

The Dreadful Word: VACANCY

The concept of vacancy, which I touched on in the last post, is one of the most important factors when investing in real estate for cash flow/income purposes.

People lose money or make bad investments primarily because they do not understand how to calculate it correctly.

Obviously, calculating vacancy is terribly difficult. What most investors seem to do is simply discount 10%, sometimes even only 5% from the gross value of the rent that they are supposed to get...and then they just hope that it works.

It's pretty evident that such an approach is very shallow, although it probably does help to limit damages...sometimes. A lot of investors forget to even calculate it, so when someone actually considers some extra costs in the list of expenses, it's to limit possible damages, but it is probably not enough if you want to be professional.

Vacancy is a powerful tool to use to be able to understand the potential of an investment

What is a vacancy?

A vacancy is merely the money that you need to consider and take off from the gross rent because the unit is not rented. It is also a powerful indicator of how good an investment really is and what growth potential it may have. A vacancy is inversely proportional to the expected growth of a property.

I am not able to calculate the numbers precisely, but I am able to at least identify the relationship. The more the vacancy, the more you can expect the growth potential to diminish.

Why is this?

Well, let's think about it...

Neighborhoods that are really good usually have higher deposit requests to even get in the house. As a landlord, what that means is that you can get 2 months deposit, in some cases even 6 months deposit, which means that the prospective tenant will rent longer and always pay on time because they have more money and don't want to risk ruining their credit. Also, the higher the deposit, the less risk that you, the landlord, will have to take on which will limit your damages and reduce the risk of vacancy.

Of course, we would all love to get 6 months deposit upfront or even 3 months for that matter, but it is usually not the case. People don't always have this kind of money laying around, and you also need to compete with other property owners that are offering a more straightforward payment solution.

So this makes the relationship a little more clear. If you are in the right area, then you can get more money up front and limit the value of vacancy. The areas with the low vacancy will most likely be those with both high rental demand and income, as well as where there is a lot of competition.

For example, you can compare the vacancy rate in a Class D neighborhood in Miami-Dade county, let's say, for instance, Liberty City, which is close to 40% vacancy, compared to another area like Miami Beach which can be calculated at 10% vacancy.

Can we derive a formula or an equation to predict a vacancy rate?

No. But we can have some fun and maybe try to work something out that will bring us as close as possible to a "formula" or market prediction.

What other values are there that can affect vacancy?

Well, it's not only the neighborhood but what I noticed is that vacancy is directly proportional to the price of rent. The higher the rent, the fewer chances of the landlord being compromised by evictions and legal matters.

For example, regardless of the location of the house, a house that rents for \$700 will have a much higher vacancy rate than that of one that rents for \$1400 in the same exact neighborhood.

I don't have a lot of data available, but according to my database, even top class locations (income neighborhood of \$125K+) where small studios or small 1 bedrooms rent for \$800-900 experience 15-18% vacancy. Other data shows that a lot of people struggle to pay 3 months deposit up front.

In the same neighborhood, or even in one with a much lower income (\$75-85K), I can basically say that according to my database, I am comfortable to estimate a vacancy of around 10% or less for homes that rent for \$1400 or more. 10% vacancy means that there are very rarely evictions and that most of the vacancy depends on the changeover at the end of the contract. Also, the time that it takes to rent it out again is factored in as well.

Then I checked the low-income neighborhood below \$50k, and I noticed the same relationship. The vacancy is low on properties that rent at \$1400 or above. The \$50k mark seems to make a big difference in the vacancy in Miami and Broward counties.

Actually, I noticed that the neighborhood does not make such a difference...what makes the most difference is one thing, the price of the rent! Property that is below \$1000 per month in great areas will have a higher level of vacancy than that of properties in a Class C neighborhood, especially if the latter is a beautiful big house with a pool and the rent is above \$1400.

I have owned about 100 properties in Broward and Miami-Dade County, so my data comes from plotting those results. And what I have found is that property with a higher rent value tends to have a much lower rate of vacancy.

So...hypothetically let's say there is \$150,000 available to invest in a Miami property for income purposes. Two options exist: 1) a studio in a desirable neighborhood that rents for \$1000 per month, versus 2) a 4-bedroom house with a pool that rents for \$1500 in a Class C neighborhood. Faced with these two options, I would definitely have to choose the second. The income would be better and more consistent on the second option.

I would also bet that appreciation is more likely with option 2...but that is for another post!

Talk Soon!

Antonio

Second Life – A Digital Community

I began my life in Second Life. At the start, I have to admit I was discouraged and bored. But then I slowly built interest due to the interaction with people made me feel a like an Anthropologist trying to get the essence of that community, learn their language and their behavior. Yes, it was my first ever research into a digital community.

