



BUILDER REALTY COUNCIL OF METROPOLITAN DENVER GENERAL BOARD MEETING MINUTES

Date of Meeting:	Tues. March 16, 2021
Location:	Zoom Virtual Meeting
Meeting Facilitator:	Troy Warrick, President
Attendance:	46 People Pre-Registered; 29 People in Attendance
Start and End Time:	9:04 a.m. to 10:11 a.m.
Action Item:	Members, please email your idea of a Venue for BRC's May/June Breakfast. We need your help! Email Troy or Susan at – info@brcDenver.co

Troy Warrick facilitated the meeting.

- A. Troy introduced the Guest Speaker. Guest Speaker, Jay Peterson, Real Estate Investor Broker-Owner, of West Peak Properties. Presentation Title: 'Multi-Family Investing to Build Wealth'. For more, see Website at- westpeakproperties.com , and contact Mr. Peterson at jay@westpeakproperties.com, 720-495-2412.
- B. BRC March General Meeting. Improve relationships between Realtors and Builders. Provide members with great benefits in terms of Builder data resources.
- C. For BRC to be relevant, for members, BRC subscribed to Zonda database at zondahome.com. Zonda provides market data on builders' activities. Zonda data provided on a monthly basis to BRC members.
- D. Note the new private Facebook page for members. Go to facebook.com/groups/builderrealtycouncilgroup. Please join soon.
- E. This May or June BRC plans to conduct a F2F breakfast with BRC and Builders and Realtors. Still looking for a venue that is convenient for members logistically.
- F. **Action Item:** Members, please email your idea of a Venue for BRC's May/June Breakfast. We need your help! Email Troy or Susan at – info@brcDenver.com

Mr. Petersons Background:

- Mr. Peterson of West Peak Properties works with those in the home-building area. Previously Mr. Peterson was part of Zonda and part of BRC. Mr. Peterson left Hanley-Wood then joined West Peak Properties. Hanley Wood & Meyers Research Company rebranded to Zonda. Zonda provides rich data for residential real estate development and new home construction.
 - Peterson helps you create cash flow and build wealth through investing in real estate
 - West Peak is a full service brokerage company specializing in investment properties ranging from single family properties to larger apartment buildings.
 - West Peak webinar involves accepting Section 8 vouchers now that he City of Denver requires landlords to accept them.
-

- Rental assistance and eviction moratorium, see past webinar recordings available on West Peak Website.
- Peterson is not a lawyer. Therefore he provides no eviction legalese information today.
- Factors influencing investment decisions
 - a. finances & formulas for quick analysis
 - b. resources for discovering rental comparables
 - c. Sect 8 explained. See West Peak's future Webinars posted on their website.
 - d. Should I manage my property or hire a Property Manager?
 - e. Note that multifamily investments are the greatest path to wealthy building. The multifamilies West Peak refers too are Mom & Pop owned rental properties.

Why Cash Flow is King

A. Factors influencing Investment Decisions

- How much do you qualify for? After understanding what you qualify for then you know in what you can invest. Consider commercial property as well as residential property.
- Consider investing through syndication. Join the syndication as a Limited Partnership.
- Invest as a sole proprietor. Know builders reputation and track record when investing with builders.
- Consider if your property will be an investment property or owner occupied by you.

B. Location of the investment property affects everything

- Property levels encompass A, B, C, and D properties. Here cap rates are low. Ask, what demographics does the property command? For example, based on the demographics of a neighborhood, consider if you should go with an A neighborhood, a B neighborhood, or, invest in out of state property? Consider the fact that tertiary markets may be invested in and the appreciation is not as strong.
- Consider the condition of a property. Is the property good for;
 - fix up,
 - turn-key,
 - value added(sweat equity) or
 - something else?
- Next, Peterson gives a detailed example of his first investment of a triplex in 1998. He lived there as an owner occupant. As an owner occupant, this helped to improve the neighborhood via his sweat equity and initiative in repairing the property. Consider the equity trend of the neighborhood. Is the equity trend headed up where the neighborhood is being improved? Then invest here, into 'the path of improvement'. Here, timing an investment in a location is important.
- As a new investor, consider being an owner occupant in your property. Manage your property for about two years. Then consider hiring a property manager. This allows you time to build your wealth portfolio.

