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EVALUATING MONTREAL'S REAL ESTATE INVESTMENT OPPORTUNITIES

Decision Models:

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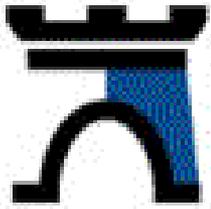
Topics Discussed



1. Business Problem: Finding Attractive Properties
 - A. Montreal's Real Estate Market
 - B. Investing in Sixplexes
2. Problem Formulation: Forecasts; Assumptions
3. Solution Methodology: Modeling Real Estate Returns
 - A. Overview of Investment Strategy
 - B. Rental Property; Condos
 - C. Renovation: Tasks and Times; Materials; Base Case Analysis
4. Conclusions and Recommendations: Attractive Real Estate Opportunities
 - A. Properties Evaluated
 - B. Efficient Frontier
 - C. 10 Properties on or Near Both Efficient Frontiers; Two Best Properties Still Available
5. Takeaways



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BUSINESS PROBLEM: FINDING ATTRACTIVE PROPERTIES



The first part of any renovation project involves interior demolition and the framing of walls.

Montreal's Real Estate Market



- Hot market: impact of speculative investors makes it more difficult to find attractive deals
- Increasing tendency of young professionals to purchase condos, as opposed to renting
- Montreal is broken up into about 30 boroughs
- Rent control
- Rental revenue buildings are valued based on revenues earned
- Condo sales prices are primarily based on square footage and location
- Make money by purchasing undervalued assets



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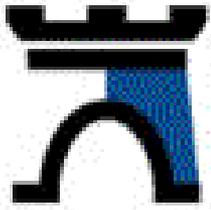
Investing in Sixplexes



- One of the most promising building types are sixplexes
- Strategies:
 1. Renovation into condos:
 - Purchase rental property and remove tenants
 - Demolish interior and renovate sixplex
 - Legally divide condos, if possible
 - Sell condos
 2. Maintain as rental properties:
 - Purchase undervalued rental property
 - Sell property or hold it for its cash flow
- Goal: build a tool to identify investment opportunities worth further exploration



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PROBLEM FORMULATION



After framing,
electrical and
plumbing is
installed.

Forecasts



- Forecasted return on investment (ROI) for each property
- Expected net present value (NPV) generated through purchase of each property
- Standard deviation of ROIs and NPVs for each property
- Expected investment strategy for each property



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Assumptions



- Asking price is purchase price: conservative assumption
- Tenant removal
 - Legal costs associated with removing tenants
 - Time between purchase and last tenant's removal
- Time to complete each step in renovation process
- Permission to subdivide condos
 - Whether legal approval is obtained to subdivide condos
 - Time until a permit to subdivide is granted, or not
- Time until units are sold



