

# MULTI FAMILY INVESTING TO BUILD WEALTH

## Tips & Insights for Success

Host: Jay Peterson

Real Estate Investor/Broker-Owner



## Denver's Investment Property Brokers





- We're here to help you create cash flow and build wealth through investing in real estate.
- Full service brokerage company specializing in investment properties ranging from single family properties to larger apartment buildings. We can help you find it, analyze it, buy it, manage it, flip it, and sell or 1031 exchange it.
- Been around since 2009. Over 40 years of combined experience and 100's of transactions closed.
- Extensive network of investors and about 20% of our transactions are off-market. Always a good idea to reach out to us first if you have a need.
- We work with experienced property management partners.



## Webinar Schedule

- Our next webinar will be on what's involved with accepting Section 8 vouchers now that the City of Denver requires landlords to accept them.
- Rental assistance and the eviction moratorium
- Check our or past webinar recordings on the Education tab of our web site.
  - Best Property Management Practices
  - 1031 Exchanges
  - Tax Planning Tips for 2020 Taxes.





## The WPP Team



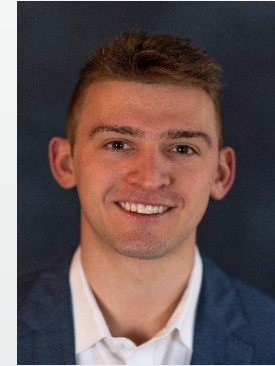
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# Multi Family Investing Key Takeaways

- Factors influencing decisions
- Financials & formulas for quick analysis
- Resources for finding rent comps
- Section 8 explained
- Should I manage myself or hire property manager?
- Proven as of the greatest paths to wealth building!

# Factors Influencing Decisions

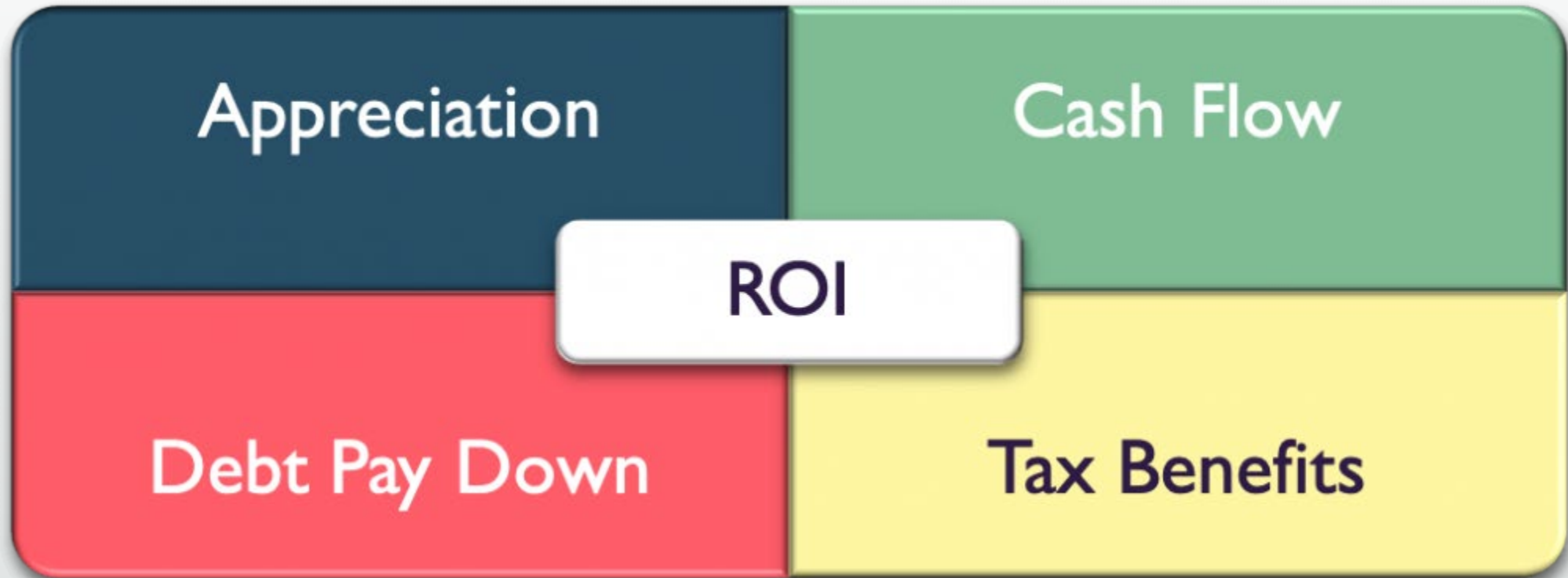
- What and how much you qualify for
- Sole proprietor or investing with others (syndication)
- Will this be an investment property or owner occupy
- Manage the property yourself or hire property manager
- Location affects Everything
- Level of condition – Fixed Up (turnkey property) or a Value Add (sweat equity)

