

# 5026 Plymouth Road

## A Case Study in Deal Analysis

**BWI Meetup**

**5/14/14**

**J Scott**



# About This Presentation

- Let's see where it goes...please participate!
- Why a Case Study?
- Pay attention to framework, not the details
- Contact me: **J@123FLIP.COM**, 770-906-6358
- Get the recording and download these slides:

<http://www.facebook.com/LearnRealEstateInvesting>

<http://www.123flip.com/Meetup.pdf>



# About J Scott Steinhorn

- Spent 15 years in corporate management before getting my priorities straight.
- Real estate investor with my wife since 2008; have built, rehabbed, flipped, rented, sold, consulted on, lent on and owner financed over 200 deals in 6 years.
- Spent 5 years in Atlanta; recently moved to Howard County.
- Owner of 123Flip.com, author of “The Book on Flipping Houses” and “The Book on Estimating Rehab Costs.”



# The Anatomy of a Flipping Business



\*\*\* We'll be focusing on this today...

# What We Will & Won't Be Covering

## Market Analysis

- Determining Farm Area
- Analyzing Farm Area

## Your Acquisition Team

- Real Estate Agent
- General Contractor

## Understanding Deal Types

- REOs
- Short Sale Strategies
- Probate/Trustee Sales
- Retail Strategies



## Analyzing Deals

## Marketing for Deals

- Direct Mail
- Purchasing Off the MLS
- Auctions
- Internet Marketing
- Advertising
- Bandit Signs
- Working w/Wholesalers

## The Foreclosure Process

## Property Criteria

## Talking to Sellers





# The Deal

Given:

- Address: 5026 Plymouth Road, Baltimore
- List Price: \$58,000



# Maximum Purchase Price

## SO, NOW WHAT?

The whole point of deal analysis is to determine:

## Maximum Purchase Price (MPP)

This is the most you can pay for this deal and still achieve your desired profit target.



# General Thoughts on MPP

- Every investor has their own “rules” for evaluating a deal and determining MPP
- A common rule is The 70% Rule:

$$\text{MPP} = (\text{ARV} * 70\%) - \text{Rehab Costs}$$

- I prefer something more detailed to help avoid potential losses





# My MPP Formula (“The Flip Formula”)

$$\text{MPP} = \text{ARV} - \text{Rehab Costs} - \text{Fixed Costs} - \text{Profit}$$

Where:

**ARV** is the conservative resale value

**Rehab Costs** are the costs to renovate

**Fixed Costs** are all other project costs

**Profit** is your desired profit on the deal



# Structuring the MPP Analysis

**MPP = ARV - Rehab Costs - Fixed Costs - Profit**



**\$?**



**\$?**



**\$?**



**\$?**

**MPP = \$?**



# ESTIMATING AFTER REPAIR VALUE (ARV)



# Methods for Estimating ARV

- Do it like an appraiser would
- Three approaches to analyze property value:
  1. Sales Comparable Method
  2. Income Method
  3. Replacement Cost Method
- For residential property, stick with Sales Comparison Method



# What Is Sales Comparison?

- Bases value on what “similar” properties in the “vicinity” have sold for “recently”
- Vicinity =  $\frac{1}{2}$  mile preferably (much smaller in urban areas/much larger in rural areas)
- Recently = Past 3 months preferably
- Similar = Age, Style, Size, Condition, etc





# Steps To Complete Comp Analysis

Goal is to create an apples-to-apples comparison:

1. Gather specs on “subject property” (your house)
2. Find at least 3 comps (similar, vicinity, recent)
3. Collect specs on comp properties
4. Adjust values of comp properties
5. Normalize your values and average

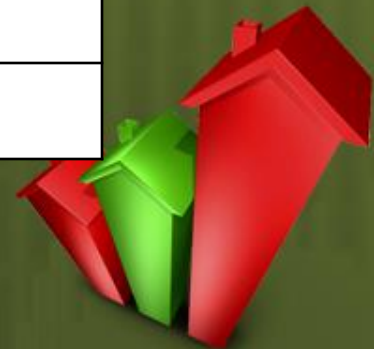
Let's look at an example...