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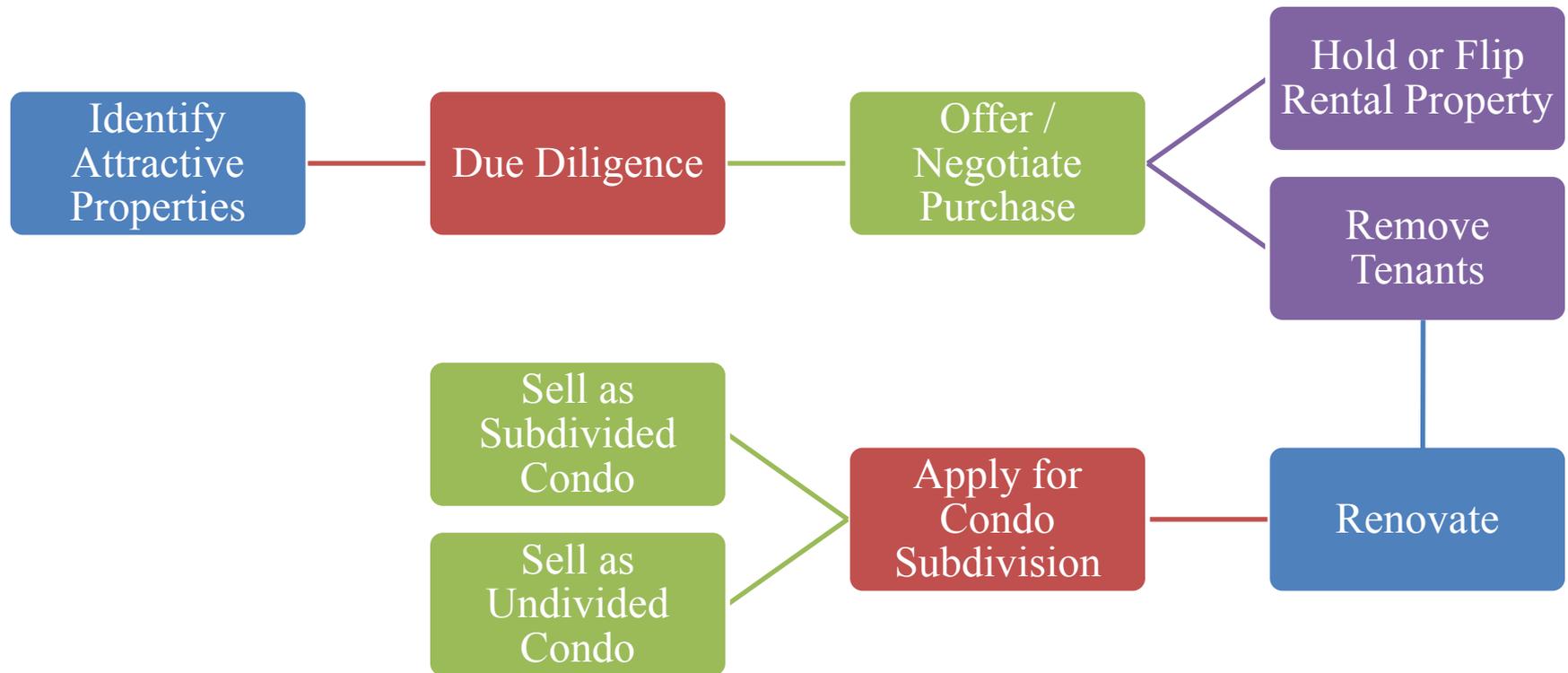


SOLUTION METHODOLOGY: MODELING REAL ESTATE RETURNS



Once electrical and plumbing work has been completed, floor and drywall installation can commence.

Overview of Investment Strategy



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Rental Property



- Costs: purchase price, carrying costs net of rental revenue, notary fees, welcome taxes, lean radiation
- Valuation: expected sale proceeds based on rental revenues discounted at standard real estate capitalization rate (7%)
- Profit: value less costs and capital gains taxes



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Condos



- Total costs include those for rental properties plus:
 - Legal costs to remove tenants, initial inspection costs, architect fees, renovation costs (materials and wages)
 - Rental revenue only until tenant removal
- Valuation: based on property's square footage and borough's price per square foot
 - Longer discount period than for rental properties
 - Undivided condos sell for 15% less
- Profit: value less costs and capital gains taxes

