

The SECRET formulas of profitable developers and business investors...

Development is where math meets vision. I can't teach vision (not in an e-mail anyway) but I can share some formulas that have made people A LOT of MONEY over the years. We have a unique situation right now in Emporia where we have several upper stories of buildings that can be redeveloped into housing or certain types of commercial applications (aided by the Community Initiated Development Plan), and we have shown through projects like the Granada Lofts that the projects can be profitable. We also have certain businesses that are nearing retirement age that may be looking to transition their business to another ownership group, and other businesses that are willing to take on additional investors to expand product lines and diversify their ownership structure. For smart investors, there are LOTS of opportunities in Emporia to make money.



Before we list some formulas to determine profitability, let's cover the Nine Tests of a Good Investment outlined by Todd Barman, a Program Officer with ties to the National Main Street Organization. The tests are for a good investment are:

- High Income
- Dependable income
- Timing of the Return
- Capital Appreciation
- Minimum Risk of Loss
- Favorable Tax Treatment
- Leveragability
- Ease of Management
- Liquidity

Once you've made it through your Good Investment Check List, it's time to make sure that the hard numbers match the "in theory" projections. To do that there are some terms you must be familiar with. Yes, this subject matter can get a little detailed, but it is important. Coming from a business background, I want to make sure that our Main Street member businesses throughout Emporia are profitable. If I encourage someone to enter into an investment that isn't profitable, the project isn't sustainable, and it doesn't do anyone any good. My goal is for you to make money, and to encourage reinvestment in our community.

Cash Flow- (**Net Operating Income minus Debt Service**)- The holy grail of finance, your Cash Flow indicates how much money you have after the bills are paid and the mortgage (debt service) has been taken care of.

Debt Coverage Ratio- (**Net Operating Income divided by Annual Debt Service equals the Debt Coverage Ratio**)- For bankers, this ratio sets the maximum they can loan for a project. For investors seeking outside capital, this ratio gives you your ceiling for outside traditional financing.

Debt Service- (**Debt Service Constant multiplied by the Original Loan Amount**)- This constant is used in several calculations and easily identifies the amount spent on the right to carry debt from a traditional funding source.

Debt Service Constant- (**Annual Debt Service divided by the Original Loan Amount**)- This ratio lists your yearly principal and interest paid as a percentage of the original loan amount.

Effective Gross Income- (Gross Scheduled Income minus Allowance for Vacancy plus any Miscellaneous Income). Remember when I mentioned "dependable income"? Vacancies happen in property, and when that contingency is not allowed for it can make your numbers too optimistic (unrealistic).

Gross Scheduled Income- (Rentable Square Footage multiplied by the Rent Per Square Foot per Year)- This is your optimal income. If every foot of the building were rented out for an entire year, this is what you would earn in gross terms.

Loan to Value Ratio- Not a calculation per se- This number defines the amount a bank is willing to loan versus the value of the property. If a bank is willing to loan you 80,000 but the value of the property is 100,000 your Loan to Value Ratio is 80 percent.

Net Operating Income- (Effective Gross Income minus Fixed Expenses minus Variable Expenses minus Reserve for Replacement)- Your Net Operating Income gives you the overall value of your project. The more net income produced, the more valuable the project.

These calculations and terms help you speak the language of finance and development. For those of you interested in taking on developments and/or business investments, Emporia Main Street has a series of check lists and other valuable resources available to help you better anticipate your profitability within investment projects. Contact Emporia Main Street with questions, we are here to help! Now that we have a basis for discussion, next week we can cover the finance of building rehabilitation.

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