

GO FIGURE!

CHEAT SHEETS FOR REAL ESTATE INVESTORS

NEED TO KNOW WHAT TO OFFER WHEN BUYING AN INVESTMENT PROPERTY?
TRYING TO DETERMINE IF A RENTAL IS A DIAMOND OR DUD?
WANT TO PLAN YOUR INVESTING FUTURE?

REAL ESTATE INVESTOR FORMULAS AND MORE INSIDE...



CHEAT SHEETS FOR A MULTITUDE OF REAL ESTATE INVESTING CALCULATIONS

**MITIGATE RISK • PROJECT YOUR PROFITS
MAXIMIZE FUNDING AND LOWER THE COST OF MONEY
DEVELOP LONG TERM INVESTING PLANS**

BY CONNECTEDINVESTORS.COM
THE WORLD'S LARGEST NETWORK OF REAL ESTATE INVESTORS

GO FIGURE!

INTRODUCTION

Some people get into real estate “by accident.” They inherit a house or they buy a second house before selling the first and end up as accidental landlords. The rest of us get into real estate investing to make money. The bottom line in investment real estate is knowing the difference between a good deal and bad one. And that requires understanding and using basic formulas and guidelines to drive solid decision making. We like to call it “running the numbers” and it’s part of the due diligence the smart investor undertakes with every big real estate investment decision.

Running the Numbers helps you:

- Mitigate Risk
- Project Profits
- Maximize Funding and Lower Cost of Money
- Develop Long Term Investing Plans

This guide provides you an entire series of Cheat Sheets to help you run the numbers and also offers information to help you carry out thorough due diligence.

The House Flipper’s Cheat Sheets help you with calculating offers, evaluating comps, factoring the cost of money, and inspecting and evaluating the costs of fixing and flipping houses.

The Landlord’s Cheat Sheets guide you in accurately analyzing the performance of rentals and determine safe leverage strategies.

Each Cheat Sheet is prefaced with helpful information to guide you in running the numbers and understanding what they mean to your investment strategies.

80% of Millionaires have made their fortunes in real estate investing. To get your piece of the real estate investing pie, it pays to know the formulas, use the numbers and make decisions based on real world data and proven techniques.

GO FIGURE!

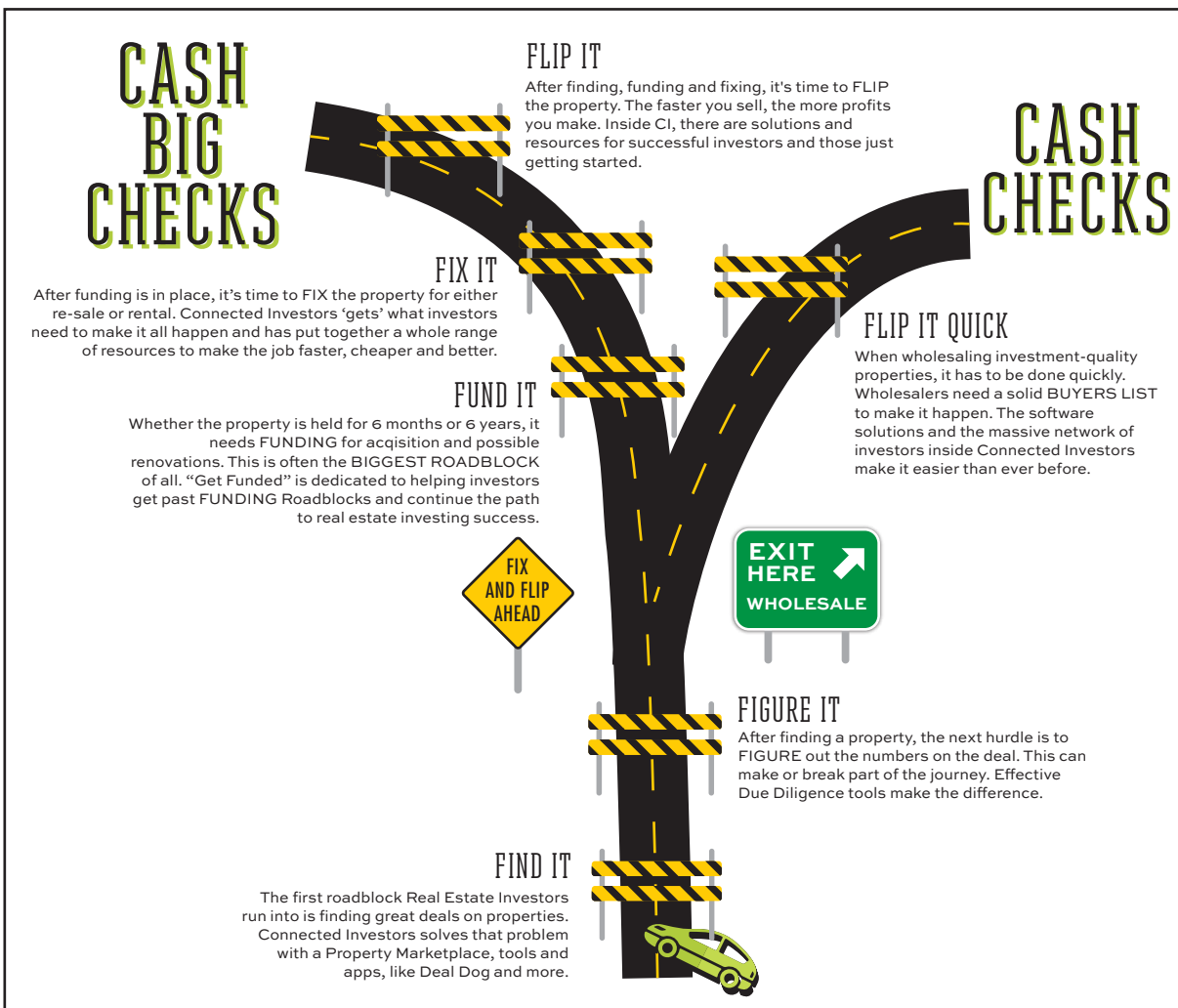
While it's true that every real estate investment opportunity is different, every one also follows a very predictable course of events. It's what you do during over the course of your project that predicts whether you will be skipping to the bank or suffering the losses.

The key to success is overcoming the obstacles by educating yourself, avoiding the "gotchas" and finding the alternative routes that lead you to pot of gold at the end of the house flipping rainbow.

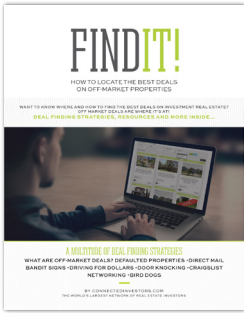
Before we jump headfirst into one of the most important stages of the house flipping sale process - figuring out if a deal is really a deal, it's useful to take a quick look at what happens before you get there.

If we start at the beginning of the journey from a junker property to jewel, there's a pretty predictable pattern of events along with some fairly predictable roadblocks.

