Advanced Property Analysis
Residential – Commercial – Industrial – Retail

Frequently Asked Questions

Table of Contents

General FAQs

How long will it take to perform a real property investment financial projection?

The initial analysis can be completed in as little as 10-20 minutes. Subsequent "what-if" scenarios can be completed as fast as 1-2 minutes.

Will I be able to see detailed spreadsheets in my report?

Yes, the Advanced Report provides full, detailed spreadsheet calculations. The free Traditional report does not provide spreadsheets, but it still provides a full graphic displays.

Are most real estate investments good investments?

It really depends. Some are; some are not.

What do I do if my property is performing poorly?

Your first response should be to double check the numbers to make sure the calculations are correct. Next, make some efforts to improve the investment performance of the property through rent increases, or expense reductions, and/or a mortgage refinance to a lower rate. Finally, if you cannot improve the property's performance consider selling the property and reinvesting in other properties or investing in marketable securities.

Can I purchase an annual subscription?

Yes. The annual subscription is $100. This is a 20% discount. If there is a chance that you may need to perform a number of client reports, the annual subscription may be right for you.

How accurate are these projections in forecasting how the property will perform?

This program, like any financial projection or plan, is only a tool. No financial planning program can predict the future, and this is no different. If the property performs exactly as projected, then the plan will be an accurate measure. However, the property will probably deviate from these performance projections, therefore, this analysis will have its limitations. This is an important tool to help investors understand potential risks and returns.

How do I use a variable rate mortgage in this projection?

This financial model does not accommodate variable rate mortgages. If you would like us to custom design a model to do that, please contact us with this request.

I am analyzing my existing property. I already have a mortgage on the property. How do I put this into an analysis of my existing property?

For the Loan Amount, enter the current remaining balance due on the loan. For the Loan Interest Rate, enter the annual interest rate. For the Loan Term (Years), enter the number or years remaining on the loan (for example 13.5 years).

I want to purchase a property that requires some upfront rehabilitation work. How do I factor that into my APA analysis?

There are two options that enable you to account for upfront rehabilitation work. One option is to add your expected rehabilitation costs into the "Purchase Price" input field. The other option is to add the rehab costs into the "Total Escrow and Closing Costs" input field. This will ensure that these one-time costs are not repeated in subsequent years.

I want to purchase a property that has some deferred maintenance and will require ongoing maintenance expenses. How do I factor that into my APA analysis?

If these on-going maintenance expenses will be repeated year-over-year, you can factor that into your analysis by adding your expected deferred maintenance expenses into the Other Expense field in the APA input fields. If these expenses are one-time costs and not on-going expenses, treat these expenses like you would rehabilitation costs. See the upfront rehab FAQ.

What are some of the risks that affect real estate investments?

Some of the risk factors affecting real estate investments include: Liquidity, political, interest rate, tenancy, liability, legal, vacancy, property damage, earthquake, fire, flood, natural disaster, weather, inflation/deflation, foreclosure, pest, environmental, and many more.

FAQs for Advisors

If you are an advisor, please read the General FAQs first. Many of your questions will be addressed there.

Does my client know the investment returns on their real estate investments?

Probably not. Ask your client if they track the percentage returns on their property investments. If your client knows the Return on Investment (ROI) or Internal Rate of Return (IRR), then they will give you a definitive answer such as “9%”, “last year it was 7.5%”, “my 5 year return is 17%” or something specific like this. If your client gives you a general answer such as “about 10%”, “around 12%”, “it’s really good”, “excellent”, or something like that, then they probably do not know actual how the property actually performs. That happens a lot. Most real estate investors don’t know how their properties actually perform. This is an excellent opportunity to add value to your client relationships by helping them really understand their property investments.

How long do client meetings take?

This is hard to answer. It depends on the client. The initial meeting can take 15 to 30 minutes to review the report the first time. Subsequent reports and reviews of “what-if” scenarios can take just minutes.

Are most real estate investments good investments?