## Where it began

- Bought my first triplex in May 1998
- High interest rate = 8.875%
- Wasn't concerned about returns
- Path of improving neighborhood



# Financials & formulas



The Return on Investment Quadrant™  
Source: Real Estate Financial Planner LLC



# Financials & formulas

- 1-2% Rule / 50% / 70%
- Cap Rate
- Cash on Cash Return
- Total Return



## Financial Rules ..

- **1-2% Rule** - the monthly rent should be equal to or greater than one percent of the total purchase price of an investment property
- **50% Rule** - estimate your operating expenses to be 50% of gross income
- **70% Rule** - says that an investor should spend no more than 70% of a property's After Repair Value (ARV) on a property, minus the cost of repairs

# Cap Rate

## Cap Rate = Capitalization Rate

(valuation measure used to compare different real estate investments)



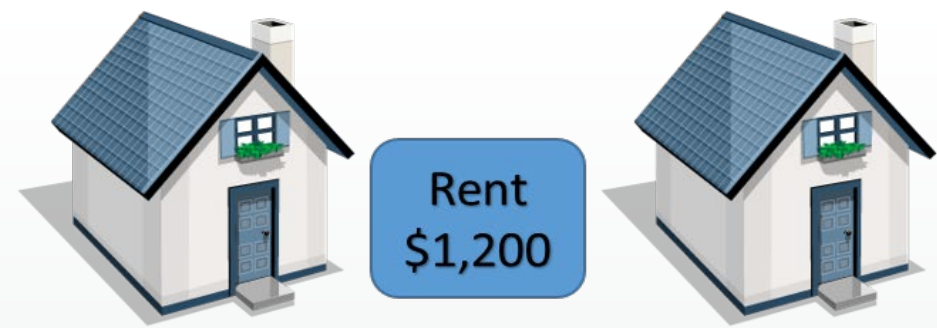
Capitalization  
Rate Formula =



Net Operating Income  
Current Market Value of the  
Property



- Lower Cap Rates = Lower Risk (perceived), Greater Income Durability, and More Potential for Appreciation
- Higher Cap Rates = Higher Risk (perceived), Less Income Durability, and Less Potential for Appreciation



Gross Annual Income: \$ 14,400  
 50% Expenses \$ 7,200  
 Net Operating Income: \$ 7,200

**Price: \$115,000**

## Cash on Cash Return

(measures the amount of cash flow (NOI - pre tax) by the amount of cash initially invested)

Purchased: Cash

Purchased: Financed\*  
 Down Payment: 20%

Investor Funds Used:  
 \$115,000

Investor Funds Used:  
 \$23,000

NOI: \$ 7,200  
 Mortgage Pmt: None  
 Cash Flow: \$ 7,200

NOI: \$ 7,200  
 Mortgage Pmt: \$ 5,436  
 Cash Flow: \$ 1,764

Cash-on-Cash Return:  
 6.3%

Cash-on-Cash Return:  
 7.7%

(\$7,200/\$115,000)

(\$1,764/\$23,000)