AVOID REAL ESTATE INVESTING ROADBLOCKS



TO SEE A SHORT VIDEO ON HOW CONNECTED INVESTORS WORKS TO HELP INVESTORS BREAK THROUGH THE ROADBLOCKS ON THE WAY TO INVESTING SUCCESS, VISIT NEW.CONNECTEDINVESTORS.COM/ROADWAY.



FIND IT

The first step in any flip is finding a great deal on a property. And of course, the first roadblock would-be investors encounter is finding good deals on investment quality properties. Through Connected Investors and Really Flip, you can solve that problem several ways:

- The Connected Investors Marketplace - where investors find property listings nationwide posted by wholesalers, hedge funds and asset managers.
- FIND IT - Connected Investors deal finding education and deal finding tools.
- The Really Flip Training and Resource Center (see the Resources Section)

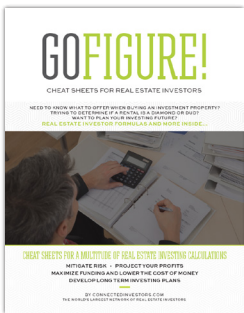


FIGURE IT

The next roadblock investors typically encounter is figuring out if a deal really is a deal. This guide helps you clear that hurdle with a series of worksheets and online tools to help you “run the numbers” on fix and flips and rental properties. This takes the guesswork out of investments properties and puts you on the road to financial success.



THE FORK IN THE ROAD

You’ve run the numbers and determined that the property you’ve found is a deal. Next comes a fork in the road. Will you wholesale the house or fix & flip it for more even more gain? Here’s where Connected Investors and Really Flip comes in again to help overcome the obstacles.



FIX IT & FLIP IT? OR WHOLESALE QUICK FLIP IT?

WHEN YOU DECIDE TO FIX AND FLIP IT



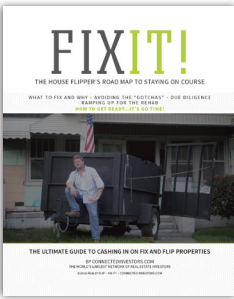
YOU NEED FUNDING

When you’re fixing and flipping, you need FUNDING. Connected Investors launched the Connected Investors Exchange (CiX.com) where investors find lenders who compete to fund their deals. Loans for investment properties used to be a major roadblock for investors. CiX solved that problem with an easy online portal direct to lenders who specialize in asset-based lending. CiX was developed in partnership with LendingTree®.



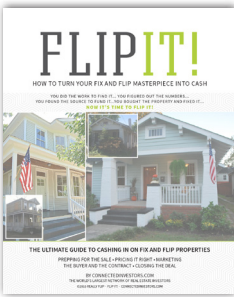
YOU NEED TO UNDERSTAND FUNDING INVESTMENT REAL ESTATE

When you're ready to fund your first or next investment property, it's important to recognize and deploy the right kind of funding to help you meet your objectives. "Get Funded" is a comprehensive book that covers every aspect of funding investment real estate using asset-based lenders.



YOU NEED TO FIX IT

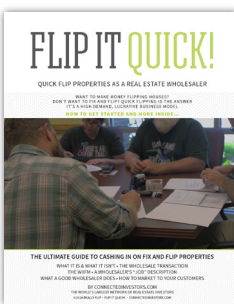
You found the property, figured the numbers and funded the deal, and did the work to fix it. In this guide, you'll find even more information on Due Diligence, Figuring out What to Fix and Why, Understanding What Buyers Want, Getting Ramped Up for the Rehab, Learning What Stuff Costs and Getting It All Done.



YOU NEED TO FLIP IT

You found the property, figured the numbers and funded the deal, and did the work to fix it. In this guide, you'll find even more information on Pricing the Property, Prepping it For Sale, Marketing, The Buyer & The Contact, and finally, Closing the Deal.

WHEN YOU DECIDE TO FLIP IT QUICK



YOU NEED TO WHOLESALIZE IT

Wholesaling takes the "fix" out of fix and flip. Wholesalers flip properties - or more specifically, the contracts on properties to investor buyers. They specialize in finding great deals, placing them under contract and working with investors to close the deal. Wholesalers are in high demand and it's a great business model for making impressive income for the ambitious deal finders. Learn more in the Flip it Quick! Workbook.

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THE FIX & FLIP CHEAT SHEETS

There's a reason that house flipping has become so popular - when done well, it can be very profitable. But when done carelessly, it can be costly in money, time and stress.

House flippers know that the proof is in the numbers and being able to closely estimate the numbers is what determines if your project is a flip or a flop.

In this section, here's what you'll find to help you Figure your Fix and Flip Investments:

CHEAT SHEET #1 THE FIX & FLIP FORMULAS

Determine what to offer for a fixer upper that will net you the profits you desire. This is the Maximum Allowable Offer (MAO) and provides you several different ways to run the numbers on your deals.

CHEAT SHEET # 2 THE WHOLESALER'S FORMULAS

Calculate your offers when you are wholesaling. Two different formulas will help you calculate offers with your wholesale fees built in.

CHEAT SHEET #3 USING COMPS FOR AFTER REPAIR VALUE

Make a Comparables Analysis to determine the After Repair Value of the property. This is critical to making logical and profitable offers.

CHEAT SHEET #4 CALCULATING THE COST OF MONEY

Formulate a plan for funding your property and project. The Cost of Money can be a big one, and it's critical to include it in your calculations.

CHEAT SHEET #5 FIX AND FLIP EXPENSES

Inspect and Budget for the property's renovations. Every property is unique in character and needs, but having a good, working Cheat Sheet will help you cross your t's and dot your i's.

CHEAT SHEET #1

THE FIX & FLIP FORMULAS

Used by house flippers, The “Maximum Allowable Offer” (MAO) formula for flipping is based on the 70% rule. The 70% rule is the notion that an investor cannot pay more than 70% of the After Repaired Value (ARV) of the property after accounting for the cost of funding, repairs, holding costs and resale commissions and costs.

It looks something like this:

ARV	\$150,000	Value of property after repairs
Loan (Cost of Funding)	6,000	Origination fees, Closing fees, Interest
Repairs	25,000	All expenses related to renovations
Holding Costs	2,000	Insurance, Utilities, Taxes, HOA, other
ReSale Fees	9,000	Realtor Fees (6%)
	<hr/>	
	\$108,000	ARV minus costs to flip
	x .70	
	<hr/>	
	\$ 75,600	Maximum Allowable Offer

If it all plays out as planned your profit is \$32,400 (\$108,000 – \$75,600)

.....

AN ALTERNATIVE TO THE 70% RULE

Every fixed and flipped investment property requires a different amount of time, cash and considerations. The 70% rule at it's most basic, builds in a 30% profit margin and can be a great rule of thumb. But investors can also look at property that may be a really quick and easy flip and determine that a property is a good deal even if doesn't meet the 70% rule – simply because the time and money needed to complete the deal is less effort. Rather than use a margin, use a set profit amount.

