Metrics for Investment Property Evaluation – Cash Flow!

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This is a continuation of my series on best practice for success in residential property management. This one applies to one of several metrics for evaluating investment properties, cash flow. In future blogs, I will discuss cash on cash return and gross rent multiplier all of which are important metrics to consider. See my past blog on cap rate at ranchopropertyworks.com in the More tab under PR and Blog.

Cash flow is the cash left over after all capital expensed have been paid. The formula is Gross Income – Property Expenses = Cash flow. Gross income is rental income and other property income like parking, laundry if available, etc. Property expenses consist of management fees, maintenance, mortgage payments, etc. The more accurate date you have the more accurate your cash flow results will be. Regarding income make sure you include actual rents as market rents which are often not realistic. You can also look at adding property income streams like covered parking, laundry income, utilities, etc. given the property supports doing so. There can be hidden expenses so again make sure you use actual expense numbers. For example, if you self-manage your own properties you can save on Management Fees. Maintenance and repairs can change quickly so one needs to understand property condition and be able to account for large expense items like hot water heaters, HVAC replacement, etc. Do not forget that you must shop for rental property insurance and that property taxes will likely increase post your purchase. If you are looking purchasing an investment property, I recommend doing both a current and future cash flow analysis. This will help you understand the current cash flow as well as what it might be post your purchase and changes in the income and expenses. For me <u>cash flow is the most important metric for property evaluation as you can use it to compare different types of properties and it gets to all investor owner goals of cash / profits on a monthly and annual basis.</u>

Here is an example! I have an investment property, a 3 plex that generates $30k in Gross income annually. Expenses are about $5k for maintenance and 2k for owner paid utilities and I self-manage so no management fees. Taxes are 4k a year and insurance is 1k a year for an expense total of $12k. Using the formula above 30k – 12k = 18k positive cash flow a year or 1.5k a month profit to me. Pretty easy to understand right?? <u>Make sure you always use cash flow as your most important metric for property evaluation.</u>

If you, your friends, or family need a professional Property Manager / Realtor® that knows how to evaluate investment properties, please contact me.