

CALCULATIONS.

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The seller of the property had provided me with a prospect.
Size, floor plan, rents and approximate costs for heating and maintenance.

Most people would have wanted more, but for me, it was just enough.

It was one of those days where I just felt like a million bucks. Mid-June, 25 Celsius and clear blue skies. I was sitting outside a nice little church on the Danish countryside having a cup of coffee on the neighboring hotel's deck when I decided to go for it.

My mood was excellent.
I had a calculator, a pen, papers and all the numbers needed for successful calculations.

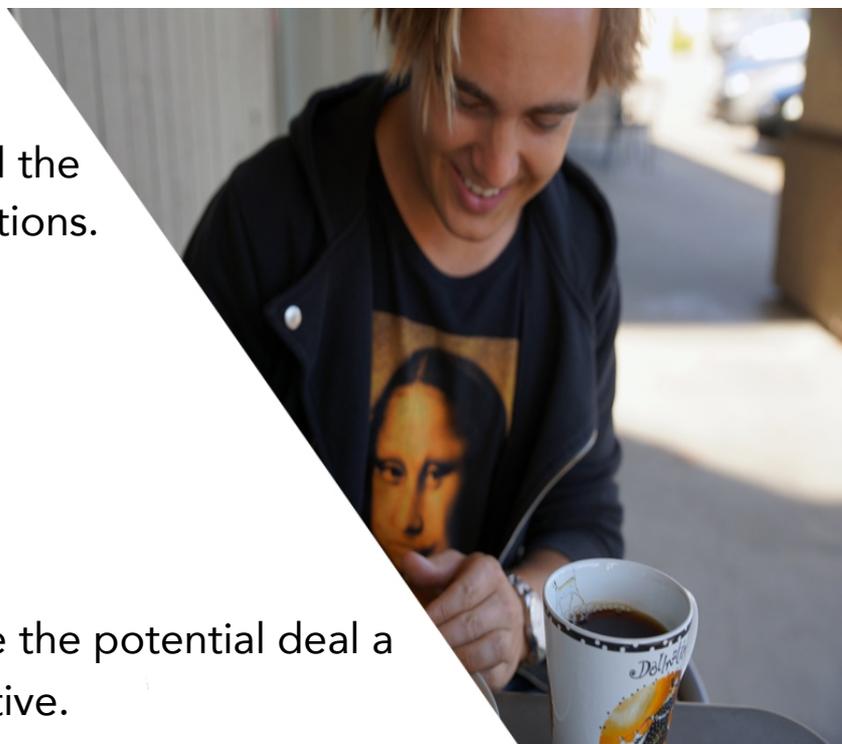
That brings us to tip number 1.

Only calculate on a deal when you are in the best of moods! Why?

1. You will be more motivated to make the potential deal a good one which makes you more creative.

2. It will take more to intimidate or scare you.

3. When you have a calculation you like, keeping it and looking at it will bring you back to that happy and motivated state of mind.





The happy, creative mind is crucial as every deal is unique and will need an individual approach. I will try to describe the different things I prefer to take into considerations below, but know that some numbers might be really important in one deal and of less meaning in another.

The two most important things for me is **buying cheap** or **making sure there is room for improvements**. Simple.

Finding cheap is hard. Improvement is often what takes something from being expensive to being cheap.

It comes down to what you can do to develop the property.

As of writing this, I am a proud owner of two apartment buildings outside Falkenberg, Sweden that are perfect examples for what I'm on about. One was bought cheap and the other needed some development.

Number 1. Buy cheap.

I found this apartment building with three units located in my hometown. It was definitely priced to sell, but required more cash than I had at the time.

As the property was still available two weeks later, I decided to meet the owner and have a look. It turned out to be super solid with an owner I really liked. After talking for hours, I found out that he wanted to retire and sell all of his assets.

His inventory at the time was approximately 100 apartments in the city center plus these three in a different location. All the central apartments were being sold to a single buyer who didn't want the three I looked at. Because of this, my new found friend had to get them out of his stock quickly to close the big deal, hence the low price.

When leaving I told him I loved the apartment building and wanted to buy it from him. Sadly, money was tight and I wouldn't make it.

Seller: "How much could you pay?"

Me: "I'm not sure. You are asking 1 750 000 SEK which is already super cheap. I might make it at 1 500 000 SEK."

Seller: "That is a bit low. I have turned down offers higher than that."

Me: "I know. Sorry for taking up your time. It was nice and inspiring meeting you and I hope you get the price you deserve."

I left there a bit bummed I didn't have more money available at the time giving how good of a deal it was.

A week later I had visited more banks and talked to more people but no more money.

Two weeks later, nothing.

Three weeks later, I got a phone call! :)

The seller told me he had been thinking. He liked the idea of a young local kid taking over the house so he would let me buy it for what I had offered. He had also told his bank to help me finance the house which helped me get better terms. 75% at 3% interest.

With the low price and better terms I also managed to secure a loan from a private investor to help pay for the remaining 25% and the deal was sealed with no money down.