For example, let's say you can pick up a 1000 sf brick ranch in a very marketable neighborhood. The ARV is \$150,000 The house only needs some basic cosmetics to bring it up to market and you can get the job done with little time and hassle. Repair costs are only \$12K and holding costs are lower because the renovation time is shorter.

In this case, you'll build in your **desired profit** to determine your offer.

ARV	\$150,000	Value of property after repairs
Loan (Cost of Funding)	5,000	Origination fees, Closing fees, Interest
Repairs	12,000	All expenses related to renovations
Holding Costs	1,000	Insurance, Utilities, Taxes, HOA, other
ReSale Fees	9,000	Realtor Fees (6%)
	<hr/>	
	\$123,000	ARV minus costs to flip
Desired Profit	- 20,000	
	<hr/>	
	\$103,000	Maximum Allowable Offer

If it all plays out as planned your profit is \$32,400 (\$108,000 – \$75,600)

WHEN IT'S OKAY TO BREAK THE RULES:

- When you have a guaranteed built-in buyer. No need to pay resale fees.
- When your cost of money is lower (e.g. a subject-to transaction) or access to cheap cash

HOUSE FLIPPER'S OFFER CHEAT SHEET

USING THE MAO 70% RULE

ARV (After Repair Value)	\$
Deduct the Cost of Money (Origination fees, Closing fees, Interest for holding period)	-
Deduct Cost of Repairs (All expenses related to renovation)	-
Deduct Holding Costs (Insurance, Utilities, Taxes, HOA, other)	-
Deduct Resale Fees (Realtor Commission, other costs related to resale)	-
ARV minus costs to Flip	-
	x .70
MAXIMUM ALLOWABLE OFFER	
PROJECTED PROFIT (ARV - COSTS - MAO)	

BASED ON DESIRED PROFIT

ARV (After Repair Value)	\$
Deduct the Cost of Money (Origination fees, Closing fees, Interest for holding period)	-
Deduct Cost of Repairs (All expenses related to renovation)	-
Deduct Holding Costs (Insurance, Utilities, Taxes, HOA, other)	-
Deduct Resale Fees (Realtor Commission, other costs related to resale)	-
ARV minus costs to Flip	
DESIRED PROFIT \$	-
MAXIMUM ALLOWABLE OFFER	
PROJECTED PROFIT (ARV - COSTS - MAO)	

CHEAT SHEET #2

THE WHOLESALER'S FORMULAS

The Fix & Flip formulas are also used by wholesalers. They use the same basic formula but include a wholesale fee one of two ways.

1. They use a **65% Rule** that accounts for their wholesale fee. Using the Fix & Flip example on page 7, the wholesaler would make an offer of \$70,200 and charge a \$5400 wholesale fee to the investor buyer.

\$108,000	ARV minus costs to flip
x .65	
<hr/>	
\$ 70,200	Max Allowable Offer when Wholesaling

2. **The Set Fee Formula.** Using the Fix & Flip example, the wholesaler adds the fee into the costs. Let's say this wholesaler wanted a bigger fee because it was a difficult property to get under contract. It would look something like this:

ARV	\$150,000	Value of property after repairs
Loan (Cost of Funding)	6,000	Origination fees, Closing fees, Interest
Repairs	25,000	All expenses related to renovations
Holding Costs	2,000	Insurance, Utilities, Taxes, HOA, other
ReSale Fees	9,000	Realtor Fees (6%)
<hr/>		
	\$108,000	ARV minus costs to flip
	x .70	
<hr/>		
70% Rule Applied	\$ 75,600	Net Offer before Wholesale Fee
Wholesale Fee	- 10,000	
<hr/>		
	\$65,600	Max Allowable Offer by the Wholesaler

WHOLESALE'S OFFER CHEAT SHEET

USING THE 65% RULE

ARV (After Repair Value)	\$
Deduct the Cost of Money (Origination fees, Closing fees, Interest for holding period)	-
Deduct Cost of Repairs (All expenses related to renovation)	-
Deduct Holding Costs (Insurance, Utilities, Taxes, HOA, other)	-
Deduct Resale Fees (Realtor Commission, other costs related to resale)	-
ARV minus costs to Flip	-
	x .65
MAXIMUM ALLOWABLE OFFER	

BASED ON A SET WHOLESALE FEE

ARV (After Repair Value)	\$
Deduct the Cost of Money (Origination fees, Closing fees, Interest for holding period)	-
Deduct Cost of Repairs (All expenses related to renovation)	-
Deduct Holding Costs (Insurance, Utilities, Taxes, HOA, other)	-
Deduct Resale Fees (Realtor Commission, other costs related to resale)	-
ARV minus costs to Flip	
WHOLESALE FEE \$	-
MAXIMUM ALLOWABLE OFFER	

CHEAT SHEET #3

USING COMPS FOR FIGURING AFTER REPAIR VALUE

There is an art and science to determining the ARV on fix and flip properties. And both need to be mastered to become skilled at calculating ARV.

The science lies in the data. You'll need access to the local MLS to get real-world numbers on actual recent sales. Unless you're a licensed agent, you'll need to work with a local Realtor®. You cannot rely on "guesstimate" websites to give you the real information you need.

The art of the ARV lies in the more subjective judgements - the condition of the comps, the fit and finish, the location and its relative value plus much more.

Once you know your market well, you'll find determining ARV relatively easy. The key is always using up-to-date market SOLD comps and thoroughly assessing the comparable properties to your own and its after repair value.

THE KEY FACTORS

Proximity	Comps should be within 1/2 mile whenever possible
Age	The best comps will be within a 5-7 year age range
Condition	Most comps aren't just fully renovated. Look for homes in excellent condition or make adjustments for those that aren't.
Square Footage	Similar sized properties are best - but if none are available, you can work with a price per square foot adjustment
Beds	Look for comps with similar number and size
Baths	Ditto
Parking	A garage adds value; on-street parking does not. Adjust for properties without similar parking amenities.
Porches/Decks	Outdoor features add value - if your comps don't share similar characteristics, make adjustments.
Fireplaces	The importance of this will vary depending on locale. In Florida, it may not be a relevant. In Minnesota, it can be.
Other + or -	This is where you account for pluses or minuses. Huge power lines nearby? Adjust down. Close to a fantastic amenity? Adjust up.
DOM/Sale Date	Knowing the days on market (DOM) can tell you how well-priced a property was. The sale date is useful for understanding the selling season and its up and down swings.

COMPARABLES CHEAT SHEET

Use this sheet to compare attributes of your property in relation to recently sold properties. Use only SOLD properties. Then use the Comparables Adjustment Cheat Sheet to determine your property's ARV.