Financials and formulas for quick analysis

A. Return On Investment (ROI)

- ROI considerations: Appreciation, Cash Flow, Debt Pay Down, and Tax Benefits.
- **The 1-2% rule**; the monthly rent should be equal to or greater than 1% of the total purchase price of an investment property. In Colorado this 1% does not work as well, for now.
- **The 50% rule**; estimate your operating expenses to be 50% of the gross income.
- **The 70% rule**; apply this rule to fix & flip properties where your add value to the property. Investors should spend a maximum of 70% of a property After Repair Value (ARV) on a property minus the cost of repairs.
- These 70% properties today, are hard to find in Colorado.

B. Cap Rate

- The formula for the cap rate ratio = net operating income / current market value of the property.
- A lower cap rate = lower perceived risk, greater income durability and more potential for appreciation.
- A high cap rate = higher perceived risk, less income durability and less potential for increase.
- Cash on cash return is the measured amount of cash flow (NOI – pre tax) by the amount of cash initially invested. Then an example of an investment was detailed on how to discover the cash on cash return.
- Some sources of cash are using Other People's Money (OPM).
- The Total Return measures the actual rate of return of an investment, including cash flow and appreciation. Then we were shown a detailed investment of property; Denver 4 unit financials.
- Multiple units enable more units to scale. Conduct a rent comparable analysis. Discover the best rent rate for your market. Not all owners maximize their property rent rates in their market because they seek to avoid turnover of their tenants. Owner being too friendly with tenants tends to be too friendly with tenants to avoid turnover.
- Then Peterson stepped thru a detailed 4 unit investment financials. See Mr. Petersons provided slide deck.
- In today's Colorado market investors need a cash on cash return of about 8%. Cap rates today are now at about 3 – 4%. Total return cash flow and debt paid off by the tenant on an annual basis. Multifamily is the best asset today due to the markets cap rates.

Resources for finding rent comparables

- Rentometer.com, apartments.com, bigger pockets, Zillow rental manager (rent zestimate).
- Craigslist is avoided due to shadiness of responses.
- Rentometer.com gives an average rent. Example was shown on the screen from the Website.

Market Rent vs. Section 8

- Sect 8 Housing Act of 1937 authorizes the payment of rental housing assistance to private landlords on behalf of low income households.
- US Department of Housing and Urban Development (HUD) manages the Section 8 programs. Section 8 programs are locally administered by local housing authorities.
- Sect. 8 tenants apply via a lottery process. Here, tenants do not automatically receive Sect. 8. The majority of Sect. 8 tenants are single mothers with children.

- With Sect. 8, Landlords sign a lease with the tenant and a Housing Assistance Payment (HAP) contract with the housing authority. Landlords cannot turn away a Sect. 8 anymore per State law.
- If a tenant loses their job due to virus lockdown then HUD pays all of the Sect. 8 rent per the HAP contract.
- HUD publishes approved Payment Standards. An example of the Standard is shown below.

SECTION 8 HOUSING, Fair Market Rent (FMR)



The FY 2021 Denver-Aurora-Lakewood, CO MSA FMRs for All Bedroom Sizes

Final FY 2021 & Final FY 2020 FMRs By Unit Bedrooms					
Year	<u>Efficiency</u>	<u>One-Bedroom</u>	<u>Two-Bedroom</u>	<u>Three-Bedroom</u>	<u>Four-Bedroom</u>
FY 2021 FMR	\$1,179	\$1,304	\$1,605	\$2,186	\$2,486
<u>FY 2020 FMR</u>	\$1,114	\$1,260	\$1,566	\$2,163	\$2,488

Jefferson County, CO is part of the Denver-Aurora-Lakewood, CO MSA, which consists of the following counties: Adams County, CO; Arapahoe County, CO; Broomfield County, CO; Clear Creek County, CO; Denver County, CO; Douglas County, CO; Elbert County, CO; Gilpin County, CO; Jefferson County, CO; and Park County, CO. All information here applies to the entirety of the Denver-Aurora-Lakewood, CO MSA.