I began with a normal avatar. I was trying to stick with an integrated self, but then I went for somebody that was similar

but not too similar. The simplicity was due in part to a lack of interest in spending hours to adjust my avatar.

Learning how to walk and fly was easy. Flying was nice as it gives one chance to move around the area faster.

I don't even remember where I was, but I saw another Avatar dressed as a beautiful girl looking at a place probably a store, and she is moving like she is dancing.

She is Russian by the name, so I start to chat with her. She said she is shopping. I asked for her help, and she was very friendly.

Usually girls are friendly with me when I am in my Ferrari, but in this case, I think "wow in Second Life you find friendly girls without a big car."

She sometimes types to me in Russian, and then I also see the English translation. I am not sure if it gets translated automatically, or she types in both languages. I will try to explore this functionality.

After knowing her for four minutes, I invite her to dinner. She says "why not" and accepts. In Second Life there is no danger; people are safe, and they can pull the plug any moment. This tends to lead people to be more easy-going and approachable.

Now I can have company and some help, so I ask her what type of food she likes, and of course, she said anywhere it's okay.

Taste did not become digitalized yet, so I guess it may become pretty dull in SL to sit down in a restaurant. I think my old RL script that needs to be readapted to a more modern digitalized world.

I picked up the use of SL and RL from the community. Second life and real life I know, it's quite apparent.

I look for a beautiful place and I think about Spain, where I lived in RL, so I choose Porto Banus a lovely location in the south of Spain with a beautiful marina. I know I will be able to find a good restaurant there.

After we became friends officially in SL, I choose the location and tele-transported myself there.

The pretty girl asks through SL to be tele-transported to my location. This is the advantage of being friends – they can be tele-transported in your area.

She arrives with a different look. She totally changed her dress code adapting to the new marina beach environment. She was really fashionable and cool.

Wow, she must be Russian for sure. I can see the business, people spending real money to dress well a Second Life avatar. Now what the point of changing your mode of attire in SL? What is there in the human psyche that makes someone put time and money into making an avatar fashionable and cool?

It may be digital vanity. I should not judge if I need to study a community, but I don't have the time to shop for me in RL. If I think I need to shop for my avatar, then the avatar is too high maintenance. I like simplicity. All this is cool but any hour spent in SL is an hour lost in RL. People want to escape RL; second life is escapism.

Getting back to my second life adventure, after we notice that the place is boring we walk up and down. There is nothing to see and no one around, so she wants to bring me to a club. Cool!

So I go with this pretty, young girl to a nice club called Vipera.

Many avatars are dancing. A DJ is speaking to people. He is actually fun, and he tells us we can suggest our favorite

songs. It appears that everyone is having a good time. The place is busy, and I begin talking to people and telling them that I am doing a project for the university.

Everybody is friendly. They enjoy being interviewed, at least at the beginning. I ask them "why are you here?"

Everybody says something. The best answer I get is "this is like a Facebook in 3D or actually better".

So people have the unlimited possibility to enjoy clubbing and talk.

Some of them say Facebook is boring, and others say they usually don't invite the Facebook friend in SL.

Some people want to keep their lives separate. They all like me, and they all contribute to my questions, but they all get upset when I asked their ages. They told me I should not ask that in SL is rude; age, sex or race cannot be asked. Probably people want to feel disconnected from real life so much that they do not want to consider age differences. The question here is what pushes people to spend so much time behind a screen giving up their real life, their real love to find new virtual ones? I don't know the answer, but it's an answer worth a \$10 billion industry.

At the end of the day, it becomes a matter of time. I saw some people probably making money in second life. They have a business where they sell things for real money. Other than that it appears that SL is for relaxation and diversion. People find their comfort zone staying within a virtual environment, and they are willing to give up their real life time to live in a virtual one.

A comfort zone is what causes people to resist improving themselves. It's the worst thing that can happen to an individual. I saw people living with a disease and trapped in a very detrimental environment for years that do not attempt

to push themselves out of a comfort zone. How much could the RL be improved if the person took the time spent in the SL and used it in RL? Maybe it's all just a game. Maybe I should not be judging. But time is so valuable to me that I don't see any particular reason why I should spend some time in an SL or fantasy world. So unless I don't have to go back for assignment reasons, I will not reenter the second life world.

Survey – Acai Berry

I spent a lot of time thinking the topic of this survey. I guess the topic could have been anything, but I want to make sure that my exercise makes sense to the reader. I did use Qualtrics, and I think it is impressive.

