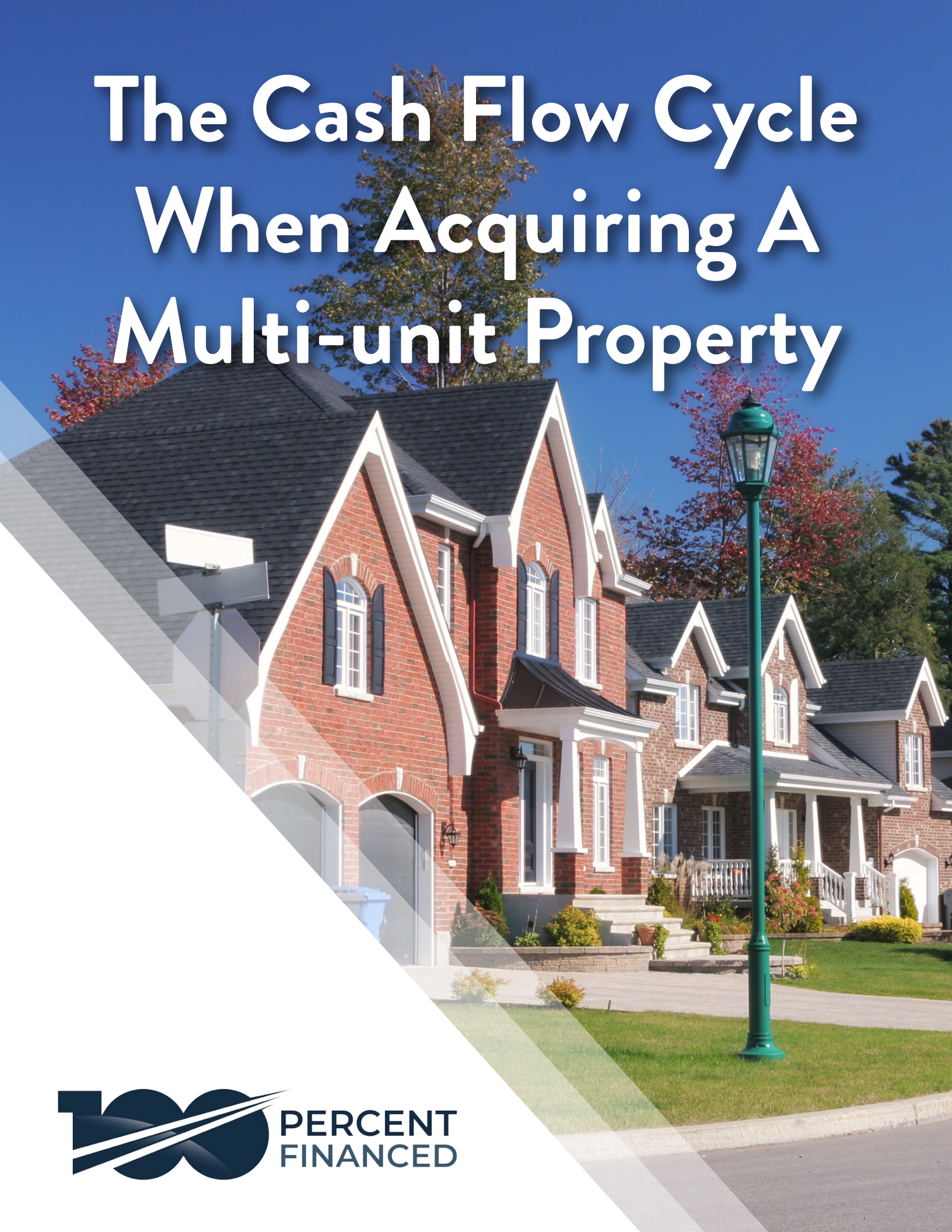
The Cash Flow Cycle When Acquiring A Multi-unit Property



100 PERCENT FINANCED

THE CASH FLOW CYCLE WHEN ACQUIRING A MULTI-UNIT PROPERTY

In the world of real estate investing, there is one element that seems to manifest at every level; cash flow. And even though 100 Percent Financed boasts several publications detailing the importance of cash flow to real estate investors; today, we take an in-depth look at the cash flow cycle. We will provide an insightful breakdown of our company's process when acquiring cash flowing multi-unit property, and discuss the various phases of the cash flow cycle.