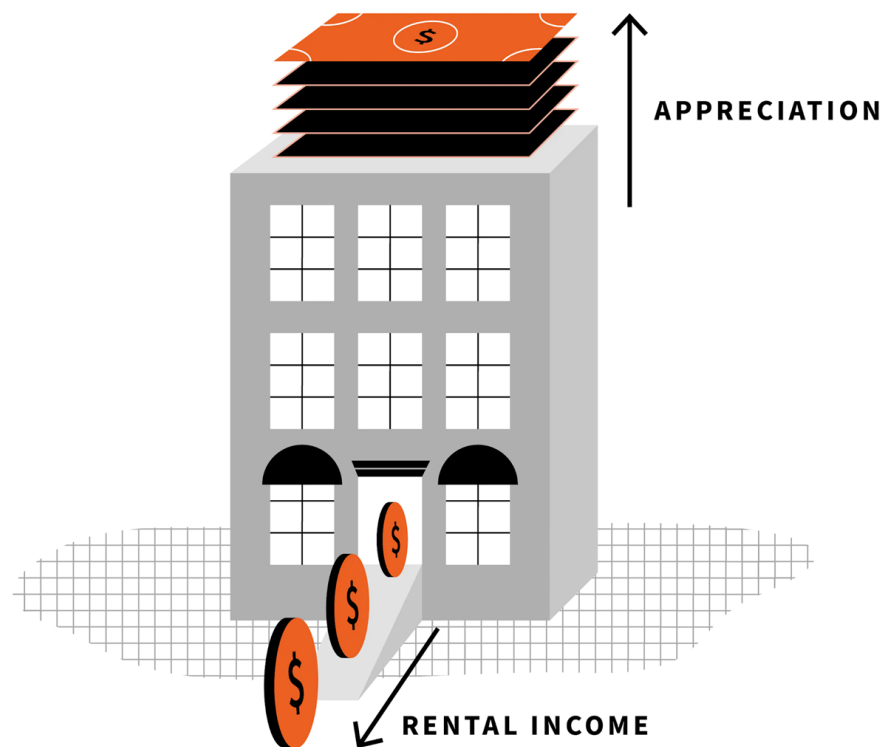
source: Bigger Pockets

\* Term 30 Years, Interest  
 4.25%, Payment \$453 Month



## Total Return

(measures the Actual Rate of Return of an investment, including cash flow & appreciation)



Ex: You acquire a property for \$100,000 in cash. It generates net income of \$6,000 in a year and increases in value by \$5,000, you have a total return of \$11,000, or 11%.



## Denver 4 Unit Financials

| Income        |                  |          |             |                |                 |             |             |
|---------------|------------------|----------|-------------|----------------|-----------------|-------------|-------------|
| Unit          | Lease Expiration | Unit Mix | Approx Sqft | Current Income | Proforma Income | Yr 2 Income | Yr 3 Income |
| 1             | n/a              | studio   | 436         | \$1,055        | \$1,100         | \$1,150     | \$1,200     |
| 2             | n/a              | 2bd, 1ba | 720         | \$1,440        | \$1,700         | \$1,750     | \$1,800     |
| 3             | n/a              | 2bd, 1ba | 720         | \$1,310        | \$1,700         | \$1,750     | \$1,800     |
| 4             | n/a              | 1bd, 1ba | 738         | \$1,510        | \$1,550         | \$1,600     | \$1,650     |
| Monthly       |                  |          | total       | \$5,315        | \$6,050         | \$6,250     | \$6,450     |
| Vacancy       |                  |          |             | 0%             | 3%              | 3%          | 3%          |
| Annual Income |                  |          |             | \$63,780       | \$70,422        | \$72,750    | \$75,078    |

| Expenses (Approximate) | Current  | Proforma | Year 2   | Year 3   |
|------------------------|----------|----------|----------|----------|
| Utilities              | \$2,500  | \$2,550  | \$2,601  | \$2,653  |
| Property Taxes         | \$3,950  | \$4,029  | \$4,110  | \$4,192  |
| Maintenance *          | \$2,500  | \$2,550  | \$2,601  | \$2,653  |
| Property Mgmt          | \$0      | \$0      | \$0      | \$0      |
| Property Insurance     | \$1,500  | \$1,530  | \$1,561  | \$1,592  |
| Annual Expense         | \$10,450 | \$10,659 | \$10,872 | \$11,090 |
| Average Monthly        | \$870.83 | \$888.25 | \$906.02 | \$924.14 |