I am an entrepreneur, and I have several companies in different fields. I have intentions to invest in a health-food store chain, specializing in serving natural acai berry bowls.

When invest in my endeavor I will I will look for more specific criteria mainly related to the city in which I will be opening my first shop. The act of a business getting random results from a random population on the web makes no sense; however, due to the nature of the survey which is for academic purpose only, I could make one that could at least give me some insight.

I did notice a significant trend towards natural and healthy habits and products in recent years. I want to verify that the millennium generation is also caring about this or better which age group is more sensitive to eating healthy food. Identifying the age brackets will help to have an idea on which social media to put more effort the marketing campaign.

Acai berry is particularly good for breakfast mixed with banana, strawberry or mango and other fruit. It can be combined with natural chocolate, Guaraní, granola, honey, etc. I want to see if people will be willing to leave the Starbucks habit to pursue a healthier breakfast.

Acai berry is not very well-known, so I want to first check the knowledge of the product. I believe those who have tried acai will be much more willing to change breakfast habits.

An average acai bowl will be costing around \$8. I would like to check the willingness of people to spend their money for breakfast based on their income. I assume that this product is particularly good for people with incomes higher than \$90-\$100K. Those people, mainly in the USA, are experiencing a significant transformation in eating habits and there is evidence that the trend of people moving toward a vegan choice and raw natural organic food is increasing. The purpose of the survey was to confirm some of the assumptions.

The Random simple and snowball sample would not have been indicated for this survey. I used this approach because it was the easiest for academic purposes. However, when I will do the final one for my business, I will hit specific locations and specific categories of people to understand if my business will fit in the area so my approach will be a Quota sample.

The income question is essential in my research. But as we studied, it is a bit awkward to openly ask for income brackets, and people tend to lie about it. So I devised three specific questions from which without openly asking so that we can surmise the income brackets.

The last result, in particular, will be good in understanding which targets segment in my online campaign or based on age which social media should be used to get more results.

I tried my best to make the survey funny and entertaining. When I conduct my real one, I will probably use a different

strategy, but because I wanted to familiarize myself with the software I tried various things.

One of the scopes of the survey design is avoiding surveyed people dropping during the survey. I used some pictures with food to make it more fun.

I also used the skip logic tool that was mentioned in the Lecture, in question number 5.

One of the aims of the study was to understand when people were more inclined to eat acai. This is important to understanding the working hours of the shop which will have an impact on the cost of the structure but also the location. We had some assumptions that usually fit people or people that work to gain a better weight tend to eat it before training. Having a shop next to a nice big gym eventually could be a strategic value.

Noteworthy to mention is the idea I had about the final question.

Have a feedback from the people on the survey, asking them openly if they got bored or had fun.

This is an excellent opportunity to have a direct feedback and make me think how to improve my next survey.

I did get confused on this assignment deadline. I did think that there was only one post due today, and then I realized that it was two posts that I was to have completed. I apology for that.

Thanks.

Single Family Home Vs. Multi Family

Time and time again I have seen realtors pushing buyers around, mainly the property buyers who purchase multi-family investments. For some reason, many realtors seem to think that those investments are much more significant regarding a Single Family Home. Obviously it depends on the price, but in general, the costs of multi-family properties have been increasing so much that the numbers just don't make sense anymore.

As a general rule of thumb, I am firmly convinced that an SFH (single family home) is a much better investment than a multifamily. The only exception to this rule is if the multi-family is bought at such an "interesting" price, and with a much higher cap rate than the SFH.

Let's analyze this:

1. Duplexes have a higher vacancy rate

- The vacancy is one of the most critical concepts of real estate investing. If you are not aware of the right vacancy, you will end up entirely out-of-pocket and go into a real estate investment blind.
- All salesmen will try to pitch you a great investment and will probably try to challenge your ability to interpret the vacancy rate.
- When you're dealing with a duplex, you are taking a higher risk, because the risk of an empty house is higher, at least double when compared to the single family home. Indeed, you will be dealing with two tenants and not only one.
- You have another added risk; Assuming that you're buying property below market value, you will most

likely be dealing with a lower income tenant than the SFH.

- Usually, the rent of a duplex unit is 25/30% lower than the SFH of a similar size. This means you are dealing with a more complicated tenant, your risk of not collecting the rent is higher.
 - So, you not only have double vacancy risk, but you also have a lower income tenant to deal with.
 - If you calculate a vacancy of 10% as a standard vacancy, a duplex in the same area should be at least 25/30%, considering double the risk and adding the extra percentage of risk dealing with a more troubled type of tenant.
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- As you can see already, you need to have an amazing gross amount to still stand up with a reasonable cap rate after such a deduction.