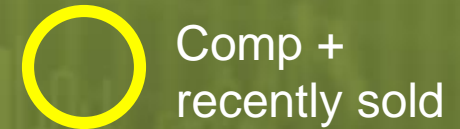
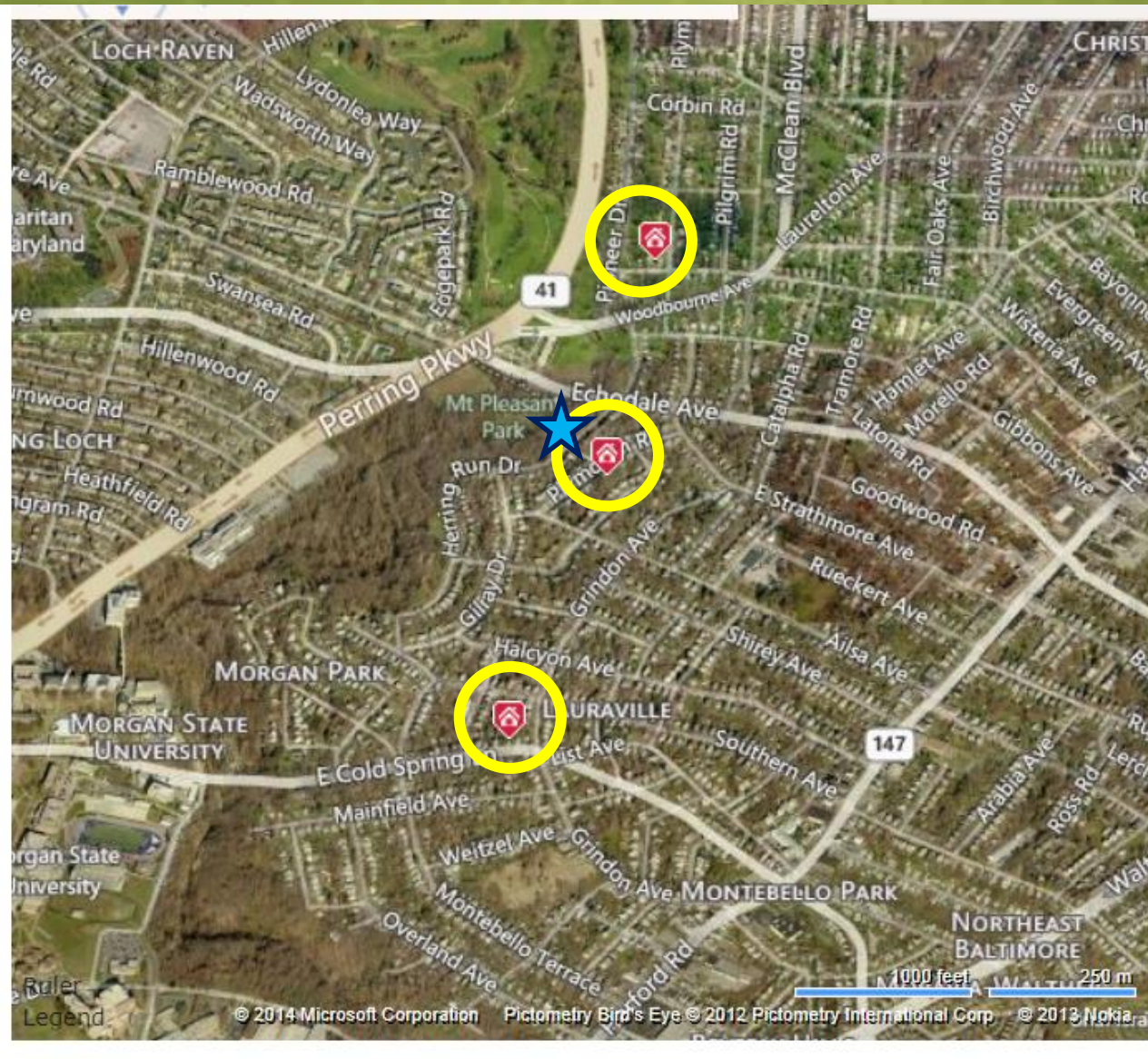
# Step 1: Specs on Subject Property

## Subject Property:

Age	62 Years
Condition	Excellent
Square Footage	1350 SF
Beds	3
Baths	2
Basement	Full, Finished
Parking	Street
Type	Attached



# Step 2: Find Comps





# Step 3: Specs on Comp Properties

## Comparable Properties:

	Comp 1	Comp 2	Comp 3
Age	60 Years	62 Years	91 Years
Condition	Excellent	Excellent	Good
SF (Finished)	1296 SF	1350 SF	1178 SF
Beds	3	3	3
Baths	1.5	2	2.5
Basement	Partially Finished	Full, Finished	Full, Unfinished
Parking	Street	Street	Street
Type	Attached	Attached	Detached