	SUBJECT	COMP 1	COMP 2	COMP 3
ADDRESS				
SOLD Price	n/a			
Proximity	n/a			
Age				
Condition				
Square Footage				
Beds				
Baths				
Parking				
Porches/Decks				
Fireplaces				
Other + or -				
DOM/Sale Date				

Notes: _____

COMPARABLES ADJUSTMENT CHEAT SHEET

Use this sheet to make up or down adjustments to your property's ARV (After Repair Value). The values placed on the adjustments will vary depending on your region and market conditions.

Example: If your property has a garage but none of the comparables do, enter a (+) value that is relative to the value of a garage in your area.

	SUBJECT	COMP 1	COMP 2	COMP 3
ADDRESS				
SOLD Price				
Proximity	n/a			
Age				
Condition				
Square Footage				
Beds				
Baths				
Parking				
Porches/Decks				
Fireplaces				
Other + or -				
DOM/Sale Date				
TOTAL ADJUSTMENTS				
Adjusted Value (Sold Price + or - Adjustments)				

Once you've made adjustments to the Comparables, there are several ways to calculate the ARV.

- **Price per Square Foot** Divide the Adjusted Value by the number of Square Feet to get the Price Per Square Foot. Then, multiple your property's square footage by the Price Per Square Foot.
- **Average** Add the Adjusted Values together and divide by the number of Comparables included in your calculations.

There's more on this topic and others at the [Connected Investors Blog](#) ¹.

¹Resource: <https://connectedinvestors.com/blog/figure-it/comps-for-real-estate-investment/>

CHEAT SHEET #4

CALCULATING THE COST OF MONEY

Unless you've got a pocket full of cash to fund your deals, you'll need to borrow money for your fix & flip projects. Some investors use hard and private money loans, some tap into the equity of their own home and assets, and fewer still use traditional financing like banks. In our examples, we'll assume this is a hard money loan.

We all know borrowing costs money and the cost of money varies widely, depending on the source. Despite where the money comes from, it's important for fix & flip investors to include funding costs in their overall project budgets and plans.

Most fix and flip investors borrow both the acquisition funds and the rehab funds, plus the carrying costs including interest payments for 6 months. Depending on the local market, six months is typically enough time to renovate and remarket the property. Many fix and flip loans are interest only loans and do not require payments during the loan period.

This cheat sheet provides you a quick and easy way to calculate the cost of money for your project. To run the numbers on the cost of your funding, you'll need:

1. **After Repair Value (ARV)** - We covered ARV earlier, but it's important to remember that the lender's ARV and yours will vary. The lender's after repair value is determined by the appraisal that is part of loan application. Most investor lenders will loan 65% of the ARV. Check with yours before signing on the dotted line.
2. **Purchase Price** - The amount of money you are paying for the property.
3. **Rehab Costs** - The rehab costs are outlined in your rehab budget and scope-of-work². It's the renovations that will make the property's numbers work using its estimated after repair value.
4. **Points (Origination Fees)** - A point is equal to 1% of the total loan amount. Points vary widely among lenders, so it's critically important to compare among lenders and include this as your funding costs.
5. **Closing Costs (Title, Taxes, Insurance)** - Closing costs are paid when you purchase the property and includes title fees, insurance, & taxes. If you are paying a wholesaler a fee, be sure the fee is included in your calculations.
6. **Interest Reserve (Pre-Paid Interest)** - Not all lenders require this but the interest reserve is simply prepaid interest. When applicable, pre-paid interest is reserved at closing and withheld from distribution of the proceeds.

TOTAL COSTS

This is everything you should expect to have paid by the end of the term of your loan. This includes the loan amount and all associated costs/fees.

LOAN-TO-VALUE RATIO (LTV)

This is the total cost relative to the after repair value of the subject property. Most lenders work on a 65% loan-to-value ratio, but it varies. Check with your lender before committing.

² <https://connectedinvestors.com/blog/figure-it/cost-of-flipping-houses/>

For this example, let's assume the ARV is \$150,000. You will borrow the funds for 6 months at 12% interest with 5 points in origination fees. Closing costs are \$5000.

EXAMPLE: CALCULATING THE COST OF BORROWED MONEY

HOW MUCH LOAN?

After Repaired Value	\$150,000
X Loan to Value (LTV %)	X .65
Maximum Loan Amount	= \$97,500

ESTIMATING LOAN PROCEEDS

(The loan minus the costs to get it)

Maximum Loan Amount	\$97,500
Points/Origination Fees (Loan Amount x Points Percentage)	- 4,875
Closing Costs (Title Fees, Taxes, Insurance, Wholesale Fee, other)	- 5,000
Total Available for Acquisition and Renovation	= \$87,625
Purchase Price	- 55,000
Amount Available for Renovations	= \$32,625

CALCULATING THE COST OF BORROWING

Points/Origination Fees (Loan Amount x Percentage)	+ \$4,875
Closing Costs (Title Fees, Taxes, Insurance, Wholesale Fee, other)	+ 5,000
Annual Interest (Loan Amount x Interest Rate %) = \$97,500 x .12=\$11,700	+ 5,850
Divide Annual Interest by 12, then multiply by the number of months the loan will be in place. \$11,700/12= \$975 x 6 months	
Total Costs of Borrowing	= \$15,725

CALCULATING THE COST OF BORROWED MONEY CHEAT SHEET

HOW MUCH LOAN?

After Repaired Value	\$
X Loan to Value (LTV %)	X
Maximum Loan Amount	=\$

ESTIMATING LOAN PROCEEDS (The loan minus the costs to get it)

Maximum Loan Amount	\$
Points/Origination Fees (Loan Amount x Points Percentage)	-
Closing Costs (Title Fees, Taxes, Insurance, Wholesale Fee, other)	-
Total Available for Acquisition and Renovation	=
Purchase Price	-
Amount Available for Renovations	= \$

CALCULATING THE COST OF BORROWING

Points/Origination Fees (Loan Amount x Percentage)	+
Closing Costs (Title Fees, Taxes, Insurance, Wholesale Fee, other)	+
Annual Interest (Loan Amount x Interest Rate %) = \$97,500 x .12=\$11,700	+
Divide Annual Interest by 12, then multiply by the number of months the loan will be in place. \$11,700/12= \$975 x 6 months	
Total Costs of Borrowing	=\$

CHEAT SHEET #5

FIX AND FLIP EXPENSES

The numbers on the cost of repairs are important but so are other costs related to the profitability of your fix & flip project.

SIX THINGS TO REMEMBER WHEN PREPARING YOUR BUDGET

1. Always do a thorough inspection and make note of the deficiencies. Also make note of critical measurements. This will save you time when sourcing everything from doors to baseboards to vanities.
2. Be prepared for the unexpected. Even with the best inspections, you'll discover unplanned repairs and expenses.
3. Always build in a cushion - in both money and time. Many rehabbers add 10% to their overall budget plan to account for additional repairs and delays in finishing the project.
4. Be sure to include holding costs, such as taxes, insurance, utilities and the cost of money. All of this should be accounted for when preparing your MAO (Maximum Allowable Offer)
5. When getting repair estimates, always get more than one! And get contractor referrals from other experienced flippers.
6. Size matters! Your neighbor may assure you that their new roof or flooring only cost \$4000 - but you've got to compare apples to apples. His 1200 square foot brick rancher is much cheaper to cover than a two story, 1800 square foot contemporary home.