Cash Flow Cycle

Let's face it; commercial real estate investing requires an in-depth understanding of various aspects for you to be successful. It is for this reason that 100 Percent Financed creates defined structures that investors can follow to avoid running into problems in the intricate commercial real estate industry. A perfect example is the cash flow cycle, which is what changed our CEO Juan Pablo's life from being a broke frustrated chump living on paycheck to paycheck, to becoming a true real estate entrepreneur. There are four phases to the cash flow cycle, and they include:

I. Find the money

II. Find the deal

III. Perform due diligence

IV. Close the deal

PHASE ONE: FIND THE MONEY

The first phase of cash flow life cycle is predicated on YOU! Before you reach out to deal finders seeking to invest, make sure that you have secured enough capital. This not only speaks to your credibility and confidence as an investor but also helps you to find targeted deals that align with your budget.

Ways of Raising Money

1. Applying for business credit

If you are planning to invest in multi-rental properties, business credits that are offered after every six months can come in handy. And although business credit provides you with revolving access to capital that can cover between 10% - 20% of your future deals, there is a chance that your application may not get approved owing to your credit history. But you don't have to worry, 100 Percent Financed provides you with a free consultation on how to work on your credit history so that you can qualify and receive business credit.

2. Apply for Commercial Mortgage

Since commercial mortgages don't have stringent requirements on their underwritings, there are ideal sources of capital to finance you multi-unit real estate deal. They can cover up to 80% of the purchase price.

3. Negotiate Seller Financing

Seller financing is a loan that the seller of the property gives to a new investor to cover all or part of the total purchasing price and can also help investors accrue cash for other investment deals. Seller financing is optional and can cover a max of 10% of the purchase price for multifamily deals only. Keep in mind, not every lender accepts seller financing. Finding the money can also include the client's savings, retirement accounts, partners, private lenders, etc and not just business credit.

PHASE TWO: FIND THE DEAL

After showcasing your financial capability, the second thing is to look for a great deal. Finding a great deal involves;

1) Building Strong Relationships

As much as real estate is a game of numbers, it is also a people-based game. Therefore, if you want to get the best deal in the market, you need to build rapport with various stakeholders such as listing agents.

2) Showcase the 3 Ms (Money, Model, and Market)

Just as we discussed in Phase One, investors need to show their financial commitment to find a great deal. Conversely, they also need to paint a transparent model of precisely what they need to invest in. For example, an investor can say that they are looking for 10-15 unit, 10 cap rate, 25k per door, maybe a 15% cash on cash return. Lastly, investors need to point out the kind of market they are looking to invest in. Is it the city or rural area, high income or low-income setting, or any other place?

3) Apply the 1% rule

Now that you have plenty of deals in your funnel, you need to sort them out using the 1% rule so that you remain with the best. It indicates that the monthly rent should be equal or greater than 1% of the purchase price i.e., if you have five units for $100,000, the monthly rent should not be less than $1000.

4) Place your deals into the deal analyzer

At 100 Percent Financed, we help you analyze a deal using three criterions;

- **Cash flow**
- **Cash on cash return**
- **Built-in equity**

We aim to provide our clients with deals that offer at least $100 per door cash flow, 15% annual cash on cash return, and also help you negotiate properties with built-in equity.

5) Send offers and negotiate through the Letter of Intent (LOI)

From the word go, your LOI should indicate the path you are going to take in the negotiations.

6) Draft a purchase and sale agreement, and make sure that everything has been written down.

PHASE THREE: PERFORMING DUE DILIGENCE

Great deals don't just come by; you need to scrutinize and comb every document that comes your way to avoid pitfalls. Although the due diligence phase is the most meticulous and time-consuming of the four, it is very crucial. There two types of due diligence; financial and physical due diligence.

Financial Due Diligence

Financial Due diligence involves things such as:

I. Checking the listing (revenue)

Look at the numbers in the documentation and compare them to the rent roll. You can go a mile further and call the tenants to make sure they live there.

II. Checking the Expenses

As an investor, you need to verify insurance, taxes, management fees, utility bills and other expenses listed in the financial documents.

Physical Due Diligence

This involves the physical inspection of the property, to ensure that it is up to the standards as described by the owner. A certified property inspector should do physical due diligence because unlike you; they have the experience and skill to know what needs repair, whether it is the roof, walls, crawl spaces, and the basement.

PHASE FOUR: CLOSING THE DEAL

Now that everything is set, the fourth and final phase is to close the deal. Smart real estate investors always aim to close within the first week of the month. Closing on the 1st week of the month means that the few days you had not closed deal are credited to the seller, while the rest of the days in that month are credited to you. This means that you get to bring less money for the down payment.

Be vigilant and smart if you want to be a top-class real estate investor. Hire a property management company to help you manage a property unless you have the skills to do it. Scour through the cash flow reports to get a clear understanding of the revenues, income, and expenses, as well as the state of the property and the repairs it needs.

Now that you have a clear and comprehensive understanding of the cash flow cycle, all you need is to perfect it with repetition.

Do you want to learn more about the 100 Percent Financed Multi-Unit Income Training? Visit us at *100percentfinanced.com* and book a consultation.