Multi-Family Investor Starter Guide

Full Circle Realty
Multifamily Sales & Management
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About Full Circle Realty

Deanna Hodges-Walker, the owner and founder of Full Circle Realty, began her career in real estate in 2004 as a Realtor. This is when her passion for real estate and real estate investing began. In 2010, she opened Full Circle Realty to help Chicago investors buy, sell, and manage their multifamily investment properties.

Full Circle Realty specializing in multifamily investment properties throughout Chicago. They provide a sharpened approach to each transaction giving investors exceptional service with a firsthand approach. Since inception (2010), they have closed many, many multifamily sales, and have established a presence in Chicago's market. Their experience and exclusive focus on multifamily investments affords them the intimate knowledge of who the active buyers are in the marketplace and what properties are currently available. By finding investors their ideal investment properties and managing them, The Full Circle Realty team really does take their investor clients "full circle" through the investment process. Their clients consistently describe them as committed and resourceful. Their experience with multifamily investments allows them to not only understand, but exceed their clients expectations, time and time again.

Knowing that many of their new clients come from referrals and word of mouth, Full Circle Realty's primary focus is to ensure that their client's experience is excellent. They take immense pride in their work and feel most fulfilled when they help their clients reach their investment goals.

Deanna and her team at Full Circle Realty enjoy working with clients wherever they're at in the investment process. Whether you're looking to purchase, sale or would like to enlist the help of dedicated property management professionals, Full Circle Realty will provide you with incomparable service and personal attention every step of the way.

Your Investment Goals, Are Our Investment Goals!

Services Offered

Locate Investment Property

With our extensive experience in multifamily investment properties, we know where and what to look for in properties to provide the best return on the investment. We can help you find an investment property that meets all of your investment criteria and guide you on the best route to take to reach your goals.

Sales

We believe that when it comes to multifamily real estate, knowledge is power. That’s why we provide the data and analytics you need. We understand the competitive market and real estate trends and will help you make the most profitable choices. Whether you are looking to purchase or sell, we can help you with all of your multi-family property needs.

Management

Maximize the ROI of Your Multifamily Asset

Discover the power of working with an elite multifamily property management team. Full Circle Realty’s complete array of services make it easy for investors to sit back and enjoy the income generated from their investment properties without ever having to worry. Our clients have greater peace of mind knowing that their properties are being taken care of "full circle" by Full Circle Realty’s superior team.

- Fair market rent determination
- Marketing to potential tenants
- Tenant screening
- Tenant support
- Evictions of unruly tenants when needed
- Collection of tenant’s rent and monitoring of late payments
- Completion of all appropriate housing contracts as well as rental inspections
- Supervision and management of building maintenance and upkeep
- Proper handling of rental agreement infractions and tenant complaints or concerns
- Property bookkeeping and development and maintenance of property logs

Chicago Rental Market
It's A Great Time To Invest!

Rental Demand In Chicago Is High And So Are Rents

What makes Chicago such a hot market for rental real estate? Over 50% of the population rents. The large population of renters means that rental income for properties is far better than you'd see if you invested elsewhere in the country. Schaumberg reported slowing sales simply due to tight supply according due to data from the Chicago Association of Realtors; this drives many people forming new households or moving into the area to rent at whatever the market will bear.

Job Growth Keeps People Coming

Chicago is not only home to a number of corporate headquarters; there has been a recent trend of companies moving their headquarters to Chicago as well. The steady increase in jobs has contributed to a slow but steady increase in rents. Many businesses are attracted by Chicago's labor pool, the largest in the nation. As these businesses move into the area and attract relocating professionals, many are forced to rent because they can't find houses fast enough in the areas they want to live or simply choose to rent upon relocation in one of the luxury apartments downtown.

There Are Many Opportunities in Chicago Multi-Family Housing

The workforce in Chicago is shifting from high paying but slow-to-no growth manufacturing jobs to lower paying and less stable retail, business services and healthcare jobs. This is causing many who would have been able to afford a middle class home to rent apartments instead. Crain's April real estate report stated that the hottest Chicago markets for condos and townhomes were Grand Boulevard, Kenwood and Lincoln Square.

In Chicago, arts and culture abound at top institutions like The Art Institute. Although the winters can test anyone's resolve, Chicago summers are among the best in the world, with things to do every weekend, outdoor festivals, and Lake Michigan at your doorstep. Chicago has an incredibly deep pool of potential renters at all levels of the market. A number of factors guarantee that they're not going to turn into new home buyers any time soon. Chicago real estate market is a prime market for investors who would like to buy where the ROI is going to be high and likely to improve over time.

Chicago Multifamily ROI
What To Expect

Chicago real estate has recently been rated as one of the most undervalued markets in the world. While over the years Chicago has lost a small portion of its population, the city's world-class skyline is cluttered with over 60 cranes atop new skyscrapers being erected. There is certainly a building boom taking place here, creating an incredible amount of commerce and positively affecting the real estate market. There has never been a better time to purchase real estate in the Windy City than right now!

With higher real estate prices and lower-than-average job and population growth, the Windy City may not seem like a "good" place to invest in real estate. That being said, it is one of the few cities in the nation where housing prices still haven't risen above their 2006 levels. When focusing on finding the highest capital growth and cash flow, you'll find some Chicago neighborhoods offer homes at $108,000-$130,000 with rents at 1.17% of the purchase price every month.