# Step 4: Adjust Comp Values

## Valuation Adjustments:

	Subject Property	Comp 1	Comp 2	Comp 3
Age	62 Years	SAME	SAME	- \$3000
Condition	Excellent	SAME	SAME	SAME
Square Footage	1350 SF	+ \$1500	SAME	+ \$3000
Beds	3	SAME	SAME	SAME
Baths	2	+ \$5000	SAME	- \$2000
Basement	Full, Finished	+ \$2000	SAME	+ \$5000
Parking	Street	SAME	SAME	SAME
Type	Attached	SAME	SAME	- \$15,000
<b>TOTAL ADJUSTMENTS:</b>		<b>+ \$8500</b>	<b>SAME</b>	<b>- \$12,000</b>



# Step 5: Normalize Values & Average

## Adjusted Values:

	Comp 1	Comp 2	Comp 3
SALE PRICE	\$135,000	\$142,700	\$159,900
ADJUSTMENTS	+ \$8500	+ \$0	- \$12,000
<b>ADJUSTED VALUE:</b>	<b>\$143,500</b>	<b>\$142,700</b>	<b>\$147,900</b>

**Low Value (ARV): \$142,700**

**Average Value (ARV): \$144,700**

**ARV  
Range**



# Plugging in the ARV

$$\text{MPP} = \text{ARV} - \text{Rehab Costs} - \text{Fixed Costs} - \text{Profit}$$



\$140,000



\$?



\$?



\$?

$$\text{MPP} = \$?$$



# ESTIMATING REHAB COSTS

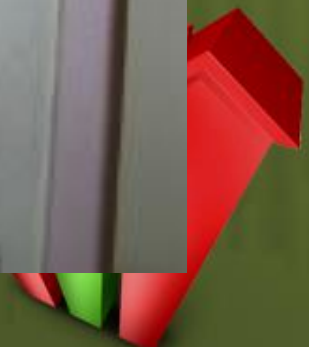


# Some Disclaimers

1. This is NOT a tutorial on estimating rehab costs
2. My methodologies below are MINE only...you're welcome to use them (obviously), but don't expect them to work in your situation
3. Do not use this as a benchmark for your prices -  
- Maryland is a new market for me, so it's possible that you guys are better at this than I am or are getting better prices!



# Some Pictures





# Pictures...



# Pictures...



# Pictures...



# Pictures...



# Pictures...





# Pictures...



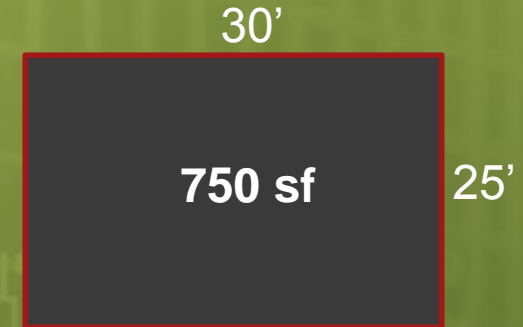
# Rehab Components

Exterior Components	Interior Components	General Components
1. Roof	11. Demo	22. Permits
2. Gutters/Soffit/Fascia	12. Plumbing	23. Mold
3. Siding	13. Electrical	24. Termites
4. Exterior Painting	14. HVAC	25. Miscellaneous
5. Decks/Porches	15. Framing	
6. Concrete	16. Insulation	
7. Garage	17. Sheetrock	
8. Landscaping	18. Carpentry	
9. Septic System	19. Interior Painting	
10. Foundation	20. Cabinets/Countertops	
	21. Flooring	



# Cost Estimation - Roof

- Start with footprint of the house:



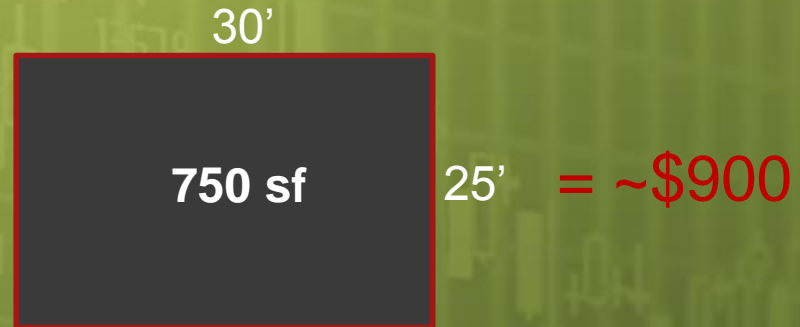
- X by 1.5 to account for pitch/waste: **1125 sf**
- Only doing half the roof: **562.5 sf (~6 squares)**
- Small roof (tear-off/replace) about \$250/square

ROOF ESTIMATE: **\$1500**



# Cost Estimation – Exterior Paint

- Start with \$1.25/sf of above grade building area:



- 50% Brick, so X by .5: **\$450**
- Always round up...