It really depends. Some are, some are not. You will be surprised at how many of your client’s properties perform poorly.

What do I do if the property is performing well?

Congratulate your client. Remember that real estate is just one more asset class, and it serves as a great diversification tool for your client’s assets.

What do I do if the property is performing poorly?

You probably don’t have to do anything. The clients’ first response to your revelation will be mild disbelief, and he will double check the numbers to make sure the calculations are correct. This is normal. Next, the client will make some efforts to improve the investment performance of the property. This will be shown in actions to increase the rents (income) or lower the expenses, and/or refinance the mortgage to a lower rate. Finally, if the client cannot improve the property’s performance he will consider selling the property and reinvesting in other properties or investing in marketable securities.

Can I pay for this service on a month-to-month basis?

Yes. We realize that real estate financial planning may be a small, ancillary part of your practice. Simply sign up for the service, and keep it active as long as you want. Once you decide to suspend the service select De-active and we will stop billing your credit card. When you are ready to resume your planning services, simply log in and re-active the services.

Should I assist my client with other real estate services?

You should only assist with other real estate services if you are a real estate licensee or a fiduciary. Furthermore, unless you are really involved in the real estate business, you should refer your clients to an experienced, local real estate professional. We advise against “dabbling” in real estate. The liabilities are too great.

Where do I find information about rents, property taxes, and other real estate expenses?

You don’t. Ask your clients to provide you with the information input into the analysis. Your client can get that information from his tax returns, mortgage statements, property management statements, etc. It is always best to use the client’s information because that tells him how that property is performing.

My client’s property performs poorly, but he refuses to sell. What do I do?

There really is nothing you can do. Some investors have emotional attachments to real estate investments. Most securities investors do not get emotionally attached to their securities, so this may be a new experience for a financial advisor. Periodically revisit the real estate investment performance issues and wait until the client is ready to revisit the subject.

Can I up-load my logo or business information into the report.

Yes. Using our Premium Membership, reports can be personalized. Your business logo, photograph, and business contact information will be included on the report cover page of the Advanced Report. This feature is not available in our free membership.

How do I help my client with rental income projections?

Rent projections should only be provided to clients by real estate brokers, property managers, or a small group of others familiar with the local markets. Rents are highly sensitive to location, unit size, unit amenities, unit configuration, general condition, building amenities, building age, neighborhood, and other issues. Financial advisors, CPAs, attorneys, fiduciaries, and others whose primary business is not real estate should not offer this information to clients. The client should research this issue and bring the advisor the actual rents or rent projections appropriate for their own property. If the advisor is a fiduciary, then the fiduciary should consult a real estate broker or a local property manager for assistance with this question.

What do I do if the client or their spouse has an emotional connection to the property? The client said, "It has been in the family forever."

This is an emotional argument, and not a rational reason to keep an investment. Usually, rational arguments will not work. Your be more successful persuading the client to sell a property if you make an emotional connection of some kind.

How accurate are these projections in forecasting how the property will perform?

This program, like any financial projection or plan, is only a tool. No financial planning program can predict the future, and this is no different. If the property performs exactly as projected, then the plan will be an accurate measure. However, the property will probably deviate from these performance projections, therefore, this analysis will have its limitations. This is an important tool to help investors understand potential risks and returns.

How do I help my client with expense forecasting?

Expense projections should only be provided to clients by real estate brokers, property managers, or a small group of other advisors familiar with the local market. Expenses are highly sensitive to city, state, weather, location, tenancy issues, tenancy laws, unit size, unit amenities, unit configuration, general condition, building amenities, building age, utility rates, property tax rates, neighborhood, and other issues. Financial advisors, CPAs, attorneys, fiduciaries, and others whose primary business is not real estate should not offer this information to clients. The client should research this issue and bring the advisor the actual expenses or expense projections appropriate for their own property. If the advisor is a fiduciary, then the fiduciary should consult a real estate broker or a local property manager for assistance with this question.

How long does it take to use this program?