|                |              |          |          |          |
|----------------|--------------|----------|----------|----------|
| Net Opp Income | \$ 53,330.00 | \$59,763 | \$61,878 | \$63,988 |
|----------------|--------------|----------|----------|----------|

|                     |            |            |            |            |
|---------------------|------------|------------|------------|------------|
| List Price/Value ** | \$ 925,000 | \$ 925,000 | \$ 952,750 | \$ 981,333 |
|---------------------|------------|------------|------------|------------|

| Cap Rate | Current | Proforma | Year 2 | Year 3 |
|----------|---------|----------|--------|--------|
|          | 5.77%   | 6.46%    | 6.69%  | 6.92%  |

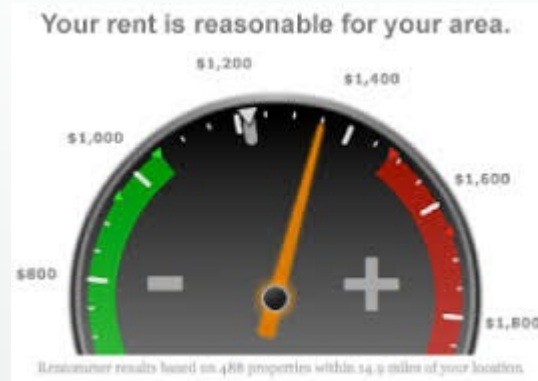
|                      |              |             |             |             |
|----------------------|--------------|-------------|-------------|-------------|
| Purchase Price       | \$925,000    |             |             |             |
| Down Payment %       | 20.00%       |             |             |             |
| Down Payment Amount  | \$185,000.00 |             |             |             |
| Loan amount          | \$740,000.00 |             |             |             |
| Annual Interest Rate | 3.50%        |             |             |             |
| PI Payments          | (\$3,322.93) |             |             |             |
| Net Operating Income | \$ 53,330    | \$ 59,763   | \$ 61,878   | \$ 63,988   |
| Annual Debt Service  | \$ (39,875)  | \$ (39,875) | \$ (39,875) | \$ (39,875) |
| Annual Cash Flow     | \$ 13,455    | \$ 19,888   | \$ 22,003   | \$ 24,113   |

|                            |       |        |        |        |
|----------------------------|-------|--------|--------|--------|
| Annual Cash on Cash Return | 7.27% | 10.75% | 11.89% | 13.03% |
|----------------------------|-------|--------|--------|--------|

|                          |             |             |             |             |
|--------------------------|-------------|-------------|-------------|-------------|
| Yr 1 Principal Reduction | \$14,334.79 | \$14,334.79 | \$14,836.50 | \$15,355.78 |
|--------------------------|-------------|-------------|-------------|-------------|

|              |        |        |        |        |
|--------------|--------|--------|--------|--------|
| Total Return | 15.02% | 18.50% | 19.91% | 21.33% |
|--------------|--------|--------|--------|--------|

|   |  |     |     |     |
|---|--|-----|-----|-----|
| Total Return on Investment (Inc Appreciation) |  | 18% | 53% | 90% |
|---|--|-----|-----|-----|



- Rentometer.com
- Apartments.com
- Bigger Pockets
- Zillow Rental Manager (Rent Zestimate®)

## Finding Rent Comps





[Toggle Street View](#)

80211

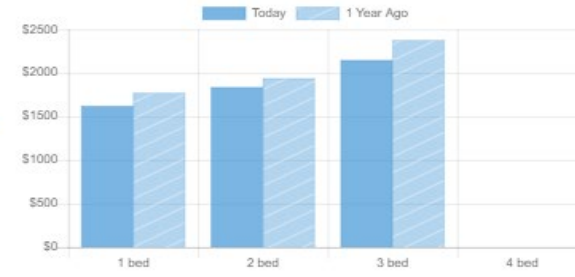
Results based on 65, single bedroom, single bath rentals seen within 12 months in a 0.75 mile radius.