2. Unfortunately, the above is not finished!

In the column of your maintenance cost, you will have to consider that now you have two kitchen's, two A/C's, two bathrooms, etc., etc. This means that you will have twice the chance that something may break and need to be repaired, and you will need to fix it.

Also, it's worth it to note that you will need more money when rehabbing the house; A/C is an essential part of the property and is usually a necessity in the summertime, especially in states like Florida, Texas, California and more...it breaks easily and always needs to be cared for. This will again increase your cost

Obviously, when it comes to a triplex or a four-plex, you need to apply the same criteria.

If you have units with a window A/C unit, you may get a lower rent, and therefore lower income tenants, but probably better in the long run, at least when it comes to any maintenance

issues.

3. The exit strategy is much more complicated than the SFH.

You see, in SFH you will most likely be able to sell the house to a first time home buyer. If you have a lovely house in a decent location with a decent school, you will always find first home buyers that are willing to buy it.

People are slowly but surely fixing their credit and/or recovering their bad credit that they incurred during the financial crisis. Obviously, if you have a good cap you bought at a good price, there is a chance that the rent will cost more than the actual 30 years mortgage, at least if the interest rate stays below 6%, which is reasonable in the next 2/3 years.

It's even happening right now...tenants are becoming the "client" by calling the landlord and asking to buy the house that they are renting. With multi-family units, it is more complicated. You can still find first time home buyers for duplexes, but I can't lie...that is rare when compared to that of an SFH.

A family usually needs a bigger house, garden, etc.

It does happen for a duplex to have a first time home buyer that can rely on the other unit to help pay the mortgage but it's more difficult, and it's usually people with lower income, which means an increase of risk.

Now if an investor is leveraging, or even if they are not, why would they buy a unit with a lower cap rate than you in an environment where the interest rates are higher?

If you need to make a profit from the unit, the cap rate will be lower for the investor than the one that you have. And if you are selling in few years, we all assume the interest rate will be higher. So, leveraging will be more expensive, and it

will make less sense investing to gain a spread.

Of course, a few things might have changed due to a rent increase and area improvement.

This can usually happen mainly IF THE INCOME OF THE PEOPLE IS INCREASING and inflation is high, the unemployment rate lowers, so basically everything that will have an impact on the shifting of the demand curve. And therefore only, in that case, you may make some money, but you will still need to consider that a buyer leveraging will be impacted but at a higher cost of borrowing.

So then why is it that multi-family and bigger units have a lower cap rate than single-family homes???

This is the catch, I think the market does not appreciate enough, and the multi-family is more attractive to investors for the following reasons:

1. Bigger size, so it's easier to place 1,2,3 million in one deal only

When realtors or asset allocation managers move money, they need to be concerned with how easy the deal can be achieved, and the need to allocate money. Usually, size is an issue. Any investor would prefer to deal with one building worth 5 million than with 40 single family homes.

2. Leveraging is easier on a building because a mortgage lender will work more on a loan of \$1/2/3 million than on a \$50,000 loan, small loans sometimes are a headache for the lenders and brokers because it is the same amount of work for a very small fee.

All of the above have a serious impact on multi-family prices. In Dade and Broward County you will see multi-family selling at a way overpriced amount.

This is a risky business because the vacancy considered is usually way underestimated, mainly in buildings that have many units and the cap rates are very low.

Multi-family prices are often times the effect of a realtor or asset manager that is desperate to allocate or find a good sized deal, but they don't represent a great investment overall, nor in income or appreciation.

Nowadays, at least in the Miami area market, it is essential to keep your bearings with you, be aware and do your numbers before entering into any deal!

Until Next Time,

Antonio Velardo

Real Estate Investing: 101

I find it quite amusing that the Real Estate Market is one of the only areas of investment that you can find information on how to become rich quick. Or on how to buy a course that will teach you all of the tricks and "unrevealed secrets" that will make such a difference in people's lives.

I have been in the industry for 15 years, and I have been tremendously successful, making millions of dollars, and I guess most of it was a combination of luck and knowledge. I wholeheartedly agree that the leverage you can get from specific knowledge will give you an edge over the others. But I think most of the Real Estate courses are focusing on the wrong subjects, and they try to make the job sound much easier than it really is. That, unfortunately, will bring a lot of discouragement, money lost and time wasted.

I have been a multimillionaire since 2007, and when I made my real estate fortune, I was not aware of courses and real estate "schemes." I need to admit that the main reason why I made my real estate fortune was due to my dedication, hard work, and common sense.

I would like to clarify the word "common sense," which is quite ambiguous if left like this in a conversation.