This program is simple to use, but powerful and helpful. Here is a summary of the timing for each component of the process:

Property Information Input:	1-5 minutes
Traditional Investment Analysis:	1 minute
Advanced Investment Analysis:	2-4 minutes
Initial Report Presentation Review:	10-45 minutes
Subsequent Report Presentation Review:	1-10 minutes
Client Presentation:	15-40 minutes
Subsequent Client Presentations:	1-10 minutes

The advisor has no idea how to analyze the property as an investment.

Real Estate Financial Plan (REFP) does the analysis for the advisor. We provide a complete "plain English" analysis which is easily understood by both advisors and investors.

The advisor is not comfortable comparing real estate investment returns against securities investment returns.

This is an unfounded concern. Financial Advisors compare different investment returns all the time. Most client portfolios contain assets that are affected by many different types of risks. U.S. Stocks, U.S. Treasury Bonds, Foreign Stocks, Emerging Market Stocks, Corporate Bonds, Foreign Bonds, and many other asset types all have different risk factors, yet those returns regularly compared. Assets either perform or they do not. Real estate is illiquid, and that usually means the investment time horizons for real estate may be longer than time horizons for securities. Nevertheless, the asset still needs to perform.

Neither the advisor nor the client knows how well (or poorly) the investment is really performing.

This is bad, but all too common. This gives the advisor a tremendous opportunity to add value to the client relationship. If the advisor can become more than just an investment advisor or real estate broker or property manager, the advisor/client relationship becomes broader, more important, and more valuable.

What does the advisor do if the property is performing poorly?

The advisor does nothing, unless you are the property manager. If the property has a low rate of return, then the client or property manager might want to work on improving the property's income, cash-flows and performance. Furthermore, if the advisor is a property manager, the property manager may want to run an analysis proactively and recommend possible changes to improve the property's investment performance.

What does the advisor do if the property performance cannot be improved?

If the property's investment performance cannot be improved, the client will probably want to sell the property and replace it with a better investment. The replacement investment might be another property or it might be securities.

The client believes the property is performing better than it is, and the client tells the advisor the property is performing better than it is.

This happens all the time. Investors calculate investment performance in their heads by taking its current market value and subtracting what they paid for it. The difference (in their mind) is profit and gain. This is obviously the wrong way to calculate returns. Some investors conveniently forget property taxes, insurance, repairs, utilities, carpet, paint, unpaid rent, etc. A serious investor runs a serious investment analysis to make sure his money, assets, and profits are maximized. You can help them do just that.

The client forgets all the years when the property market value declined and only remembers the recent years when the property appreciated in value.

This is very common. The only way to accurately analyze the investment is to perform a comprehensive analysis.

The client overstates the property's increase in value (market appreciation).

This is common. This happens in two ways: The investor understates his purchase price and overstates the net selling profit.

Property owners understate the actual price paid for a property when they "remember" the contract purchase price but fail to add closing costs to the purchase price. The only way to accurately calculate the acquisition cost is to add all of the purchase expenses from the purchase transaction. This includes the contract purchase price, inspection costs, loan fees, appraisal fees, legal fees, escrow costs, etc.

The next mistake investors make is to overstate the selling price. Here the investor may overstate the possible selling price or he may fail to subtract closing costs, commissions, etc. from the contract selling price.

By understating the acquisition price and overstating the sale proceeds, the profit and gain from the sale are inflated.

What is a 1031 Exchange?

This refers to a real estate transaction covered under the IRS Code Section 1031 Tax Deferred Exchange. Real estate 1031 exchanges are very complex, tax-efficient transactions because an "exchange" will defer the taxes on the sale/exchange of the property until a later time; and it may even defer the taxes forever under the right circumstances. Consulting with the client regarding an exchange is outside the parameters of the advisor's expertise, and the client should always be referred to an appropriate real estate broker, attorney, tax advisor, and/or accountant for this level of discussion. Most advisors will not be expected to consult at this level.

The advisor has no idea how to calculate the Return on Investment (ROI), Return on Equity (ROE), Internal Rate of Return (IRR) or some other metric.

