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Financial analysis is key for investment prop. sales

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The last time the federal reserve raised interest rates was June 29, 2006, prior to then, they raised interest rates seventeen times in a row. Because of these rate increases, investors now look closer at the numbers before making a purchase decision.

Presenting a financial analysis on properties will give your client the necessary information to make an informed decision. The analysis should include the following:

* Dividend equity rate (cash on cash return) is a percentage measuring the return on the cash invested in an income producing property. It is calculated by dividing the before-tax cash flow by the down payment. The resulting percentage appeals to each investor differently; however, anything over 12% deserves attention.

* Debt coverage ratio is a ratio that measures the ability of an income producing property to cover monthly mortgage payments. The debt coverage ratio is calculated by dividing the net operating income by the annual debt service. The higher the ratio the better; however, anything above 1.2 is usually acceptable by most lending institutions.

* Capitalization rate is a ratio used to estimate the value of income property. The capitalization rate is the net operating income divided by the property value. The capitalization rate is also useful in determining an investor's return on investment.

* Cash flow break-even measures what occupancy rate is required on an annual basis to break-even from a cash flow standpoint. Cash flow break-even is the total expenses plus the annual debt service divided by gross income. The lower the percentage, the better, however, 80% or less is very acceptable.

* Operating expense ratio is the operating expenses divided by the estimated gross income. The resulting percentage measures the cash available to pay debt service and any unexpected expenses that may arise. Usually any percentage less than 60% is acceptable.

* Discounted cash flows (net present value) is a valuable, yet, seldom used analytical tool. This method of financial analysis discounts anticipated future cash flows from the investment to the present, thereby, estimating how attractive the investment appears. A positive discounted cash flow indicates the investment meets an investor's expectation, and the larger the net present value, the better the investment.

Realtors that offer financial statements accompanied by comprehensive financial analysis will set themselves apart from other agents in the eyes of an investor. Providing this information, especially discounted cash flows, makes the decision to purchase a property or walk away, easier. For more information on financial analysis contact a realtor.

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