

**MULTIFAMILY
LAUNCHPAD**

WITH JONATHAN TWOMBLY

REAL ESTATE INVESTMENT
EDUCATION



WHAT YOU REALLY NEED TO RAISE TO FUND A DEAL

Module 8 – Video 2

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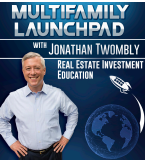
VIDEO OVERVIEW

We'll cover costs for:

- True closing costs
- Deal fees
- Mandatory prepaid items



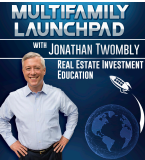
EQUITY: WHAT YOU REALLY NEED TO FUND



Equity: your last major obstacle to closing the deal

- Critical point: You need more than just the down-payment of 20-25%
- You also need:
 - ✓ "True" closing costs
 - ✓ Deal Fees
 - ✓ Mandatory pre-paid items
 - ✓ Reserve fund
- These additional costs will require another 6-10% of the purchase price, over and above your equity down-payment
- And they don't include your initial capital plan, which you must also raise from investors

EQUITY: “TRUE” CLOSING COSTS



■ “True” Closing Costs

- Appraisal
- Corporate records search / filings
- Credit / background checks
- Due diligence costs
- Environmental report(s)
- Legal fees (yours and lender’s)
- Lender processing / review costs
- Property condition report (PCA)
- Recording fees
- Survey
- Title
- Zoning report

■ **Total Cost = at least 2% of purchase price**

EQUITY: DEAL FEES



■ Deal Fees

- Broker's fees
- Loan points / assumption fees
- Mortgage broker fees
- Deal sponsor fees

■ Cost = at least 2% of purchase price

- **More** if you have to pay broker's fee out of pocket
- If you do, include in sales price, so you can partially finance it with debt

EQUITY: MANDATORY PRE-PAID ITEMS



- **Mandatory prepaid Items**
 - First payment of debt service
 - Initial funding for property operations
 - Insurance = first year + second year escrows
 - First payment of property tax escrow
 - Required repairs
 - First payment of required reserves
- **Budget at least 2% of purchase price**

EQUITY: RESERVE FUND



- **Reserve Fund**
 - Funding capital items from cash flow strains property liquidity
 - Makes it hard to pay vendors, which negatively impacts operation of property
 - Reserve Fund: 0.5% ~ 1.0% of purchase price
 - Investors paid a return on this money
- **Helps preserve cash flow for distributions**

EQUITY: CAPITAL PLAN



■ Capital Plan

- Treat **same** way as reserve fund
- Raise money **in advance**, rather than fund capital plan from cash flow
- Investors **earn return** on the money
- Cash flows smoothed out, cash flow preserved for **distributions**

EQUITY: SUMMARY – WHAT YOU REALLY NEED



What you *really* need to fund the deal:

- Down-payment = 20~25% of sale price
- “True” closing costs = 2%+ of sale price
- Deal costs = 2%+ of sale price
- Mandatory pre-paid items = 2%+ of sale price
- Reserve fund = 0.5~1% of sale price
- Capital plan = ?
- Total = 27% ~ 33% of sale price, plus your capital plan funds



NEXT LESSON

MODULE 8 – VIDEO 3:
THE SYNDICATION TIMELINE