There's volumes written on what and how much to expense for repairs. We can't cover all of that here, but rather, this worksheet will help you account for the line item expenses for your project.

³ Resource: <http://connectedinvestors.com/blog/figure-it/cost-of-flipping-houses/>

PRE-PURCHASE PROPERTY INSPECTION & BUDGET CHEAT SHEET

	Repair Area	Est. Cost
	WALLS Typical Wall Construction & Materials? Crown/Other Moldings? Repairs Needed	
	CEILINGS Type of Finish? Repairs Needed	
	BASEBOARDS & TRIM Type? Repairs Needed	
	INTERIOR DOORS Type? How Many? Condition? Trim? Hardware?	
	FLOORING Living Areas: Replace? Y N Type: SF: Kitchen: Replace? Y N Type: SF: Bedrooms: Replace? Y N Type: SF: Baths: Replace? Y N Type: SF: Other: Replace? Y N Type: SF:	
	FIREPLACE Type? Condition? Repairs?	
	BEDROOMS How Many? Lighting? Closets: Type? Condition?	
	BATHROOM # ____ Condition of Vanity/Size? Tub? Toilet? Hardware & Plumbing? Subfloor?	
	BATHROOM # ____ Condition of Vanity/Size? Tub? Toilet? Hardware & Plumbing? Subfloor?	

	Repair Area	Est. Cost
	KITCHEN Cabinets: Condition? Linear Ft? Counters? Appliances? Electrical? Plumbing: DW? Sink/Faucet?	
	LAUNDRY Plumbing? Electrical? Flooring? Storage/Other?	
	ELECTRICAL Wiring Type? Switches/Outlets? Main Panel: Age/Location/Capacity? Subpanel: Age/Location/Capacity?	
	HVAC Type? Vents (Up/Down/Wall)? Air Handler? Wiring?	
	PLUMBING Type/Age? Hose Bibs? Water Heater: Location? Age?	
	OTHER UTILITIES Gas or Propane?	
	WINDOWS How Many? Type? Repair or Replace?	
	EXTERIOR DOORS How Many? Type? Repair or Replace?	
	EXTERIOR CLADDING Type? Repairs? Soffit/Fascia? Shutters?	
	FOUNDATION Type? ___ Slab ___ Crawl Height/Access? Condition? Insulation?	

	Repair Area	Est. Cost
	ROOF Condition? Gutters? Chimney?	
	ATTIC Access? Sheathing? Framing? Insulation?	
	GARAGE ___ Attached ___ Detached Framing/Walls? Door? Wiring?	
	PATIO/DECK Type? Repairs Size?	
	PORCH Type? Repairs Size?	
	DRIVEWAY Type? Repairs Approx. Size?	
	LANDSCAPING/YARD	
	SHED/STORAGE	
	FENCING Type? Condition?	
	PESTS Treatment Needed?	
	HOA ___ Yes ___ No	



	Repair Area	Est. Cost
	FLOOD ZONE Other Unusual Assessments?	
	WATER/SEWER Service Provider? Well/Septic?	
	DEBRIS Removal? Dumpster Needed? ___Y ___N ___City	
	OTHER	
		SUBTOTAL
		PLUS 10% OVERRUN
		TOTAL REPAIR ESTIMATE

ARV _____ (Based on Comps)

HOLDING COSTS - _____ (Taxes, Insurance, Utilities, HOA, Yard Maintenance, Cost of Money)

SALES - _____

REPAIRS - _____

SUBTOTAL _____

PROFIT - _____ USING FORMULA (65%/70% or Desired Profit)

MAX OFFER _____

THE LANDLORD CHEAT SHEETS

Novice landlords often make the mistake of thinking that if the rent covers the mortgage, it's a money maker. Nothing could be further from the truth.

Successful landlords know that a mortgage payment is only part of the picture. They utilize tried and true measurements like Net Operating Income to make sure their rental properties are properly (and safely) leveraged.

It's just as important to give potential rental properties entirely different considerations before investing. There are very useful formulas to help compare apples to apples and make smart acquisition decisions.

In this section, you'll find the following Cheat Sheets to Figure your Rental Investments:

CHEAT SHEET #6 NOI - NET OPERATING INCOME

Determine NOI. This tells you if your rental is making money. It accounts for income and expenses and allows you to make smart decisions on expenditures and the placement of debt.

CHEAT SHEET #7 SMART LEVERAGE USING NET OPERATING INCOME (CASH FLOW)

Evaluate the financials on the property and determine how much debt the property can safely support.

CHEAT SHEET #8 GRM- GROSS RENT MULTIPLIER

Quickly compare potential income properties prior to diving into deeper analysis

CHEAT SHEET #9 CAP RATE

Go beyond GRM to determine the value of multi-unit income properties using Cap Rate.

CHEAT SHEET #10 DSCR - DEBT SERVICE COVERAGE RATIO

Figure out if your income property can handle debt and if a lender will even consider a loan on the property.

CHEAT SHEET #11 CASH ON CASH RETURN

Use this to determine if an asset is worth further analysis and even more useful, it can be used to compare potential investments and the cash required for the investment.

CHEAT SHEET #12 ROI - TOTAL RETURN ON INVESTMENT

A very useful measure, this tells you what you are actually getting paid to own the property.

CHEAT SHEET #6

NET OPERATING INCOME (IS YOUR RENTAL REALLY MAKING MONEY?)

The Net Operating Income calculation is fairly straightforward. Rental income minus the expenses to own and operate the property equals the Net Operating Income (NOI). NOI tells you how much cash flow the property is generating monthly. NOI does not include debt service (i.e., the mortgage payment) but we do include this in Cheat Sheet # 7, where we show you how to safely leverage a property and still realize cash flow.

To calculate a rental property's NOI, you'll need some basic data on the property. All figures should be based on monthly amounts.

1. **Rent** - What is the projected monthly rent to be received?
2. **Taxes** - What are property taxes on the subject property (Annual Taxes divided by 12)
3. **Insurance** - What is the monthly insurance premium?
4. **Vacancy Rate** - This helps you budget for vacancy and will vary with the turnover rate. If turnover is rare, use a lower percentage of the monthly rent amount. If turnover is high and it takes several weeks to fill vacancies, use a higher rate.
5. **Repairs** - All properties need repairs - even newer ones. Don't skip this, as it allows you to theoretically "set aside" a budget for repairs. Most landlords use 8 -10% of the monthly rent.
6. **Management Fees** - Even if you self manage, you should include a management fee - your business incurs management expenses, too. Most management fees run from 6-10% of the monthly collected rent.
7. **Other Fees** - HOA, lawn maintenance and other miscellaneous expenses are accounted for here.

