

Why Use An Analytical Investment Tool

Because it's an extremely smart thing to do. Most institutional and private real estate investors use a highly customized **Excel-based** financial model to evaluate potential apartment acquisitions. It is the backbone of the industry. Many of these successful companies have spent thousands of dollars to develop proprietary and complicated spreadsheets to deliver the financial metrics necessary to make smart investment decisions.

Why do they do it? As the saying goes, a fool and his money are soon parted. No where is this more true than in real estate investment. It is critical that any real estate investor own an analytical tool to evaluate an income-producing investment property. To not have one puts you at a **significant competitive disadvantage** when purchasing real estate and places you at risk of losing your entire investment. In fact, that investor might as well travel to Las Vegas and gamble their money.

Buying an investment property does not come cheap. It will require significant time and equity and could be the largest purchase an investor ever makes. Placed in that context, spending a few hundred dollars for a proper real estate analytical investment tool **will help you protect your equity**.

Consider that for all real estate transactions an investor must spend money for lender 3rd party reports. For many apartment transactions with a loan more than \$3 million the costs can run upwards of \$20,000 per property. These reports consist of:

- **Appraisal** – to correctly value the property and its operations
- **Physical Needs Assessment** – to evaluate the condition of the property
- **Environmental Study** – to test for radon/mold/lead based paint/asbestos and other environmental hazards
- **Pest/termite report** – to protect the asset in case of infestation

In addition, there is additional lender due diligence, and countless other pieces of information regarding the borrower, the property, and the market that must be submitted. The lender is not doing this to protect your investment; **the lender does this to protect its loan!** Think about that, the lender will spend thousands of dollars of **your money** to protect itself – is it not prudent to spend hundreds of dollars to protect your investment?

For those who are considering building an analytical investment tool, consider the following:

- **Knowledge** – to build a financial model correctly you must know: (a) the financial formulas to use, (b) how these real estate investments are operated, (c) how these investments are financed and (d) how to model cash flows.
- **Time** – you could learn to do all of this. Before you do, ask yourself if you have the knowledge to do it or, more importantly, the massive amount of time to invest to get it right.
- **Risk** – the biggest risk is having insufficient information at your disposal to make a decision. What if you forget a key metric? Or, worse, the metric had the incorrect formula concealing the true risks and rewards.

A proper analytical investment tool should be easy to use and understand. It must provide all of the investment metrics an investor could possibly need to make a purchasing decision. It should allow assumptions to be made and illustrate the true costs of ownership. **Relying on information from a sales broker or a “back of the envelope” analysis is rolling the dice with your equity.**

A financial model does not need to have pictures or fancy reports. As far as we know, no sophisticated investor ever bought a property based upon a picture. They all have bought based upon solid economics and property fundamentals. Investment metrics provide the buy signals and money pays the mortgage - not a photograph!

We wish you the best of luck in all your current and future multifamily investment endeavors!

To your success,
Apartment Analytics Software Team