

Fix and Flip 103

Created by Mark Ira Lefkowitz
mark@thelemonadegame.com



Learn how to compound Appreciation And Amortization



Master the next technique and become an
EQUITY BUILDING MACHINE



Borrowing to Build Equity?

Equity What is Equity and the theory of equity? Well let us first define equity.

On a balance sheet our Assets are on the left and consist of entry's that are items of value. Included are cash, 401k retirement accounts, stocks, bonds, CDs, and Real Estate holdings including your home. Moreover, clothing, cars, jewelery, art, furniture, intellectual property and our power of network and social media are assets.

On the right side of the balance sheet are two main headings.

Number 1

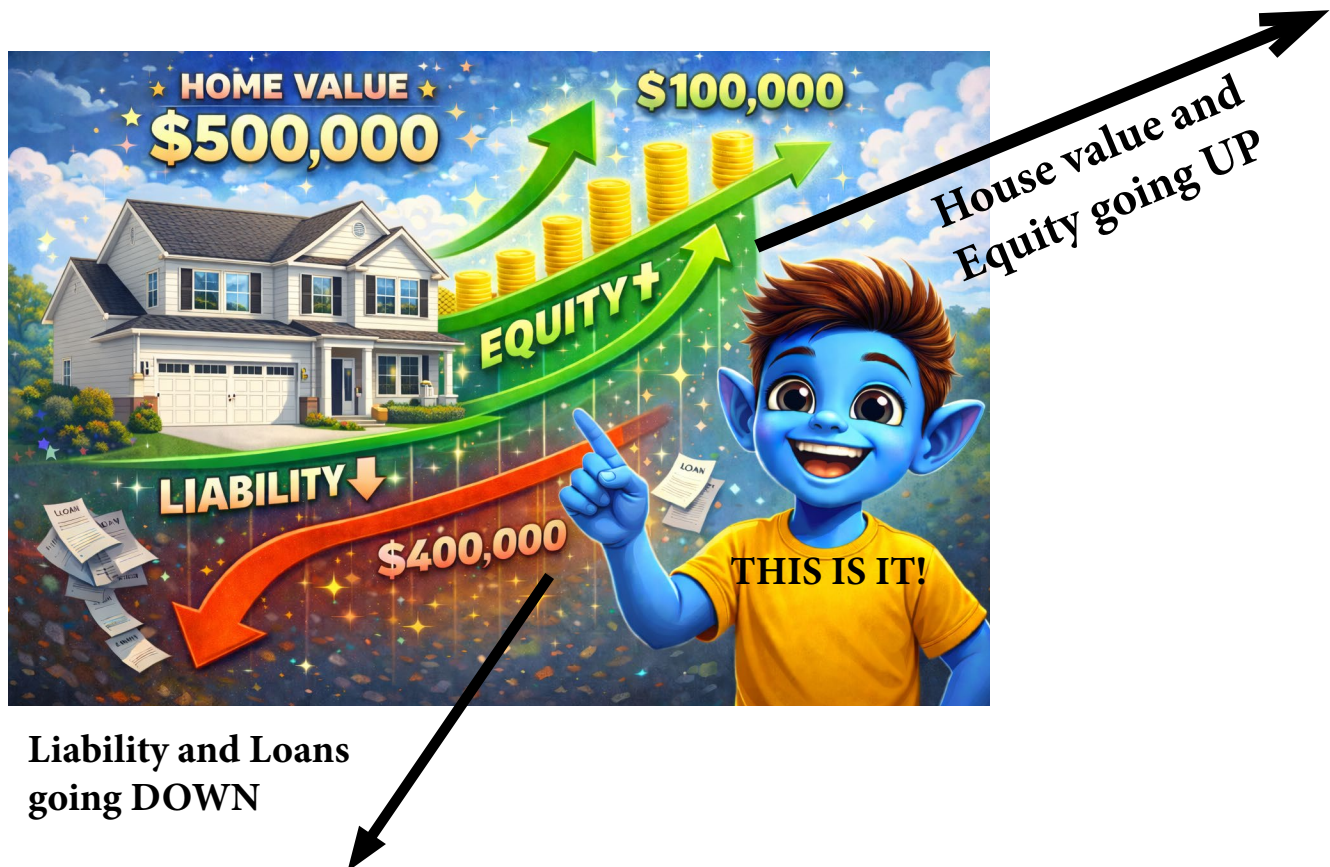
The Liabilities How much you owe to others including car loans. Mortgages, credit card debt, school loans, taxes and even unfulfilled promises! Liabilities are debts and obligations that you owe and are responsible to pay. The questions are how much are the expenses of the debt, How much are the PMTs? Is there any principal reduction with these PMTs? If so, how fast is the debt amortizing? When is it due? For how long will I be burdened?

Number 2

Is Your Equity also on the right side! This is what is yours after you pay off the debt and obligations compared to the current value of the asset. Equity is the part of an asset you truly own after subtracting what you still owe. Smart investors generally acquire Assets that appreciate

In simple equation terms $ASSET\ VALUE - DEBT = EQUITY$

As an example if you own a home that is worth \$500,000.00 and you owe the bank \$400,000.00 your equity is currently \$100,000.00. What will it be in the future?



