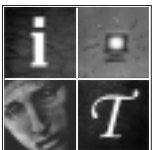


# How Service Can Create Property Value

1A	\$ <u>8400</u>	<b>Scheduled Rent Increases to</b>	\$ <u>9000</u>	1B
2A	\$< <u>675</u> >	<b>Loss from Vacancy is Reduced to</b>	\$< <u>450</u> >	2B
3A	\$< <u>3360</u> >	<b>Operating Expenses are Decreased to</b>	\$< <u>3150</u> >	3B
4A	\$ <u>4365</u>	<b>Net Operating Income Becomes</b>	\$ <u>5400</u>	4B
5A	<u>10%</u> (capitalization rate)	<b>Risk of Ownership is Reduced to</b>	<u>9%</u>	5B
6A	\$ <u>43,650</u>	<b>Property Value is Increased to</b>	\$ <u>60,000</u>	6B

Pride of ownership applied consistently over time will dramatically increase property value.



## How Service Can Create Property Value -- Notes

- 1A We will use the rent from one apartment home. Let's use \$700. For (12) months the rent is \$8400.
- 1B Through the efforts of our onsite staff that is trained, service-oriented and ready to perform, additional revenue streams have been brought on. This results in a \$50 increase per month for one apartment home. Now we are at \$750 per month, (12) months is \$9000.
- 2A We'll use a rent loss of 8% due to vacancy and collections (including incentives). The annual loss is \$672. Let's round to \$675.
- 2B Through staff's attention to resident retention, customer care, faster rent-ready and lease up, vacancy loss is reduced to 5%. The annual loss on the \$9000 revenue is \$450.
- 3A We will use an operating expense of 40% of the scheduled rent. For this one apartment home for one year is \$3360.
- 3B Onsite staff that is trained to add service will also reduce operating costs in several categories. Also, employee turnover will be reduced (an expensive item). It is realistic to bring operating expense from 40% to 35%. One apartment home for one year is \$3150.
- 4 In both examples, we subtract vacancy loss and operating expense from scheduled rent. What is left is Net Operating Income (NOI): A=\$4365 and B=\$5400 respectively.
- 5 Risk of ownership means what % of return does a potential investor need in order to purchase this apartment home instead of another investment. A well-run apartment community with long-term employees enthusiastically serving long-term customers and controlling operating costs is considered a less risky investment. Therefore we are going to lower the required return from A=10% to B=9%.
- 6 Property value is determined by dividing the cap rate (10% and 9% respectively) into the respective net operating incomes (A=\$4365 and B=\$5400).

The value of this apartment home increased from A=\$43,650 to B=\$60,000 by adding more and better service. The increased value of \$16,350 for each apartment home represents a 37% margin of profit.



# How Service Can Create Property Value

\$ \_\_\_\_\_ **Scheduled Rent Increases to** \$ \_\_\_\_\_

\$ < \_\_\_\_\_ > **Loss from Vacancy is Reduced to** \$ < \_\_\_\_\_ >

\$ < \_\_\_\_\_ > **Operating Expenses are Decreased to** \$ < \_\_\_\_\_ >

\$ \_\_\_\_\_ **Net Operating Income Becomes** \$ \_\_\_\_\_

\_\_\_\_\_ % **Risk of Ownership is Reduced to** \_\_\_\_\_ %  
(capitalization rate)

\$ \_\_\_\_\_ **Property Value is Increased to** \$ \_\_\_\_\_