- West Peak insists that tenants pay utilities. FY2021 Fair Market Rent Document System example provided above.
- Advantages of Sect. 8; ability to screen like any other tenant. Direct deposit of rents on the 1st of every month. If the tenant is evicted for misconduct the tenant loses their Sect. 8 voucher. This provides Landlords leverage in order to keep the tenant from violating the lease. The Owner can still sell the property while the property is rented to a Sect. 8 tenant.
- Disadvantages of Sect. 8: with a strong rental market, the Landlord may obtain higher market rents than what Sect. 8 pays. Property should be in good shape and rented correctly. For a Sect. 8 applicant, it may take four years for a tenant to get a Sect 8 voucher. Landlord must adhere to the Sect. 8 contract when selling the property with a Sect 8 tenant.
- Not all Sect 8 tenants destroy properties. During the Covid lockdown it is best to get rent paid than not.

Manage my property or hire a property manager?

- Advantages of an investor hiring a property manager: saves time, relieves stress, the investor has a legal representative and has legal advice, access to skilled contractors, access to professional marketing, provided with knowledge of best practices, and, no emotional attachment with individual tenants.
- Recommendation: it is best for an investor to manage property themselves for at least two years Get to know the property, and the tenants. Gain understanding of the management of the property. Also, do visit your property when using a property manager.
- Advantages with self-managing: flexibility with tenant selection, money savings, more control, and emotional attachment to tenants can lead to bad judgement.
- Do have an eviction attorney & contractor list regardless if you have a property manager.
- Do confirm that the manager is following Best Practices! If the property manager uses their appliance repair company. Alternatively, have your list of vendors and repairmen and have your eviction attorney. Trust them. An investor needs their own attorney so that they may go to the legal source because lockdown mandates change so often. Be informed. See Peak West website for property manager Best Practices.
- Make sure you have the right contractors. Have at least two to three contracts for each trade
- Expect turnover of your contractors and do treat the good contractor's right.
- Inquire as to how contractors accept payment: online or electronics with the trades.

One of the greatest paths to building wealth.

- Make sure your investment provides you a monthly return = cash flow. Your tenants pay your mortgage.
- Leverage fund from a lender where FHA 3.5% down with 3.5% appreciation = double.
- Tax benefits; mortgage interest deduction, depreciation of the asset, and, costs of maintenance.

Real Estate Investment Groups in the Denver metro area

- Investment Community of the Rockies (ICOR)
- Investors Realty Resource of Colorado (IRROC)
- Invest Success – John Fisher's Breakfast Club
- Apartment/Multi-Family Investors Networking & Learning
- To know more attend one of these investment groups meetings.
- Invest in A – C neighborhoods.

A. Troy asked Affiliate Members or Home Builders feedback

- Mike Davidson of Wonderland Homes, Feb 1, 2021 acquired new projects. A capital investment opportunity for Wonderland. Castle Rock project called Montaine. Different product types multiunit and SFR. Make money in this market. Sold more houses over the past 3mths than sold over the past 9mths. Houses have a commodity pricing impact. It is challenging in home building space. Getting ready to unveil Prominence near Stapleton with modern looking home types with 18 home sites to launch Apr 1, 2021. Also by Dec. 2021 to Jan 2022 a new project opens in Denver.
- Vic McCormack commented regarding Sect. 8 have good tenants. Wants copy of slides to be provided to Susanne for distribution amongst the attendees.

- B. Last reminder to members- Join at our new private Facebook page for members found at- facebook.com/groups/builderrealtycouncilgroup. Ask to join.
- **Action Item:** Members, please email your idea of a Venue for BRC's May/June Breakfast. We need your help! Email Troy or Susan at – info@brcDenver.com

Respectfully submitted,

C.J. Wells
Secretary