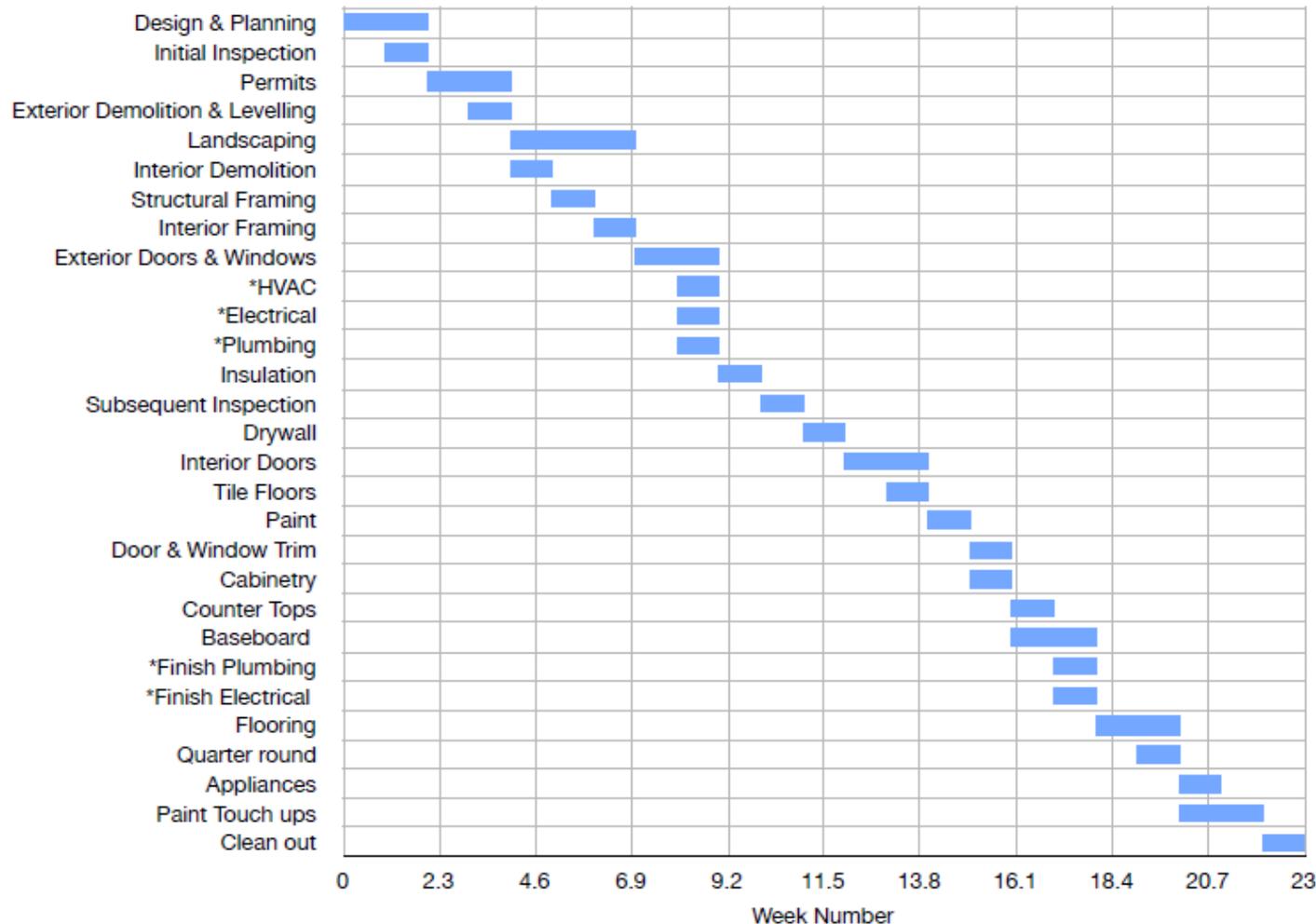


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Renovation: Tasks and Times



Detail Schedule Flowchart



Renovation: Materials



Materials			
Landscaping	5,000.00	Paint	2,400.00
Demo	7,200.00	Trim	3,000.00
Framing	10,000.00	Cabinets	24,000.00
Ext. doors and windows	22,500.00	Countertops	3,600.00
HVAC	2,400.00	Plumbing finishings	6,000.00
Electrical	3,600.00	Electrical finishings	6,000.00
Plumbing	3,000.00	Flooring	2,000.00
Insulation	7,200.00	Appliances	1,800.00
Drywall	6,000.00	Miscellaneous	600.00
Int. doors	3,000.00	Roof	12,000.00
Tiles	3,000.00	Brick	2,000.00
		Balconies	1,000.00
		Total	137,300.00



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Renovation: Base Case Analysis

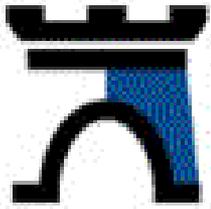


- Base case model generates the renovation time, renovation cost, and profit from an executed project
- Renovation times and renovation costs are adjusted by square footage and used to calculate the time and costs associated with evaluated properties
- Base case carrying costs are adjusted by purchase price

Renovation time	27.00
Other time	36.00
Total time to sale	63.00
Agent fees with sales tax	5.7%
Weekly wages	5,200.00
Capital gains tax	26.0%
Sale price	1,020,000.00
Agent fee + tax	57,630.00
Materials	137,300.00
Wages	114,400.00
Renovation costs	251,700.00

Insurance	3,540.38
Electricity	9,450.00
Municipal taxes	3,998.08
Carrying costs	16,988.46
Notary fees	2,000.00
Welcome taxes	4,000.00
Initial inspection	1,200.00
Architect	6,000.00
Lean radiation	500.00
One-time costs	13,700.00
Net sales price	679,981.54
Purchase price	460,000.00
Capital gains	219,981.54
Taxes	57,195.20
Net profit	162,786.34
WACC	7%
NPV	87,012.28





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CONCLUSIONS AND RECOMMENDATIONS: ATTRACTIVE REAL ESTATE OPPORTUNITIES



The last steps of a renovation include painting, the installation of fixtures, and finishing.