All of this is good news for investors looking for investment properties in Chicago. With tremendous monthly cash flow and steady appreciation - the future looks bright!

Multifamily Investments
Evaluating An Invesment Property

RETURN ON INVESTMENT

How do you know if you are getting a good return on your real estate investment? Calculating the return on investment (ROI) on your income property is critical to knowing how your investment is performing, or when comparing one investment to another.
In order to successfully decide whether a property is worth buying, an investor must run the numbers to calculate two types of returns: Cash-on-Cash Return on Investment, and Total Return on Investment.

Cash on Cash Return on Investment

The cash on cash (COC) return on investment is the before-tax cash flow (BTCF) divided by your initial cash investment. The formula looks like this:

Cash on Cash Return on Investment = BTCF / Initial Cash Investment

Your before-tax cash flow is calculated by subtracting your annual mortgage payment from your Net Operating Income (NOI). The net operating income is simply the property's total income minus its total operating expenses. (Note that mortgage payments are not part of operating expenses.)

Let's take a look at an example using a $150,000 income property purchased with a 20% down payment of $30,000 (excluding closing costs). Let's also assume your BTCF is $3,000 per year ($250 per month):

Cash on Cash ROI = $3,000 / $30,000 = 10.0%

Through the "magic" of leverage using mortgage financing to purchase your property, you have created a cash on cash return on investment of 10%. This is quite attractive to most investors in today's market.
The cash on cash ROI is a good measure of a property's first year financial performance. However, it does not include the additional benefits achieved through real estate such as the amortization of the mortgage and any future appreciation. The total return on investment addresses that.

Total Return on Investment

The total return on investment (TROI) provides a better and more complete measure of a property's financial performance. That's because it factors in amortization and appreciation gained over time.

Total ROI = (BTCF + Net Sales Proceeds – Initial Cash Investment) / Initial Cash Investment

In order to calculate the total return on investment, one must project the BTCF for each year of expected ownership as well as the net sales proceeds from the sale of the property.

Let's take our example above and assume that we plan to sell it in five years with an average annual appreciation rate of 4% per year. After five years our $150,000 property would be worth $182,498, and our mortgage balance would be $111,665 (down from our original 80% loan of $120,000).

Let's also assume that our selling expenses total 5% of the sales price, or $9,125.

Using the figures above, our net sales proceeds from the sale of the property in year five would be $61,708 ($182,498 – $111,665 – $9,125). Additionally, our before tax cash flow after five years would total $15,000 assuming no annual increase in rents or cash flow. Now our formula looks like this:

Total Return on Investment = ($15,000 + $61,708 – $30,000) / $30,000 = 156%

Note that some investors calculate their TROI using their after-tax cash flow (ATCF) instead of the BTCF. This can provide a deeper "bottom line" measure of the return on investment; however, it does not provide a good measure to compare one investment to another since tax liabilities will vary between individual investors. Calculating the TROI using ATCF is best suited for investor specific use.

By projecting a property's future cash flows and appreciation, you can calculate the potential gains on your initial cash invested (down payment). Assuming the property is not declining in value, the TROI should increase in each successive year.

However, total return on investment can be a little shortsighted when used in isolation. That's because the total return on investment does not measure the property's financial performance as it relates to its tax benefits, namely that of the ultimate tax deduction – depreciation!

OTHER IMPORTANT METRICS

Capitalization Rate

The Capitalization Rate (known as "Cap Rate") is used to compare an income property with other similar income properties. It can also be used to place a value on a property based on the income it generates. The Cap Rate is calculated by taking the property's net operating income (NOI) and dividing it by the property's fair market value (FMV). The higher the Cap Rate, the better the property's income and market value. The Cap Rate is calculated as follows:

Capitalization Rate = Net Operating Income / Market Value

The Cap Rate merely represents the projected return for one year as if the property was bought without financing ("all cash"). But since we don't normally buy property using all cash we would use other measures, such as the cash-on-cash return, to evaluate a property's financial performance.

Rent-to-Value Ratio

The Rent-to-Value (R/V) Ratio provides a quick measure of a property's cash-flow and income potential. It is conceptually similar to the Price-to-Earnings ratio used to determine whether common stocks are over- or under-valued. Our opinion is that an R/V ratio of 0.7% is a minimum with an ideal number closer to 1.0%. Obviously, the higher the better!

The R/V ratio is calculated by the dividing the gross monthly rental income into the current fair market value of the property. For example, a property that's worth $100,000 today and rents for $1,000 per month would have an R/V ratio of 1.0%.

We use the R/V ratio to quickly evaluate every single property we look at before we consider doing further due diligence on it. It is one of our many "rules of thumb" to quickly screen for potentially good properties.

Ready To Invest In or Sell A Multifamily Property?

We can help! Our goal is to help you generate, maintain, and increase the value and profitability of your Chicago multi-family investment properties. Whether you have or are looking for a large commercial building or a single-family rental home, Full Circle Realty can help.

Our boutique full service brokerage can help you from beginning to end, full circle. We assist our clients with their acquisitions, dispositions, and investment property management.

We have years of Chicago multifamily investment property experience and we would like to share that expertise with you. How can we help you reach your Chicago real estate investment goals? Remember, your goals are our goals. Give us a call today!

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