The result of your calculations is the Net Operating Income, or monthly cash flow BEFORE any mortgage payments.

Rent	\$1000
Deduct Taxes	- 150
Deduct Cost of Insurance	- 75
Deduct Vacancy Rate 10% of monthly rent. The percentage should vary with the property's turnover rate	- 100
Deduct Repairs 8% – this varies by property and helps you budget for repairs	- 80
Deduct Management Fees 10% - include this even if you self manage. You deserve to get paid, too!	- 100
Deduct Other - HOA, Utilities and other expenses related to the property.	- 0
NOI /Cash Flow - This assumes that the property carries no debt. For more on properties with a loan, see the Smart Leverage Cheat Sheet.	\$495

NET OPERATING INCOME CHEAT SHEET

NET OPERATING INCOME (NOI)

Rent	\$
Deduct Taxes	-
Deduct Cost of Insurance	-
Deduct Vacancy Rate 10% of monthly rent. The percentage should vary with the property's turnover rate	-
Deduct Repairs 8% – this varies by property and helps you budget for repairs	-
Deduct Management Fees 10% - include this even if you self manage. You deserve to get paid, too!	-
Deduct Other - HOA, Utilities and other expenses related to the property.	-
NOI /Cash Flow - This assumes that the property carries no debt. For more on properties with a loan, see the next Cheat Sheet.	\$

Notes: _____

CHEAT SHEET #7

SMART LEVERAGE USING NET OPERATING INCOME (CASH FLOW) HOW MUCH DEBT MAKES SENSE?

Investors looking for cash flow and the benefits of building wealth through more passive rental income can use the NOI formula⁴ for determining how much leverage (DEBT) makes sense. Rental properties should support themselves – the conservative investor will never over-leverage into a position of negative cash flow. This formula takes expenses TODAY into consideration – but it’s important to remember, rents rise over time as do expenses. Here’s the basic NOI formula to use when considering purchasing or refinancing a rental property.

Rent	\$1,000	
Taxes	- 150	
Insurance	- 75	
Vacancy	- 100	(10%- this will vary with turnover rate)
Repairs	- 80	(8% – this varies by property and helps you budget for repairs)
Management	- 100	(10% budget to pay yourself even if you self-manage)
Other	- 0	(HOA, Utilities, Other Expenses)
<hr/>		
Net Operating Income	\$495	

WHAT IT MEANS

The net operating income tells you how much mortgage the rental property can support today based on current rent and expenses.

Using a mortgage calculator, working backwards, determine the loan amount that a \$495 payment can support. Calculate for principal and interest only; taxes and insurance are already accounted for in your Gross Operating Income. This is the MAXIMUM amount the property can support today.

Net Operating Income of \$495 allows a monthly payment of \$ 493.88 on a \$92000 loan amortized over 30 years at 5% interest BUT this does NOT include monthly cash flow. At this level of financing, the property is fully leveraged.

SAFE LEVERAGE IS A PAYMENT BELOW THE MAX MORTGAGE AMOUNT THE PROPERTY CAN SUPPORT. NOT ONLY SHOULD A PROPERTY SUPPORT ITSELF THROUGH RENTAL INCOME, IT SHOULD PROVIDE MONTHLY CASH FLOW. IN THE NEXT SECTION, YOU’LL SEE HOW EASY IT IS TO DETERMINE BOTH CASH FLOW AND SAFE LEVERAGE.

⁴ See the Connected Investors Blog for more: <http://www.connectedinvestors.com/discussion/what-is-noi>

CALCULATING CASH FLOW

Net Operating Income calculates your monthly cash flow. This takes Net Operating Income one step further and applies the monthly loan payment to reveal the total cash flow after expenses AND mortgage debt.

When determining how much debt to acquire on your rental, calculate your Net Operating Income and then DEDUCT your desired monthly cash flow.

Net Operating Income	\$ 495
Desired Cash Flow	-100
<hr/>	
Available for Debt Payment	\$395

Using NOI and your mortgage calculator, work backwards to determine the loan amount that a \$395 payment can support. Calculate for principal and interest only; taxes and insurance are already accounted for in your Gross Operating Income. This is the loan amount the property can support today and provide \$100 per month in cash flow.

In this case, Net Operating Income of \$495 minus \$100 in monthly cash flow allows a monthly payment of \$394.56 on a \$73500 loan amortized over 30 years at 5% interest. At this level of financing, the property is not over leveraged (unless market values fall, rents decrease or expenses increase significantly).

- This formula can also be helpful when buying rental properties. The monthly rent and expenses should be a determining factor in your offer price and funding choices.
- There are opportunities that challenge the conventional rules of real estate investing. There's more at the Connected Investors Blog⁵.

⁵ Resource: <http://connectedinvestors.com/blog/figure-it/breaking-the-rules-of-real-estate-investing/>

SMART LEVERAGE CHEAT SHEET (CASH FLOW)

CASH FLOW: NET OPERATING INCOME WITH DEBT SERVICE

Rent	\$
Deduct Taxes	-
Deduct Cost of Insurance	-
Deduct Vacancy Rate 10% of monthly rent. The percentage should vary with the property's turnover rate	-
Deduct Repairs 8% – this varies by property and helps you budget for repairs	-
Deduct Management Fees 10% - include this even if you self manage. You deserve to get paid, too!	-
Deduct Other - HOA, Utilities and other expenses related to the property.	-
Net Operating Income	\$
Deduct Loan Payment (Debt Service)	-
Cash Flow	\$

CHEAT SHEET #8

GRM - GROSS RENT MULTIPLIER

When considering an investment property, it helps to compare the potential purchase with similar properties. The Gross Rent Multiplier (GRM) is the ratio of the price of a real estate investment to its rental income before expenses such as property taxes, insurance and other expenses of owning and operating.

Since we know all properties have expenses, GRM isn't the most precise tool for evaluating a property. But it is an easy calculation and a quick way to do a rough valuation for a property before deciding to take the time to a more detailed analysis prior to making a purchase decision.

A GRM analysis can be done in a few seconds, which allows investors quickly to decide to reject a property outright or dig deeper into Cap Rate analysis, income and expense analysis, Return on Investment analysis, and the other important due diligence work involved in making a buying decision.

The GRM is useful for comparing investment properties where you expect values and expenses to be somewhat similar across the properties or at least, insignificant in comparison to gross rental income. Without actual data from comparable properties (such as rents, repairs, vacancy), using properties with a similar profile suffice for this quick and easy calculation.

$$\text{Gross Rent Multiplier (GRM)} = \text{Sale Price} / \text{Potential Annual Gross Income}$$

In general, the lower the number the better. But it's also important to note that the lowest GRM properties often have less than desirable attributes such as:

- Deferred maintenance
- High turnover
- Less desirable location
- Multi-units with all of the above

Most investors look for GRM numbers in the 9 to 12 range, and will explore the possibilities of a property with a 15 if it has the potential to be turned around for better financial performance.