|                               |                          |   |   |
|-------------------------------|--------------------------|---|---|
| AVERAGE<br><b>\$1,622</b> ±5% | MEDIAN<br><b>\$1,600</b> | 25 <sup>th</sup> PERCENTILE<br><b>\$1,224</b> | 75 <sup>th</sup> PERCENTILE<br><b>\$2,019</b> |
|-------------------------------|--------------------------|---|---|

Historical Trend Line



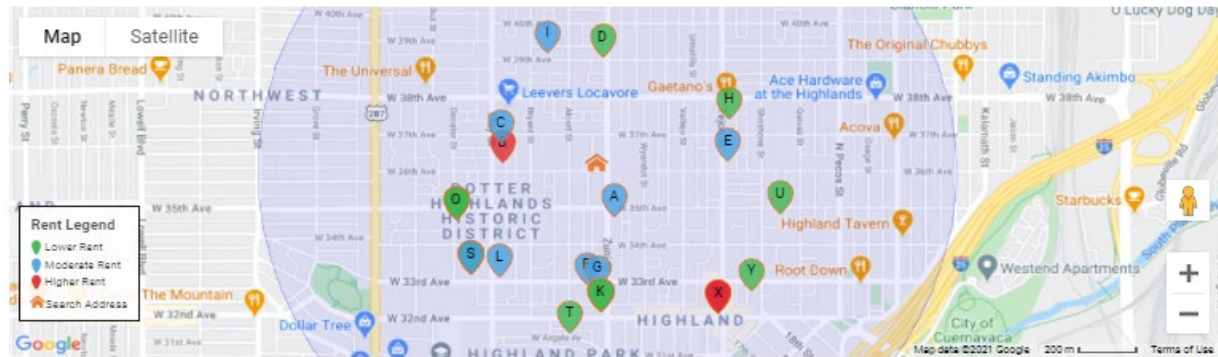
Average Rent by Bedroom Type



Summary Statistics

|  |                 |
|--|-----------------|
| Sample Size                                    | 65              |
| Sample Min                                     | \$200           |
| Sample Max                                     | \$3,156         |
| Sample Median                                  | \$1,600         |
| Sample Mean                                    | \$1,622         |
| Sample Standard Deviation                      | \$590           |
| 25 <sup>th</sup> - 75 <sup>th</sup> Percentile | \$1,224 - 2,019 |
| 10 <sup>th</sup> - 90 <sup>th</sup> Percentile | \$867 - 2,377   |
| 5 <sup>th</sup> - 95 <sup>th</sup> Percentile  | \$653 - 2,591   |

Rent Distribution



| Address                        | Distance | Rent    | Size                | \$/ft <sup>2</sup>     | Beds  | Baths | Bldg Type | Last Seen |
|--------------------------------|----------|---------|---------------------|------------------------|-------|-------|-----------|-----------|
| 3450 Zuni St, Denver, CO 80211 | 0.14 mi  | \$1,685 | 750 ft <sup>2</sup> | \$2.25/ft <sup>2</sup> | 1 bed | 1.0ba | Condo     | Dec 2020  |



# Section 8 Housing

- Section 8 of the Housing Act of 1937, authorizes the payment of rental housing assistance to private landlords on behalf of low-income households.
- The US Department of Housing and Urban Development (HUD) manages the Section 8 programs and they are locally administered by local housing authorities.
- Section 8 tenants qualify for assistance because their income is below the median income for the area.
- Usually a family, veteran, elderly, single person with kids, or disabled. An example would be a single mother with 2 or more children.

What is Section 8?

## Section 8 Housing

- A new rental housing law in Colorado prohibits discrimination based on sources of income. This means that all landlords will have to accept tenants using Section 8 vouchers or other government grant or loan programs. The law went into effect January 1, 2021.
- Landlord can screen the tenant like any other tenant.
- Tenant will pay a portion of the rent based on their income which is assessed periodically. The tenant's portion may be \$0 if they have no income.
- Landlord signs a lease with the tenant and a Housing Assistance Payment (HAP) contract with the housing authority.