Don't worry. We've got it handled. REFP uses all the major real estate investment analysis tools. This includes common tools like Cap Rate and Gross Rent Multiplier as well as more sophisticated tools like Return on Investment (ROI), Internal Rate of Return (IRR), and Return on Equity (ROE).

Below each chart in the report is a "plain English" description of the terms on that page of the report, the calculation methods used, the importance of the chart measurements, and, if appropriate, a guide to help the client and the advisor know whether the result is good, bad, or somewhere in between.

FAQs for Financial Advisors

If you are an IAR, RIA, CFP, Registered Representative, or other financial advisor, please read the General FAQs and the Advisor FAQs first. Many of your questions will be addressed there.

Do I need my broker/dealer's approval to use this program?

That depends on your broker/dealer. If we are not already on your approved list of financial planning programs, contact us and we'll work with your compliance department to get the program approved.

I have no experience with real estate investments. Can I still provide this consulting service confidently?

Yes. Our reports are very detailed and almost every page explains the graph(s) displayed on that page. The explanations are in plain English, and your clients may not even need you to walk them through the reports.

Can I put my RIA's or broker/dealer's disclaimer language into this report?

Yes. You can add any special documentation to the report that you need.

What do I do if the property is performing well?

Congratulate your client. Remember that real estate is just one more asset class, and it serves as a great diversification tool for your client's assets.

What is the correlation between private real estate investments and the S&P 500?

The *National Real Estate Investor* magazine reports that, over the long term, private real estate exhibits a correlation between -0.03 and +0.25 with the S&P 500. Because private real estate has a low or negative correlation with stocks, bonds and public real estate investment trusts (REITs), it may help smooth out fluctuations in returns within a traditional portfolio of stocks and bonds. A low correlation with other asset classes suggests that private real estate returns generally do not move in tandem with the returns of bonds, equities or public REITs. A low correlation also was the case during the past decade, despite the global financial and economic crisis.

My client's property performs poorly, but he refuses to sell. What do I do?

There really is nothing you can do. Some investors have emotional attachments to real estate investments. Most securities investors do not get emotionally attached to their securities, so this may be a new experience for a financial advisor. Periodically revisit the real estate investment performance issues and wait until the client is ready to revisit the subject.

Should I assist my client with other real estate services?

No. However, you can if you are a real estate licensee and your broker/dealer has approved those activities as an outside business. Furthermore, unless you are really involved in the real estate business, you should refer your clients to an experienced, local real estate professional. We advise against “dabbling” in real estate. The liabilities are too great.

The financial advisor wants to respect the client’s diversification into real estate.

Good. You should. But a financial advisor is not helping his client if the client’s real estate holdings are underperforming. Think about how upset your client will be if you knew how to analyze the property’s investment performance, but you chose not to. Strong real estate performance takes pressure off securities performance. Furthermore, private real estate investments have a -0.03 to a +0.25 correlation to the S&P 500. This low correlation helps your client’s net-worth.

How should an advisor use this financial planning service?

The advisor can analyze the property investments for a fee or as part of a free, value-added service to the advisor’s larger clients.

In general, how do real estate investments compare to securities portfolios?

	Securities	Real Estate
Daily Market Valuation	Yes	No
Annual Market Valuation	Yes	No
Continuous Expense Tracking	Yes	No
Daily Net Asset Value	Yes	No
Client and advisor can easily produce investment performance reports	Yes	No
Most clients know their investment performance	No	No
Most clients can easily obtain their investment performance	Yes	Doubtful

What does the financial advisor do if the property is performing poorly?

The financial advisor does nothing. If the property has a low rate of return, then the client or property manager might want to work on improving the property’s income, cash-flows and performance.

The advisor is afraid that the real estate investments out-perform the securities portfolio.