COMPARING VALUE OF PROPERTY BASED ON GRM

If the GRM is extremely high or low compared to recent comparable sold properties, it probably indicates a problem with the property or over-pricing.

1. Let's assume you did an analysis of recent comparable sold properties and found that the GRM's averaged around 6.75.
2. Next, approximate the value of the property being considered for purchase. Assume that you know that its gross rental income is \$10,200 annually.

GRM X Annual Income = Market Value

6.75 (GRM) X \$10,200 (Annual Gross Income) = \$68,850 (Market Value)

If it's listed for sale at \$95,000, you might not want to waste more time in looking at it for purchase.

EXPENSES MATTER

Expenses can't be overlooked which is why GRM is simply an initial screening tool. It only takes Gross Rental Income into consideration - and all properties have expenses. The next step in analyzing a property is looking at annual net rate of return by calculating its Cap Rate. While Cap Rate can be somewhat useful for single family properties, it's a critical measure for commercial multi-family properties as their value and viability for funding is based on net income.

GROSS RENT MULTIPLIER CHEAT SHEET

GROSS RENT MULTIPLIER (GRM) = SALE PRICE / POTENTIAL ANNUAL GROSS INCOME

- 1. Enter Sales Price
- 2. Divide Sales Price by Annual Gross Income

GRM

GROSS RENT MULTIPLIER (GRM) = SALE PRICE / POTENTIAL ANNUAL GROSS INCOME	
Sale Price	\$
Potential Annual Gross Income	÷
Gross Rent Multiplier	=

Notes: _____

CHEAT SHEET #9

CAP RATE

Cap Rate goes beyond the Gross Rent Multiplier and takes expenses and vacancy into account by using Net Operating Income. Because of this, it is a much more reliable analysis of the financial performance of a property. So, if you are trying to figure out how much an apartment building or other commercial property is worth, then use Cap Rate to estimate the value.

At its simplest, commercial real estate is valued based on a multiple of its income. The more income it produces, the higher its value. Unlike single family properties whose value is derived solely from comparable sales, you can actually control the value of your apartment building. For example, buy a multi-family property at fair market price, raise the rents and reduce some of the expenses, and you've increased the building's income and with it, its value.

Here's how it works. You need to know two things to value commercial property:

- The Net Operating Income (or "NOI") and its
- Capitalization (or "cap") rate.

Once you know both of these, to determine a building's fair market value you divide the NOI by the cap rate:

$$\text{Net Operating Income (NOI) / CAP RATE = VALUE}$$

For example, if the building is producing \$50,000 per year in Net Operating Income, and the cap rate for buildings in this area is 8%, then the fair market value of the building is \$625,000:

$$\frac{\$50,000}{8\%} = \$625,000$$

NOI AND CAP RATE

Before you can estimate value, you have to determine NOI and Cap Rate.

The NOI is the income after all expenses but before debt service (i.e. the mortgage payment). Cheat Sheet # 6 walks you through calculating NOI.

The Cap Rate is the rate of return if you buy a property with 100% cash. Most investors don't buy with all cash, but this is the standard way to measure the returns and value of a building.

The importance of the Cap Rate is that it gives us an indication of what investors are willing to pay for similar buildings in the same area.

LOW CAP RATE. If the prevailing cap rate for apartment buildings in an area is 6% (fairly low), that indicates that investors are willing to settle for a lower return, oftentimes because the area and/or the building itself is very desirable, easy to take care of and has high quality tenants.

HIGH CAP RATE. If the prevailing cap rate is higher, say 10%, then that means that investors are looking for higher returns, probably because the area or building is a bit rougher and harder to manage and for that extra effort, they expect additional return.

How Do You Determine the Cap Rate?

$$\text{CAP RATE} = \text{NOI (Net Operating Income)} / \text{Sale Price}$$

The Cap Rate can be assessed by evaluating other deals for similar buildings in the same area. Look at the NOI of comparable sales and divide it by the sales price to get the cap rate. The more comps you have, the more accurate the Cap Rate.

Typically you don't have access to that kind of data but brokers do and you can also look at current listings on the commercial property listing site, LoopNet. A great way to get the Cap Rate for an area is to ask several brokers – they should be able to tell you. Another good source are appraisers, whose business it is to value commercial real estate every day. In other words, the prevailing Cap Rate is a few phone calls away.

PUTTING IT ALL TOGETHER

Once you have the typical Cap Rates for an area, you'll need the financials of your potential purchase. Then to get the fair market value, apply the formula. Commercial real estate is fairly easy to value if you know the prevailing Cap Rate and the Net Operating Income.

Words of Caution:

- Make sure the NOI is accurate and conservative. Sellers or brokers can over-report the NOI to make the numbers look good, and this will result in an inflated price. So make sure you examine NOI closely!
- Since Cap Rate is the ratio of the Net Operating Income to the Purchase Price, clearly a larger number “seems” better because that means you're making more (NOI) or paying less (Price). But remember, there's a reason that Cap Rates are high and low and it typically has to do with risk and ownership hassles.
- Cap rate is based on Net Operating Income which is calculated BEFORE debt service. While Cap Rate can indicate if you're getting a good price, it doesn't tell you anything about real cash flow (what's left over after the loan is paid). Using Debt Coverage Ratio (Cheat Sheet # 10) calculates the ratio of Net Operating Income to debt payments.
- When financing a commercial property, if the interest rate on the loan is higher than the CAP RATE then you are borrowing money at a higher cost than the investment produces.
- Conversely, if the interest rate on our loan is lower than the CAP RATE then you make return on the borrowed money.

⁶<https://connectedinvestors.com/blog/figure-it/value-of-commercial-property/>

CAP RATE CHEAT SHEET

$$\text{CAP RATE} = \text{NOI (NET OPERATING INCOME)} / \text{SALE PRICE}$$

1. Calculate NET OPERATING INCOME (Cheat Sheet # 6)
2. Divide NOI by Annual Debt Payments

CAP RATE

CAP RATE = NOI (NET OPERATING INCOME) / SALE PRICE	
Annual Net operating Income	\$
Sale Price	÷
Cap Rate	=

Notes: _____

CHEAT SHEET #10

DEBT SERVICE COVERAGE RATIO (DSCR)

The financing of an income producing property is as important as the property itself. We know that Cap Rate gives us a measure of net income in relation to the purchase price which is helpful in making purchase decisions. What Cap Rate doesn't tell you is how well the property can support itself when there is debt service (a loan to be repaid).

In order to get a better picture of the property's cash flow (cash after all expenses and debt are paid), you need to use Debt Coverage Ratio (DSCR). DSCR is the ratio of Net Operating Income to Debt Payments.

$$\text{DSCR} = \text{NOI} / \text{Debt Payments}$$

A DSCR of approximately 1.0 means the property is generating just enough Net Operating Income to pay the mortgage. It's simply a near 1:1 ratio.

