy rate as a percentage of rental income

**Length of Stay:** Estimated annual duration a tenant is expected to occupy the property.

Right below the two tables we just described, you will see smaller box in between "Detailed Calculations."

PROJECTED BASIC MONTHLY INCOME STATEMENT		
INCOME	Rent	\$1,590
EXPENSES	Loan Payment	-\$624
	Property Tax	-\$396
	Property Insurance	-\$74
	Property Management Fees	-\$143
<b>CASH FLOW</b>		<b>\$353</b>
<p>This is the estimated cash flow generated during a typical maintenance-free month. It is recommended that investors set aside 16% of earned rent to cover both maintenance and periods of vacancy.</p>		

		
\$155,000	\$1,590	1.03%
PROJECTED PRICE	PROJECTED RENT	PROJECTED RENT / PRICE RATIO
ASSUMPTIONS		
Expense Inflation		2.50%
Rental Growth Year (1-5)		2.99%
Appreciation Year (1-5)		6.47%
Maintenance Year (1-5)		8.00%
Vacancy		8.01%
Length of Stay Years		2

DETAILED CALCULATIONS ^

There are 3 tables here showing various financial metrics: Annual Returns, Stabilization Period, Returns on Investment. If you see a row with a drop down arrow, you can click that to see the details behind that metric.

[ANNUAL RETURNS](#)
[STABILIZATION PERIOD](#)
[RETURNS ON INVESTMENT](#)

### Annual Returns:

The first is a detailed financial statement view of the revenue and costs. The first tab in the “Detailed Calculations” box will show annual returns for year 1, 2, 3, 5, 10, 15, and 30.

	YEAR 1	YEAR 2	YEAR 3	YEAR 10	YEAR 15	YEAR 30
<b>TOTAL INCOME</b>						
Rental Income	\$19,080	\$19,650	\$20,238	\$24,287	\$27,479	\$39,797
- Vacancy	-\$0	-\$1,574	-\$1,621	-\$1,945	-\$2,201	-\$3,188
<b>Total Income</b>	<b>\$19,080</b>	<b>\$18,076</b>	<b>\$18,617</b>	<b>\$22,342</b>	<b>\$25,278</b>	<b>\$36,610</b>
<b>LOAN PAYMENT</b> v	<b>\$7,489</b>	<b>\$7,489</b>	<b>\$7,489</b>	<b>\$7,489</b>	<b>\$7,489</b>	<b>\$5,612</b>
<b>OPERATING EXPENSES</b>						
Property Tax	\$4,755	\$4,874	\$4,996	\$5,938	\$6,719	\$9,731
+ Property Insurance	\$887	\$909	\$931	\$1,107	\$1,253	\$1,814
+ HOA	\$0	\$0	\$0	\$0	\$0	\$0
+ Leasing Fees	\$1,590	\$409	\$1,687	\$506	\$572	\$829
+ Property Management Fees	\$1,717	\$1,627	\$1,676	\$2,011	\$2,275	\$3,295
+ Repairs & Maintenance	\$1,526	\$1,572	\$1,619	\$1,943	\$2,198	\$3,184
<b>Operating Expenses</b>	<b>\$10,475</b>	<b>\$9,391</b>	<b>\$10,908</b>	<b>\$11,505</b>	<b>\$13,017</b>	<b>\$18,853</b>
<b>NET OPERATING INCOME</b> v	<b>\$8,605</b>	<b>\$8,686</b>	<b>\$7,709</b>	<b>\$10,837</b>	<b>\$12,261</b>	<b>\$17,757</b>
<b>CASH FLOW</b> v	<b>\$1,116</b>	<b>\$1,197</b>	<b>\$220</b>	<b>\$3,348</b>	<b>\$4,772</b>	<b>\$12,144</b>
<b>PERFORMANCE</b>						

## Income:

Your income is shown as your revenue less vacancy for your property. In a perfect world, you would not have any vacancy, but the reality is that there will be some vacancy as tenants leave, etc.

After your income, your costs are detailed out.

## Loan Payment:

First you start with the mortgage / Loan Payment. This is your principal and interest payments for this property.

## Operating Expenses:

Next you have your operating expenses. Operating Expenses are the expenses incurred to maintain and protect the property. Included in this section are your property taxes, property insurance, homeowners insurance, leasing fees, property management fees, and repairs and maintenance.