In our experience, this fear is unfounded. If this client is a passive real estate investor, your securities portfolio returns will be quite competitive. However, if you have a client with really strong real estate investment performance, then that client is probably involved in the real estate business some way. The investor may be adding value to his investments as a developer, by buying damaged property and improving them, by converting the property's use from residential to commercial or vice versa, or some other "value-added" effort. Either way, the experienced real estate investor probably maintains a modest securities portfolio to diversify his investments, but the majority of his assets will be in real estate.

What does the financial advisor do if the property performance cannot be improved?

If the property's investment performance cannot be improved, the client will probably want to sell the property and replace it with a better investment. The replacement investment might be another property or it might be investments in securities. This gives the financial advisor the opportunity to present a variety of securities options, to highlight the benefits of liquid securities, to increase fee income through additional assets under management, or increase commission revenue through other investments.

The financial advisor is not comfortable comparing real estate investment returns against securities investment returns.

This is an unfounded concern. Returns are returns. Assets either perform or they do not.

Since real estate is an illiquid asset, how do I factor that into my investment analysis?

Real estate is an illiquid asset and, over the long term, it should out-perform securities. Securities can usually be converted into cash in 3-5 days. Real Estate take 1-6 months and sometimes years to sell. Real estate investors should be paid a premium for the illiquidity of their investment.

Neither the advisor nor the client knows how well (or poorly) the investment is really performing.

This is all too common. This gives the advisor a tremendous opportunity to add value to the client relationship. If the advisor can become more than just an investment advisor, the advisor/client relationship becomes broader and more important. Furthermore, a broader, stronger client relationship helps take pressure off securities investment performance.

The client overstates the property's income.

This is common. Help your client really understand their investment and its returns.

The client is waiting for the property market value to "come back" before he sells.

If the investment is unlikely to come-back, this is a bad strategy. If the investment is likely to come-back, this might be a good strategy. Generally speaking, though, this is not wise because the expectation of "coming back" tends to be driven by emotion rather than reason.

The client understates the property's expenses by forgetting to add ALL repair costs, property taxes, property management expenses, etc. into operating expenses.

This is common. You can generally get the "real" numbers from the client's accountant or from the client after April 15th.

FAQs for Real Estate Agents or Property Managers

If you are a Real Estate Agent, Real Estate Broker, or a Property Manager, please read the General FAQs and the Advisor FAQs first. Many of your questions will be addressed there.

What does the real estate advisor do if the property is performing poorly?

If real estate advisor is a property manager, the property manager might want to work on improving the property's income, cash-flows and performance. In fact, the property manager should run this analysis periodically on a pro-active basis to make sure the client's investment performs as well as possible.

What does the real estate advisor do if the property performance cannot be improved?

If the property's investment performance cannot be improved, the client will probably want to sell the property and replace it with a better investment. This gives the property manager or real estate agent the opportunity to present a variety of property options, to retain a client, and to increase commission revenue by representing a buyer and a seller.

What does the advisor do if the property is performing poorly?

The advisor does nothing, unless you are the property manager. If the property has a low rate of return, then the client or property manager might want to work on improving the property's income, cash-flows and performance. Furthermore, if the advisor is a property manager, the property manager may want to run an analysis proactively and recommend possible changes to improve the property's investment performance.

FAQs for CPAs

If you are a Certified Public Accountant or other accounting professional, please read the General FAQs and the Advisor FAQs first. Many of your questions will be addressed there.

Does this program calculate 1031 Exchange Returns?

1031 Exchange calculations need to be run on an individual basis. Please contact us at info@advancedpropertyanalysis.com for more information about this type of property transaction.

FAQs for Conservators, Trustees, & Professional Fiduciaries

If you are a Guardian, Conservator, Trustee, or other Professional Fiduciary, please read the General FAQs and the Advisor FAQs first. Many of your questions will be addressed there.

The trust gives the trustee the authority to hold unproductive and under-productive assets. Should I still hold an under-performing property?

Probably not. Would you want a trustee to hold a poorly performing asset for your family? Clearly the answer is no. The trustee should not continue to hold a bad real estate investment unless there is some compelling reason to do so.