The final result was a great for me. 15% return from day one in a super solid and well maintained stone house with steady tenants. I'm very grateful and the seller has remained a good friend of mine ever since.

How about that for buying cheap?

Number 2. Finding cheap by developing a property.

Next to the house above, there is another apartment building and an empty lot connecting it to mine. The owner of the property is one of my favorite pizza makers with his restaurant at the bottom floor.

He has always been more into his profession of making great food than the business of owning real estate so after being neighbors for a while I decided to start mowing his lawn to help out and keep our block beautiful.

One sunny day in July while doing just that, the owner of the pizzeria came out. It became apparent to me that he wanted to sell and giving how it bordered to mine I wanted buy.

We started negotiating and suggesting prices, trying to agree on something that would work for both of us. It took a few weeks of pushing back and forth before I reached his bottom number. Some would consider it a very high bottom number.

You see, banks and other investors tend to focus on the current cash flow when they evaluate a property. Looking at this place the way they do makes it expensive. The return would be way under 10%, which isn't good enough if the house isn't located in a great location.

But I'm not a bank or a lazy investor. I knew that the "free" lot that came with it had a value even though it wasn't currently generating any cash flow. I also knew the existing building had almost 65 sq.m. (700 sq.f.) of unused indoor space on the top floor. Enough to create one more apartment. There was a lack of maintenance on some of the apartments, an outdated heating system and rents below market average. All helping to make room for increased profits.

When complete, cash flow will be a lot better and the return on my investment should reach 20%.

Sadly, that doesn't matter to the bank before it's actually done, so here is what I had to do.

Step 1. Asked for financing. Turned out they wanted me to put more than a million SEK (114 450 \$) of my own money as they wouldn't finance more than 65%.

Step 2. Spent some time thinking. I only had half a million SEK (57 201 \$) at the time.

Step 3. Went back to the bank and re-valued the property I had bought cheap two years earlier.

Step 4. Used the money from refinancing the house I bought cheap two years earlier plus half a million SEK (57 201 \$) of my own money and bought the new place.

Step 5. Developed the new property.

Another great deal to be grateful about. I am also sure that I have increased the value by now being able to sell a whole block to a bigger buyer. If I ever wanted to, that is. It feels good to own a block :)

I know I'm not Donald Trump, Roger Alkelius or Robert Kiyosaki and I don't want to come off as a know it all, but I hope there are parts of this information that can help you get closer to your goals.

Before wrapping this up:

1. Make sure you are in a good, happy and motivated state before you do any calculating. That makes you more creative and helps you avoid feeling excessive fear of potential challenges.

2. Buy cheap or find ways to develop a property in ways that make it cheap. Buying cheap can be done by luck, good negotiating or in a market where sellers are really motivated. Development can be done in a million different ways.



More?

I usually make two calculations. One ideal and one for tough times or "worst case scenarios" if you will.

Tough times:

Income:

You usually get rent 12 months a year. As a precaution, I only calculate on 10.

Expenses:

Look at old bills to find out how much is payed over the year, then add a bit in case of a cold winter (electricity, water, garbage, heating, tax etc.)

Interest? 7%.

Maintenance. If it's an apartment building, I'd save around 2% of each unit's income. If it's just a house, closer to 5%. BUT. There is a big BUT here. You will also need to keep an eye out for any kind of major upkeep like new roof, new heating system etc. How many years away is it? Can you save enough money to pay for it?

Still making profits? Great! If you can keep your head above the water with a calculation like this, you have found a really good investment. If you are losing a little bit of money, don't let it intimidate you. Just make sure you can afford to take money from somewhere else for a while until you get the building back on its feet. You don't want to go bankrupt.



After putting the boring and 9 times out of 10 irrelevant calculation for tough times together, make an ideal one that you will use as your business plan:

Income:

12 months rent plus what you might be able to make from adding an extra bedroom, charging for parking or renting storage?

Expenses:

Look at old bills and use those numbers minus every penny you can save by sealing up a leaking window or isolating the ceiling etc.

Interest. What is the best you can get? Calculate on that.

Maintenance? Whatever you find when looking through the place that will need attention will have to be in your calculation. Also, 2% of the income for unforeseen stuff.

More? Every deal is unique. You will have to search for what you can do to increase income, decrease running costs and minimize maintenance.

To me, simplicity is a big part of successful calculations. Overcomplicating stuff can easily scare you away. Keep it simple!



A final look at what we have discussed:

Always make sure you are in a good mood when you hit the numbers. Compare your property to similar ones in the area to make sure you buy cheap or can develop it into being cheap.

Make one "worst case" calculation to show yourself that you can manage through tough times and one ideal calculation that you work after. If everything looks good, pursue it!

Enjoy being in control of things. Let yourself be stupid enough to throw yourself out there than smart enough to sort it out. DO NOT OVERCOMPLICATE THINGS!!! Life is a happy place, make it nice for you.

Good luck! :)