5 years later this home could be worth \$600,000.00 and you may have amortized and chunked down the loan or liability to \$350,000.00 then your equity will become _____ THIS IS IT!

Likewise if you invest or purchase a depreciating asset like a car or a boat etc. If after 2 years it is worth \$15,000.00 and you still owe the bank \$17,000.00 you have a negative equity of (-\$2,000.00) Sometimes this is called “**being upside down**” Notice that negative numbers are shown with brackets. THIS IS NOT IT!

When added together, the Liability plus the Equity equals the same amount as the Assets. ***They are always in exact balance.***

The equation ***ASSETS = Liabilities + Equity*** is the absolute formula for measuring our net worth The question is how much are my liabilities and are they decreasing or increasing vs. (drum roll here tap tap tap) Is the value of the asset increasing or decreasing. (***Then we factor in time to predict the return rate).***



Balance Sheet 101

$$\text{ASSETS} = \text{LIABILITY} + \text{EQUITY}$$

Decreasing the debt and ***INCREASING*** the asset value over a period of time (how long?) Is the secret formula to creating wealth. (Smart Real Estate or Investing!)

In EXAMPLE 1 we examine purchasing a property for (SP) \$500,000.00 with a 20% down-payment and monthly PMTs of \$2,400.00 with a term of a 30 year mortgage and an APR of 6%

EXAMPLE 2 is the same SP of \$500,000.00 with a 30% down-payment, a 15 year mortgage with an APR of 5% and monthly PMTs at \$3,200.00

Note installments are higher on the latter but the principal reduction is faster and the cost of \$\$\$ less.

Assuming an increase of 10% in the value of the property at sale after fixing it up calculate the Equity from both examples if flipped after 6 months

Congratulations You understand Amortization and Equity build up! For EXTRA CREDIT (future game) The Return on investment (ROI), return on equity (ROE), return on asset (ROA), internal rate of return (IRR) Cash on Cash rate of return (C on C) are your tools! MASTERING and MEASURING these ratios will make you a PROFESSIONAL INVESTOR!

FIX and FLIP for example 1 (w 20% down apr 6%)

6 month creation of DELTA EQUITY using leverage w a loan

SP SALES PRICE at purchase =

DP Downpayment = 20%

PV = Balance owing on the loan

APR = ANNUAL INTEREST (Annual Percentage Rate)

IR = INTEREST RATE per cycle APR divided by 12)

PMT Amount = affects the speed of the declining balance

FV= FUTURE VALUE OR Amount OWING @ end of 6 months

EXIT PRICE EQUITY at SALE

Time	PV Balance\$\$\$ owed	APR annual % rate	IR interest per cycle	PMT Payment cash flow out CF0	Interest \$\$\$ owed to LENDER	Principal Reduction Amount	FV new balance owing lender = future value
START begin month BOM 1				<0>	0	0	
End Of Month EOM 1							★
	note the prior month FV becomes the new PV & begins the next month						
EOM 2	★						
EOM 3							
EOM 4							
EOM 5							
EOM 6							

This example is a little more detailed because we go one step further with you new tools. Subtract the 6 month FV from the new EXIT PRICE which has appreciated 10% from the original SP. The rate of return factors time and is called DELTA EQUITY. That is the change in equity from the aquisition SP to the EXIT SP. In Multifamily we would go further and add in the rents and subtract operation costs too for an overall rate of return with debt service.

That makes borrowing the money profitable and creates positive leverage

Equity at the flip price ? The exit price minus FV of the loan = the current equity

EXTRA CREDIT Discuss the cost of money PMTs, reduction of principal, change in Equity and Time

FIX and FLIP for example 1 (w 20% down APR 6%)

6 month creation of DELTA EQUITY using leverage w a loan

SP SALES PRICE at purchase =	\$500,000.00
DP Downpayment = 20%	\$100,000.00
PV = Balance owing on the loan	\$400,000.00
APR = ANNUAL INTEREST (Annual Percentage Rate)	6%/year
IR = INTEREST RATE per cycle APR divided by 12)	.5%/month
PMT Amount = affects the speed of the declining balance	\$2,400.00
FV= FUTURE VALUE OR Amount OWING @ end of 6 months	\$397,569.80
EXIT PRICE	\$550,000.00
EQUITY at SALE	\$152,430.20