Properties Evaluated

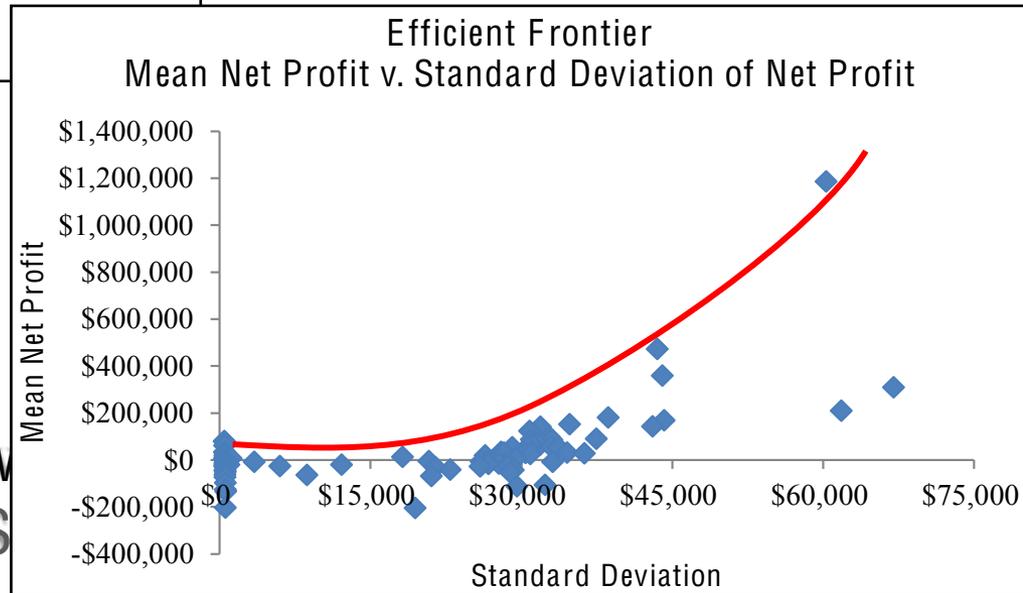
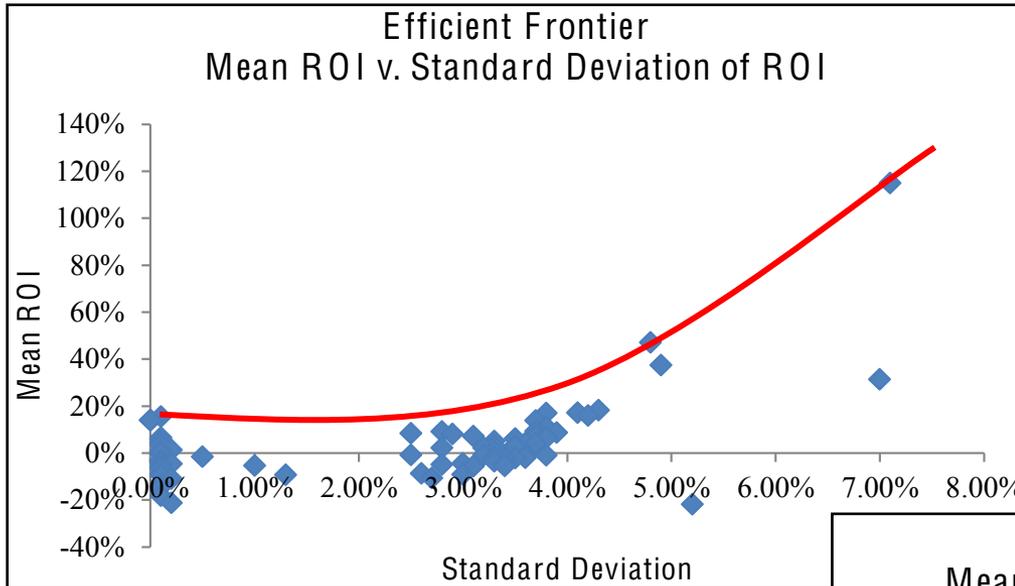


- 91 sixplexes on the market in Montreal evaluated
 - 10 buildings thrown out for lack of square footage data
 - Properties in 18 boroughs
- Model forecasted for each property:
 1. Return on investment (per project)
 2. Net present value
 3. Investment strategy used
- Prefer false positives (Type I errors)