After the operating expenses, you will see a summary of the property's potential. You will see Net Operating Income (revenue minus operating expenses, not including mortgage). Then you see your cashflow below your net operating income. Cashflow is the estimated amount of money generated after all operating expenses and debt service obligations. In this table, it is your net operating income less your mortgage/loan payment. This is the final figure and probably one of the most important figures to look at when evaluating a property.

## Performance:

Next you will see a performance section of metrics. These are some common metrics used to value real estate opportunities.

PERFORMANCE						
Yield ▾	5.20%	5.51%	3.90%	11.05%	15.05%	32.13%
Cash-on-Cash ▾	2.03%	2.18%	0.40%	6.10%	8.69%	22.12%
Cap Rate ▾	5.17%					
Debt Service Coverage Ratio ▾	1.15					

**Yield:** Estimated annualized return from cash flow plus loan principal paydown.

**Cash on Cash:** Estimated annualized return from cash flow.

**Cap Rate:** A ratio of Net Operating Income (NOI) to the property's sale price plus capital improvements.

**Debt Service Coverage Ratio:** A ratio of Net Operating Income to the Loan Payment. (Tip: A DSCR over 1 means the property will cover its debts and produce a cash flow).

### Stabilization Period:

This show a very similar table to the Annual Returns, except it shows a scenario of the first 4 months... a stabilization period.

Most properties go through a stabilization period. During this period, the property is vacant and goes through a rehab process -- bringing it up to HomeUnion's rent-ready standards. The property is then listed for rent, all applicants are screened, and a tenant is selected.

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	MONTH 1	MONTH 2	MONTH 3	MONTH 4 (Tenanted)
<b>TOTAL INCOME</b>				
Rental Income	\$0	\$0	\$0	\$1,590
<b>Total Income</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$1,590</b>
<b>LOAN PAYMENT</b> ▾	<b>\$624</b>	<b>\$624</b>	<b>\$624</b>	<b>\$624</b>
<b>OPERATING EXPENSES</b>				
Property Tax	\$396	\$396	\$396	\$396
+ Property Insurance	\$74	\$74	\$74	\$74
+ HOA	\$0	\$0	\$0	\$0
+ Leasing Fees	\$0	\$0	\$0	\$1,590
+ Asset Management Fees	\$0	\$0	\$0	\$143
<b>Operating Expenses</b>	<b>\$470</b>	<b>\$470</b>	<b>\$470</b>	<b>\$2,203</b>
<b>NET OPERATING INCOME</b> ▾	<b>-\$470</b>	<b>-\$470</b>	<b>-\$470</b>	<b>-\$613</b>
<b>CASH FLOW</b> ▾	<b>-\$1,094</b>	<b>-\$1,094</b>	<b>-\$1,094</b>	<b>-\$1,237</b>

### Returns on Investments:

This table shows metrics indicating a return on your investment.

Calculating the total return on investment (ROI) for a property depends on how long it is held. Below are projected returns assuming that the property is sold after the year specified.

	ANNUAL RETURNS	STABILIZATION PERIOD	RETURNS ON INVESTMENT	
		YEAR 10	YEAR 15	YEAR 30
<b>ACCUMULATED CASH FLOW</b>		<b>\$16,334</b>	<b>\$34,084</b>	<b>\$134,563</b>
<b>NET SALE PROCEEDS</b> ▾		<b>\$98,657</b>	<b>\$147,013</b>	<b>\$350,532</b>
<b>PERFORMANCE</b>				
Yield ▾		6.98%	8.73%	15.20%
Cash-on-Cash ▾		2.98%	4.14%	8.17%
Total Return ▾		20.95%	21.99%	29.45%

**Accumulated Cashflow:** Total cashflow over that period of time.

**Net Sales Proceeds:** Amount received after all costs, expenses, and the initial investment are deducted during asset disposition.

### Performance Metrics:

**Yield:** Estimated annualized return from cash flow plus loan principal paydown.

**Cash on Cash:** Estimated annualized return from cash flow.

**Total Return:** Estimated annualized return from Cash Flow and equity accumulation after asset disposition

Next, you will see a graph detailing the out of pocket cash required for this investment.