For example, a property with an annual NOI of \$12,000 and has \$11,750 in annual Debt Payments has a DSCR of 1.02

$$\$12,000 \text{ (NOI)} / \$11,750 \text{ (Debt Payments)} = 1.02 \text{ (DSCR)}$$

Conversely, if the same property had an NOI of only \$11,000 with the same debt would have a DSCR of .93 - meaning that the income is not sufficient to cover the loan obligation. This further illustrates the importance of accurately calculating NOI.

Lenders typically require 1.20 -1.25 for a stabilized property⁷. This ensures that there is sufficient income for unexpected expenses and vacancies that could put the lender at risk for a defaulted loan.

Conservative investors look for a DSCR of 1.6 or more. This provides even more cushion and allows for payments to partners and investors (when applicable).

⁷<http://www.crefcoa.com/commercial-loan-debt-ratios.html>

DEBT SERVICE COVERAGE RATIO CHEAT SHEET

1. Calculate NET OPERATING INCOME (Cheat Sheet # 6)
2. Divide NOI by Annual Debt Payments

The result is the Debt Service Coverage Ratio and demonstrates if the property can support debt payments.

DEBT SERVICE COVERAGE RATIO

DSCR = NOI / DEBT PAYMENTS	
Annual Net operating Income	\$
Debt Payments	÷
Debt Service Coverage Ratio	=

Notes: _____

CHEAT SHEET #11

CASH ON CASH RETURN

Another useful measure for real estate investors is the cash return on the investment - commonly called Cash on Cash Return. The formula is simple yet important because it includes debt and expenses (using CASH FLOW analysis that includes Smart Leverage) and provides a quick measurement of the return on investment when cash is invested. This can be helpful when comparing potential investments - in relation to the amount of cash available for investment. It's called a quick napkin test because it so easy and can be used to determine if a potential asset is worth further scrutiny. Cash on cash return is calculated on an annual basis, usually for the first year and is expressed as a percentage.

$$\text{Cash on Cash Return} = \text{Annual Before Tax CASH FLOW} / \text{Cash Invested}$$

EXAMPLE 1

You purchase a property with a \$20,000 down payment. In the first year of operation, the property will produce \$3000 in cash flow AFTER debt service (See Cheat Sheet # 7)

CASH ON CASH RETURN (EXAMPLE 1)

CASH ON CASH RETURN = ANNUAL BEFORE TAX CASH FLOW / CASH INVESTED	
Annual Before Tax Cash Flow	\$3000
Cash Invested	÷ 20000
Cash on Cash Return	= .15*

* Expressed as a 15% Return on Cash Invested

EXAMPLE 2

You purchase a property with a \$10,000 down payment, and invest \$7000 in repairs to put the unit(s) into rental service. The first year cash flow is \$2300.

CASH ON CASH RETURN (EXAMPLE 2)

CASH ON CASH RETURN = ANNUAL BEFORE TAX CASH FLOW / CASH INVESTED	
Annual Before Tax Cash Flow	\$2300
Cash Invested	÷ 17000
Cash on Cash Return	= .135*

* Expressed as a 13.5% Return on Cash Invested

When comparing potential investment opportunities, it's up to the individual investor to determine the most important factors in making an acquisition decision. Sometimes the cash return on investment may not be the deciding factor. For more on the big picture decisions of investing, be sure to visit the Connected Investors blog⁸.

⁸ <https://connectedinvestors.com/blog/Articles/figure-it/> for more info on big picture decision making.

CASH ON CASH RETURN CHEAT SHEET

1. Calculate Annual Cash Flow (Cheat Sheet # 7)
2. Divide by Total Cash Invested

The result is the Cash on Cash return and tells you the annual return on the property in relation to the down payment and in some cases, the cash invested to put the property in service.

CASH ON CASH RETURN

ANNUAL BEFORE TAX CASH FLOW / CASH INVESTED	
Annual Cash Flow	\$
Cash Invested	+
Cash on Cash Return	=

Notes: _____

CHEAT SHEET #12

ROI - TOTAL RETURN ON INVESTMENT

The Total Return on Investment (ROI) is the bottom line - how much total return you are getting on your investment. It tells you what you are actually getting paid to own the property. It takes Cash on Cash Return one step further and includes the reduction of principal debt into consideration. Unlike Cash on Cash Return which is typically calculated for the first year of ownership, Total Return on Investment can be used any time during the lifetime of ownership.

$$\text{CASH FLOW} + \text{PRINCIPAL REDUCTION} / \text{CASH INVESTED} = \text{TOTAL RETURN ON INVESTMENT}$$

EXAMPLE

You purchase a \$100,000 property with a \$20,000 down payment. The property produces \$3000 in cash flow annually and the annual principal paydown on the \$80,000 debt is \$1150.

TOTAL RETURN ON INVESTMENT

CASH FLOW + PRINCIPAL REDUCTION / CASH INVESTED = TOTAL RETURN ON INVESTMENT	
Annual Cash Flow	\$3,000
Annual Principal Reduction	+ \$1,150
Cash Invested	÷ \$20,000
Cash on Cash Return	= .20 (20%)

- Use the Amortization Table for the property's loan to determine principal reduction.
- ROI is similar to Cap Rate in that stable, safe and low risk properties often offer a lower ROI. Higher risk properties can offer a higher ROI for the willingness to own and operate properties with more potential for losses.
- A Trifecta of Calculations - these three formulas provide great screening tools when evaluating a deal.
 1. Use Cap Rate to help determine the value and/or purchase price of a potential investment.
 2. Use DSCR to make sure there is sufficient cash flow after covering debt service. Finally, you calculate your ROI to make sure you have ENOUGH cash flow to pay yourself and your investors.
 3. Calculate the Total Return on Investment when the property is in service and any debt is being reduced by rent payments.

TOTAL RETURN ON INVESTMENT CHEAT SHEET

1. Calculate Annual Cash Flow (Cheat Sheet # 7)
2. Calculate Annual Principal Reduction (from Amortization Schedule)
3. Add Cash Flow and Principal Reduction together
4. Divide by Total Cash Invested

The result is the Total Return on Investment and tells you the return you are getting for the total amount of cash invested in the property plus the non cash investment value derived from the principal reduction.

TOTAL RETURN ON INVESTMENT

CASH FLOW + PRINCIPAL REDUCTION / CASH INVESTED = TOTAL RETURN ON INVESTMENT	
Annual Cash Flow	\$
Annual Principal Reduction	+
Cash Invested	÷
Cash on Cash Return	=

Notes: _____

RESOURCES

FIND IT, FIGURE IT FUND IT, FIX IT & FLIP IT!



The entire Really Flip Resource Library, along with Digital Tools & Apps are available here:

Really Flip Training and Resource Center:

connectedinvestors.com//learn/training/reallyflip-course

THE REALLY FLIP DOCUMENTARY SERIES



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We've posted a whole lot more on Fixing and Flipping Houses - whether you're doing it wholesale or retail. It's all at the Connected Investors blog.

connectedinvestors.com/blog/Articles/figure-it/