EXTERIOR PAINT ESTIMATE: **\$500**





# Cost Estimation – Landscaping

- For general lawn maintenance and some flower/curb appeal, I generally budget:

LANDSCAPING ESTIMATE: **\$500**





# Cost Estimation – Demo

- Can be difficult to estimate
- My crew of 3 charges: **\$500/Day**
- This is a full gut of the basement and full cosmetic gut of the main level, with removal of a lot of plaster, tile and old trash
- My estimate is 4 full days of work: **\$2000**
- (2) 30-Yard Dumpsters @ \$500/each: **\$1000**

DEMO ESTIMATE: **\$3000**



# Cost Estimation – Plumbing

- Many different ways to estimate electrical
- I like to approach it from several angles and see if they all converge to about the same number
- Replace supply: \$250/fixture (~fixtures): **\$2500**
- New supply/drain under slab: **\$2000**
- New tub/shower: **\$500**
- Fixtures/finishes: \$100/fixture (~4 fixtures): **\$400**

**PLUMBING ESTIMATE: \$5400**



# Cost Estimation – Electrical

- Many different ways to estimate electrical
- I like to approach it from several angles and see if they all converge to about the same number
- Upgrade service/panel: **\$1500**
- Rewire house: \$75/device (~50 devices): **\$3750**
- Fixtures/finishes: \$50/fixture (~10 fixtures): **\$500**
- Smoke/CO Detectors: **\$250**

**ELECTRICAL ESTIMATE: \$6000**



# Cost Estimation – Electrical

- Many different ways to estimate electrical
- I like to approach it from several angles and see if they all converge to about the same number
- Replace HVAC: \$1800/ton (2 ton): **\$3600**
- Run new ducts in basement (1 day): **\$500**
- Other work (1 day): **\$500**