### TOTAL CASH OUT OF POCKET



### Investment:

**Down Payment:** initial up-front loan payment required

**Rehab Estimate:** estimated rehab costs in order to make it rent-ready. A more accurate rehab estimate will be determined during the closing and due-diligence stage.

**Loan Fees & Costs:** Expenses incurred during the closing in order to set up the loan and transfer payment to the seller.

**Closing Costs:** Costs associated with title and escrow

### Other Costs:

**Maintenance Reserve:** A reserve balance to cover minor monthly maintenance expenses if the cashflow does not already cover these expenses.

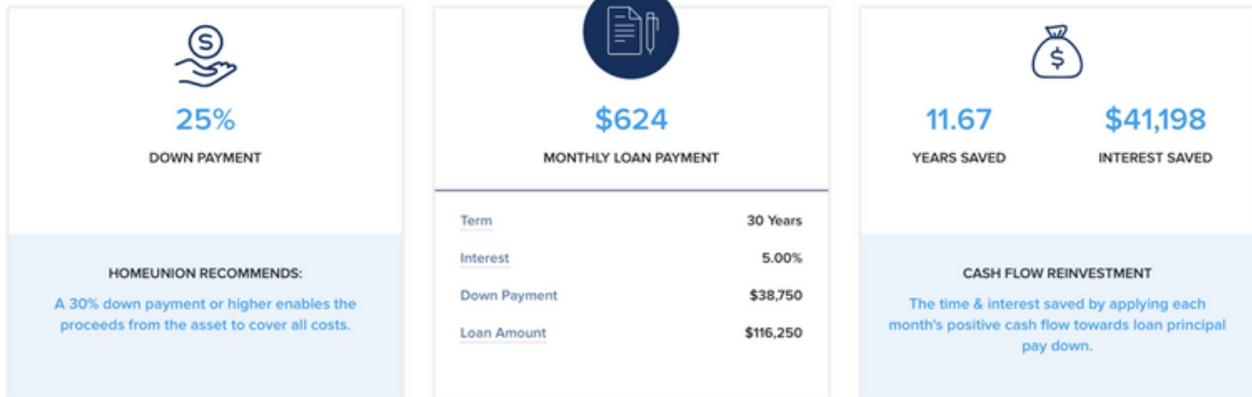
**Stabilization Estimate:** Amount of money that the investor is advised to have ready to cover the initial vacancy, expenses that occur while property is being rehabbed, and expenses related to marketing and tenanting.

**Property Tax & Insurance Estimate:** An estimate of the costs required to prepay for the 1st year's tax and insurance expenses as an upfront costs.

### Loan Details:

Below this section, you will see Loan Details:

## LOAN DETAILS



The first box is the down payment estimate for purchasing a property.

### The second box is the monthly loan payment summary:

**Term:** length of the loan

**Interest:** rate charged by lender for loan

**Down payment:** initial up-front loan payment required

**Loan Amount:** amount of money borrowed in order to acquire the asset

The third box shows the impact that cashflow reinvestment would have on the property. This is the time and interest you would save by applying each month's positive cashflow towards the loan's principal pay down.

Finally, there is a small box showing an amortization table of the loan. This will show the monthly payment, principal, interest, and balance of loan. It will also show "extra payment" should the cashflow reinvestment option be utilized.

MONTH	PAYMENT	PRINCIPAL	INTEREST	EXTRA PAYMENT	LOAN BALANCE
1	\$624	\$140	\$484	\$0	\$116,110
2	\$624	\$140	\$484	\$0	\$115,970
3	\$624	\$141	\$483	\$0	\$115,829
4	\$624	\$141	\$483	\$0	\$115,688
5	\$624	\$142	\$482	\$0	\$115,546
6	\$624	\$143	\$481	\$0	\$115,403
7	\$624	\$143	\$481	\$0	\$115,260
8	\$624	\$144	\$480	\$0	\$115,116
9	\$624	\$144	\$480	\$0	\$114,972
10	\$624	\$145	\$479	\$0	\$114,827
11	\$624	\$146	\$478	\$0	\$114,681
12	\$624	\$146	\$478	\$0	\$114,535
13	\$624	\$147	\$477	\$0	\$114,388
14	\$624	\$147	\$477	\$0	\$114,241
15	\$624	\$148	\$476	\$0	\$114,092
16	\$624	\$149	\$475	\$0	\$113,944