Time	PV Balance\$\$\$ owed	APR annual % rate	IR interest per cycle	PMT Payment cash flow out CF0	Interest \$\$\$ owed to LENDER	Principal Reduction Amount	FV new balance owing lender = future value
START begin month BOM 1	\$400,000.00	6 %	.5%	<0>	0	0	
End Of Month EOM 1	\$400,000.00	6 %	.5%	\$2,400.00	\$2,000.00	\$400.00	\$399,600.00
	note the prior month FV becomes the new PV & begins the next month						
EOM 2	\$399,600.00	6 %	.5%	\$2,400.00	\$1,998.00	\$402.00	\$399,198.00
EOM 3	\$399,198.00	6 %	.5%	\$2,400.00	\$1,995.99	\$404.01	\$398,793.99
EOM 4	\$398,793.99	6 %	.5%	\$2,400.00	\$1,993.97	\$406.03	\$398,387.96
EOM 5	\$398,387.96	6 %	.5%	\$2,400.00	\$1,991.94	\$408.06	\$397,979.90
EOM 6	\$397,979.90	6 %	.5%	\$2,400.00	\$1,989.90	\$410.10	\$397,569.80

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That makes borrowing the money profitable and creates positive leverage

Equity at the flip price ? The exit price minus FV of the loan = the current equity **\$152,430.20**
EXTRA CREDIT Discuss the cost of money PMTs, reduction of principal, change in Equity and Time

FIX and FLIP for example 2 (w 30% down and APR 5%)

6 month creation of DELTA EQUITY using leverage w a loan

SP SALES PRICE at purchase = $\boxed{\quad\quad\quad\quad\quad}$

DP Downpayment = 30% $\boxed{\quad\quad\quad\quad\quad}$

PV = Balance owing on the loan $\boxed{\quad\quad\quad\quad\quad}$

APR = ANNUAL INTEREST (Annual Percentage Rate) $\boxed{\quad\quad\quad\quad\quad}$

IR = INTEREST RATE per cycle APR divided by 12) $\boxed{\quad\quad\quad\quad\quad}$

PMT Amount = affects the speed of the declining balance $\boxed{\quad\quad\quad\quad\quad}$

FV= FUTURE VALUE OR Amount OWING @ end of 6 months $\boxed{\quad\quad\quad\quad\quad}$

EXIT PRICE $\boxed{\quad\quad\quad\quad\quad}$ EQUITY at SALE $\underline{\hspace{2cm}}$

Time	PV Balance\$\$\$ owed	APR annual % rate	IR interest per cycle	PMT Payment cash flow out CF0	Interest \$\$\$ owed to LENDER	Principal Reduction Amount	FV new balance owing lender = future value
START begin month BOM 1				<0>	0	0	
End Of Month EOM 1							★
	note the prior month FV becomes the new PV & begins the next month						
EOM 2	★						
EOM 3							
EOM 4							
EOM 5							
EOM 6							

This example is a little more detailed because we go one step further with you new tools. Subtract the 6 month FV from the new EXIT PRICE which has appreciated 10% from the original SP. The rate of return factors time and is called DELTA EQUITY. That is the change in equity from the aquisition SP to the EXIT SP. In Multifamily we would go further and add in the rents and subtract operation costs too for an overall rate of return with debt service.

That makes borrowing the money profitable and creates positive leverage

Equity at the flip price ? The exit price minus FV of the loan = the current equity

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FIX and FLIP for example 1 (w 30% down APR 5%)

6 month creation of DELTA EQUITY using leverage w a loan

SP SALES PRICE at purchase =	\$500,000.00
DP Downpayment = 20%	\$150,000.00
PV = Balance owing on the loan	\$350,000.00
APR = ANNUAL INTEREST (Annual Percentage Rate)	5%/year
IR = INTEREST RATE per cycle APR divided by 12)	.4167%/
PMT Amount = affects the speed of the declining balance	\$3,200.00
FV= FUTURE VALUE OR Amount OWING @ end of 6 months	\$339,440.53
EXIT PRICE	\$550,000.00
EQUITY at SALE	\$210,559.46

Time	PV Balance\$\$\$ owed	APR annual % rate	IR interest per cycle	PMT Payment cash flow out CF0	Interest \$\$\$ owed to LENDER	Principal Reduction Amount	FV new balance owing lender = future value
START begin month BOM 1	\$350,000.00	5%	.4167%	<0>	0	0	
End Of Month EOM 1	\$350,000.00	5%	.4167%	\$3,200.00	\$1,458.33	\$1,741.67	\$348,258.33
	note the prior month FV becomes the new PV & begins the next month						
EOM 2	\$348,258.33	5%	.4167%	\$3,200.00	\$1,451.07	\$1,748.92	\$346,509.41
EOM 3	\$346,509.41	5%	.4167%	\$3,200.00	\$1,443.79	\$1,756.21	\$344,753.20
EOM 4	\$344,753.20	5%	.4167%	\$3,200.00	\$1,436.47	\$1,763.53	\$342,989.67
EOM 5	\$342,989.67	5%	.4167%	\$3,200.00	\$1,429.12	\$1,770.88	\$341,218.79
EOM 6	\$341,218.79	5%	.4167%	\$3,200.00	\$1,421.75	\$1,778.26	\$339,440.53

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That makes borrowing the money profitable and creates positive leverage

Equity at the flip price ? The exit price minus FV of the loan = the current equity **\$210,559.46**
EXTRA CREDIT Discuss the cost of money PMTs, reduction of principal, change in Equity and Time