HVAC ESTIMATE: **\$4600**





# Plumbing/Electrical/HVAC Sanity Check

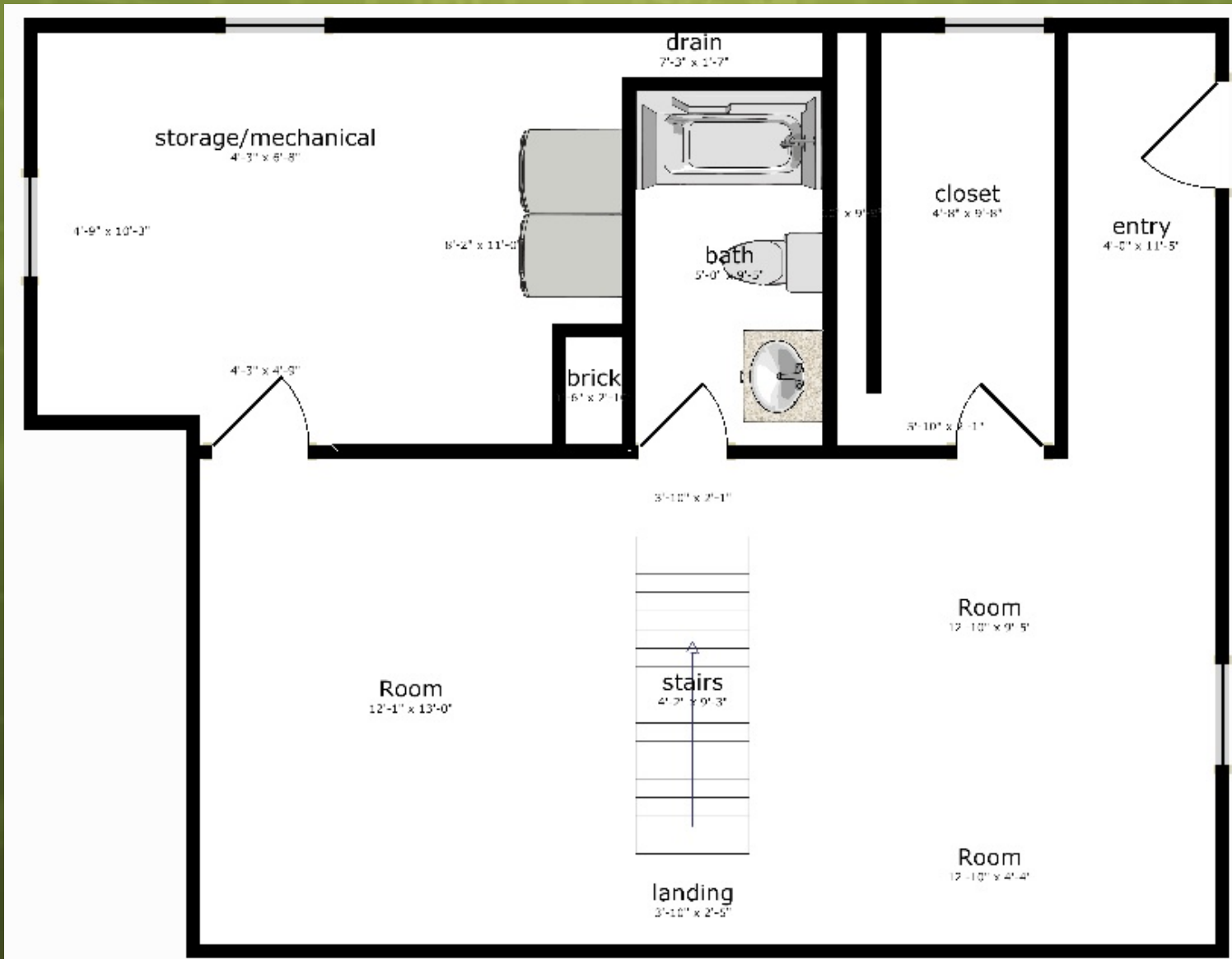
- For a typical 3/2 1500sf house
- Full gut electrical/plumbing/HVAC
- I typically expect to pay: **\$5000/each, or \$15,000**
- That's in Atlanta...this is Maryland
- Let's factor in an additional 20%: **\$18,000**
- This isn't a full gut...
- This is only about 80-90% replacement: **\$14-16K**

**Our \$16,000 estimate above falls into this range, so I'm comfortable...**





# Basement Layout



# Cost Estimation – Framing

- Frame basement: ~150 linear feet
- General framing: \$15 per LF: **\$2250**

FRAMING ESTIMATE: **\$2300**



# Cost Estimation –Insulation

- Insulation needed along 40' of wall
- With studs 16" on-center, that's about 30 cavities
- Each cavity is 8' tall
- 8' x 30 Cavities = 240 LF
- R-21 Insulation (small job): \$2.00 LF: ~\$480

INSULATION ESTIMATE: \$500



# Cost Estimation – Sheetrock

- New sheetrock throughout house: ~1600 SF
- Sheetrock is 8' x 4' = 32 SF: Total of ~50 Sheets
- Cost per sheet: \$40/sheet: **\$2000**
- Plaster repair throughout house: Significant
- Estimate at 3 days work for crew of 3 guys
- \$450/day + Materials: \$1350 + Materials (**\$1500**)

**SHEETROCK ESTIMATE: \$3500**



# Cost Estimation – Carpentry

- Doors & Trim

- Doors:

Type	Qty	Labor/Dr	Material/Dr	Total
Exterior	3	\$150	\$200	\$1050
Interior	8	\$50	\$70	\$960

Door Total: **\$2000**

- Trim: ~\$1/sf of finished area for very basic trim
- ~1500 sf of finished area: **\$1500**

CARPENTRY ESTIMATE: **\$3500**





# Cost Estimation – Interior Paint

- \$1.25/sf: 1500 sf: **\$2250**

**SHEETROCK ESTIMATE: \$2300**



# Cost Estimation – Cabinets/Countertops

- Cabinets:
- Kitchen - 15 LF of cabinets: \$200/LF: **\$3000**
- Bathroom – 2 Vanities: \$200 Each: **\$400**
  
- Countertops:
- 25 square feet of granite: \$40/SF: **\$1000**

CAB/COUNTER ESTIMATE: **\$4400**



# Cost Estimation – Flooring

- Refinish Hardwood: 700 sf: \$2.25/sf: **\$1575**
- Install Carpet/Pad: 700 sf: \$2/sf: **\$1400**
- Install Tile: 120 sf: \$8/sf: **\$960**