How Does the Voucher System Work?

## Section 8 Housing

- HUD publishes approved Payment Standards for each county across the US each year.
- The local housing authority uses these standards along with a local market assessment to establish a reasonable rent for each unit.
- Search by “HUD payment standards 2021”, then Fair Market Rents

What are the Section 8 Rental Rates?

# Section 8 Housing



## FY 2021 FAIR MARKET RENT DOCUMENTATION SYSTEM

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

| Final FY 2021 & Final FY 2020 FMRs By Unit Bedrooms |                            |                             |                             |                               |                              |
|---|----------------------------|-----------------------------|-----------------------------|-------------------------------|------------------------------|
| Year  | <a href="#">Efficiency</a> | <a href="#">One-Bedroom</a> | <a href="#">Two-Bedroom</a> | <a href="#">Three-Bedroom</a> | <a href="#">Four-Bedroom</a> |
| FY 2021 FMR   | \$1,179                    | \$1,304                     | \$1,605                     | \$2,186                       | \$2,486                      |
| <a href="#">FY 2020 FMR</a>                         | \$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.

Fair Market Rent (FMR)



## Section 8 Housing

- Advantages include:
  - The Ability to screen like any other tenant
  - Direct deposit of rents on the 1<sup>st</sup> of every month.
  - If a tenant is evicted for violation or misconduct they lose their Section 8 voucher. This gives the landlord leverage to keep the tenant from violating the lease.
  - Owner can still sell the property while rented to a Section 8 tenant.
  
- Disadvantage:
  - In today's strong rental market, the landlord may be able to get a higher market rent than what Section 8 pays.

Advantages and Disadvantages to the Landlord?



## Should I manage myself or hire a property manager?

- Hiring a Manager: time saver, stress reliever, legal representation and legal advice, access to skilled contractors, access to professional marketing, knowledge of best practices, no emotional attachment
- Self Managing: flexibility on tenant selection, money savings, more control
- Emotional attachment can lead to bad judgement
- Have an eviction attorney & contractor list regardless
- Confirm the manager is following Best Practices!

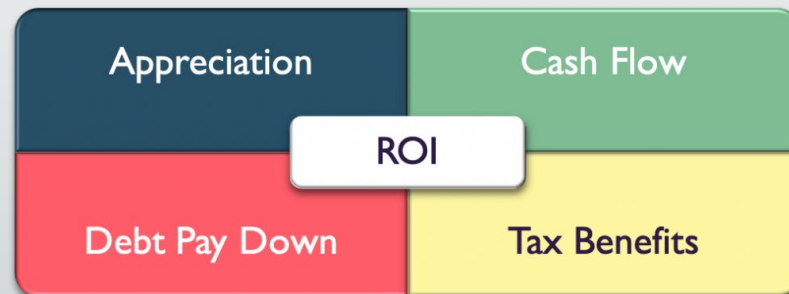
(contact Jay for slide presentation to **Top 10 Property Management Best Practices**)

## Contractor list is key

- Having the right contractors is essential to business
- At least 2-3 for each trade
- Expect turnover, treat the good ones right
- Payments – will they accept online or electronic?

# Proven as of the greatest paths to wealth building!

- Investment that (should) pay a monthly return = cash flow
- The power of leverage (FHA 3.5% down scenario, 3.5% appreciation = double)
- Remember, tenants are paying your mortgage!
- Tax Benefits (mortgage interest deduction, depreciation, cost of repairs/upgrades)



# Real Estate Investment Groups

- ICOR - Investment Community of the Rockies
- IRROC - Investors Realty Resource of Colorado
- Invest Success - John Fisher's Breakfast Club
- Apartment/Multi-Family Investors Networking & Learning (Anthony Charra)



# Thank You !!

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***“Not doing it is certainly the best way to not getting it.”***

***“Only one thing is ever guaranteed, that is that you will definitely not achieve the goal if you don’t take the shot.”***

Wayne Gretzky