I guess for common sense I mean that sense of awareness of the investor's point of view. If you know what the investor likes and their alternatives, then you can most easily understand if your Real Estate deal makes sense or not.

Comparing the Real Estate deal with other deals available is essential, not only in the same industry but also in other sectors will make a huge difference, because, at the end of the day, the person who invests money is not obliged to invest in only real estate.

I always compare my options to the bond market, the equity market, the commodity market, etc. Some Real Estate investor's fail to compare the deal, and they get a bad result from the investment. Firstly, comparing the market alternative will give you a feeling of how good the deal is at the moment, and whether you should put your resources, effort, and money in real estate.

I made quite a bit of money in the last 3 years acquiring distressed assets, fixing them, flipping them or making them perform as a positive cash flow asset, but I was not listening to the "news" on television or in the paper on how good that investment was at that moment.

I always do my own math. And as an investor, I was applying my "investors commons sense, " and the rules learned. I knew that my money, or at least a good portion of it, was better in the Real Estate market rather than in low-yield bonds, high-risk yield bonds or anywhere where the ratio risk/return was

not remunerative.

What I would do is apply the same knowledge and same criteria, ignoring the “news” of the papers, where all these guru’s that don’t have a clue and would predict the market without a proper understanding of the subject.

I want to create a small space where people can learn from my experiences. And mostly that they can learn the criteria that I use and apply to each deal: how I became successful and it will be interesting to brainstorm with other people and investors, so to create a new way to analyze Real Estate deals in such a precise methodology that every deal will be a success.

In the last 3 years, I bought 250 houses, and I made money from practically all them. I tripled my money, and I guess we can say that it was easy to make money in the last 3 years, but to be honest, I saw experienced realtor’s laughing at me because of a deal that I was buying. I sold that house 3 months later for double the money, even though I had friends and investors that bought houses 3 years ago that they still cannot sell.

So while I need to admit that finding deals were quite simple 3 years ago, I can tell you that not many people knew what they were doing.

I think anybody who masters Real Estate investments can make huge money when things go bad or when they go good, and the opposite, you can lose a lot even when things go well for everybody.

In the Real Estate business, there is a distinctiveness that does not apply to other fields, “everybody thinks they can become an investor, and it’s easy.” However, people will not apply the same simplicity when it comes to commodity trading, the stock market or any other field.

Most people have no clue, no knowledge and they feel that they are competent and intelligent when it comes to the Real Estate market. It's utterly ridiculous, and I find that in real estate there is the highest number of charlatans and idiots that I have ever met in my whole life.

In other fields, you don't really meet so many incompetent people as you do in real estate. I think 95% of all of the realtors have absolutely no clue about the rules that drive the prices up and down and will be mostly useless to help you to make money because they don't understand the big pictures themselves.

I want to finish like this: Most of the courses and seminars from the "gurus" that I see online and that I participated in are extremely funny, because they teach you something obvious, that if you find a deal below the market value, you can resell making money, hahaha! Hello...we already know this!

So if you find a house worth \$100,000 at \$65,000, you can make cash. Even if you do not have a penny or even if you have just enough money for the deposit, you can still make the deal a success!

I guess it's the truth and it's quite apparent, but what they don't tell you is that the chances for you to get those deals are quite rare because you have millionaires like me that have a team of people always looking for deals. I have employees paid to spend all of their days, every day, searching for deals and making low ball offers to every single house that they come across...

I have cash on hand to buy, and like me, millions of investors always have an extra bonus for a friendly listing agent, so the chances for a random guy with no money to snap up deals from under me are rare. It does happen, but not so often that it's time to leave your job and become an overnight Real Estate multi-millionaire.

It's not easy to buy below market value, or at least the current market value. I think it's easier to predict the market movements with care so that you can get a deal wherein few months you will gain fantastic equity and good cash flow.

It's much more realistic to find a good deal for a house at half price, as opposed to limping in and needing much more money to make the deal a success.

If you want to follow my advice, I will very honestly tell you what I do and what principle I apply...and more importantly, where I apply them. I will not sell courses...I make my money in the field (in the real estate market), so I don't need to sell dreams. I do however want to be a part of the success of other people's dreams.

I will not tell and sell you BS...if you have no money and want to put a deposit on a property using a credit card with an APR of 15%, I will simply tell you the truth, *"you are crazy, and you very well may lose all of your money!"*

So, welcome to my blog, where a random unknown millionaire is willing to share the knowledge of the Real Estate market and how to identify and separate a good deal from a bad deal.

I hope you enjoy!

Ciao

Antonio Velardo