**FLOORING ESTIMATE: \$4000**



# Cost Estimation – Permits

PERMITS ESTIMATE: **\$500**



# Cost Estimation – Misc

- Lead Inspection: **\$400**
- Lead Remediation: **\$1000**
- Appliances: **\$2000**
- Cleaning: **\$200**
- Punch List: **\$1000**

**MISC ESTIMATE: \$4600**





# Rehab Costs

BUDGET ESTIMATE	
COMPONENT	ESTIMATE
Roof	\$ 1,500.00
Exterior Paint	\$ 500.00
Landscaping	\$ 500.00
Demo	\$ 3,000.00
Plumbing	\$ 5,400.00
Electrical	\$ 6,000.00
HVAC	\$ 4,600.00
Framing	\$ 2,300.00
Insulation	\$ 500.00
Sheetrock	\$ 3,500.00
Carpentry	\$ 3,500.00
Interior Painting	\$ 2,300.00
Cabinets/Countertops	\$ 4,400.00
Flooring	\$ 4,000.00
Permits	\$ 500.00
Misc	\$ 4,600.00
	\$ 47,100.00



# Plugging in the Rehab Costs

**MPP = ARV - Rehab Costs - Fixed Costs - Profit**



**\$140,000**



**\$48,000**



**\$?**



**\$?**

**MPP = \$?**



# ESTIMATING FIXED COSTS



# Categories of Fixed Costs

## ➤ Purchase Costs

- Inspection Costs
- Closing Costs
- Transfer Fees
- Lender Fees
- Wholesaler Fees

## ➤ Selling Costs

- Commissions
- Closing Costs
- Concessions
- Transfer Fees
- Home Warranty

## ➤ Holding Costs

- Mortgage Payments
- Property Taxes
- Utilities
- Insurance
- Lawn Care/Snow Removal



# Fixed Costs on this Project

<b>PURCHASE COSTS:</b>	
Closing Costs	\$1,500.00
Transfer Fees	\$1,500.00
Wholesaling Fees	\$3,000.00
<b>Total:</b>	<b>\$6,000.00</b>
<b>HOLDING COSTS:</b>	
Property Taxes	\$1,500.00
Utilities	\$900.00
Insurance	\$600.00
<b>Total:</b>	<b>\$3,000.00</b>
<b>SELLING COSTS</b>	
Commission To Buyer's Agent	\$3,500.00
Buyer Closing Costs/Concessions	\$4,200.00
Selling Closing Costs	\$500.00
Transfer Fees	\$2,000.00
Home Warranty	\$400.00
Realtor Fees	\$400.00
<b>Total:</b>	<b>\$11,000.00</b>
<b>PROFIT:</b>	<b>\$20,000.00</b>





# Plugging in the Fixed Costs

$$\text{MPP} = \text{ARV} - \text{Rehab Costs} - \text{Fixed Costs} - \text{Profit}$$



\$140,000



\$48,000



\$20,000



\$?

$$\text{MPP} = \$?$$



# ESTIMATING DESIRED PROFIT



# How Much Profit?

- Profit Trade-Off:
  - Too much, unlikely you'll get the deal at your MPP
  - Too little, introduces risk and lowers your income
- Most investors tend towards 10-20% of resale price, with a minimum \$\$\$ target
- My Criteria: 15% of ARV, \$15K Minimum

**ARV = \$140,000**

**15% of \$140,000 = \$21,000**



# Plugging in the Profit

**MPP = ARV - Rehab Costs - Fixed Costs - Profit**



**\$140,000**



**\$48,000**



**\$20,000**



**\$21,000**

**MPP = \$?**



# PUTTING IT ALL TOGETHER





# Putting It All Together

$$\text{MPP} = \text{ARV} - \text{Rehab Costs} - \text{Fixed Costs} - \text{Profit}$$



\$140,000



\$48,000



\$20,000



\$21,000

$$\text{MPP} = \$51,000$$



# EXTRA: THE REHAB



# Managing Your Contractors

1. Cover yourself with contracts and paperwork.
2. Always check references before you hire.
3. Never pay ahead of the work completed.
4. Get a schedule before the work starts.
5. Visit the job site often.
6. At the first sign of trouble, get rid of a him.