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Efficient Frontier



10 Properties on or Near Both Efficient Frontiers



MLS® No.	Address	Borough	Asking Price	% ROI		Net Profit		Investment Strategy	Comments
				Mean	Standard Deviation	Mean	Standard Deviation		
8650173	1878-1888 Rue Parthenais	Ville Marie	\$555,000	115.0%	7.1%	\$1,186,055	\$60,351	Condos	Offer accepted: great deal, but expected profit \$400k less as located close to bridge
8570664	5598A-5598F 2e Avenue	Rosemont	599,000	47.1%	4.8%	472,793	43,549	Condos	Investigate further
8650620	1698-1708 Rue Cartier	Ville Marie	674,000	37.4%	4.9%	358,222	44,049	Condos	Investigate further
8648987	1208-1218 Rue Hickson	Verdun/Île Soeurs	499,000	18.2%	4.3%	141,393	31,941	Condos	Investigate further: may be difficult to sell due to a few small apartments
8620819	4590 Rue Bélanger	Rosemont	599,000	17.1%	4.1%	151,423	34,838	Condos	False positive: cheap construction
8547898	6900 Boul. Pie-IX	Rosemont	729,000	17.0%	3.8%	180,391	38,661	Condos	False positive: take off 1/6 of revenue for semi-basement units
8624392	4961 Rue Ste-Catherine E.	Mercier/Hochelaga	475,000	15.9%	4.2%	122,672	30,873	Condos	Investigate further: bad location (far from city center)
8592272	10962 Av. L'Archeve?que	Montréal Nord	395,000	15.5%	0.1%	61,430	564	Rentals	Investigate further
8621691	603-613 Av. Bourbonnière	Mercier/Hochelaga	569,000	13.9%	0.0%	78,751	539	Rentals	Offer accepted: good deal
8621712	591-601 Av. Bourbonnière	Mercier/Hochelaga	569,000	13.9%	0.0%	78,751	539	Rentals	Offer accepted: good deal

8 interesting properties

2 false positives / poor investments



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Two Best Properties Identified that Are Still Available



MLS® No. 8570664 (Active)

Image 1 of 1 [Open All](#)



\$599,000

**5598A-5598F 2e Avenue
Rosemont/La Petite-Patrie (Montréal)
H1Y 2Y3**

Region Montréal
Neighbourhood Rosemont
Near DANDURAND
Body of Water

Property Type
Property Use
Building Type
Total Number of Floors
Building Size
Living Area
Lot Size
Lot Area
Québec Cadastre
Zoning

Other
Residential only
Semi-detached
3
9.14 X 13.14 m
360.3 sqm
9.14 X 22.25 m
203.5 sqm
1586111

MLS® No. 8650620 (Active)

Image 1 of 7 [Slideshow](#) · [Open All](#)



\$674,000

**1698-1708 Rue Cartier
Ville-Marie (Montréal)
H2K 4E2**

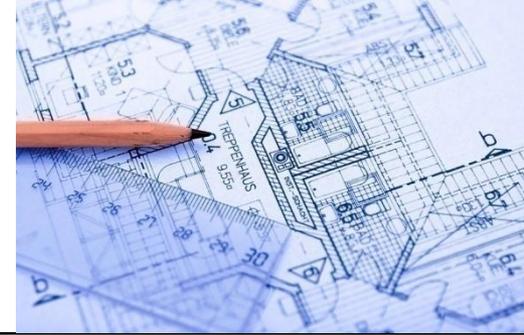
Region Montréal
Neighbourhood Central
Near Maisonneuve
Body of Water

Property Type
Property Use
Building Type
Total Number of Floors
Building Size
Living Area
Lot Size
Lot Area
Québec Cadastre
Zoning

Other
Residential only
Attached
3
34 X 47.5 ft irr
34 X 62.6 ft
2,128 sqft
1729304
Residential



Takeaways



- Built a model to identify attractive sixplex investments for renting and renovating into condos
- Model assessment:
 - Did an effective job of filtering properties based on investment criteria
 - 3 recent purchases of 10 listings demonstrate this
 - Despite usefulness, several identified listings had a caveat
- Potential improvements:
 - Less granular location data would improve forecasting results
 - Could be made to consider market volatility
 - Better investment opportunities if include more building types and cities

Questions?



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