Zillmeter’s Approach

Multiple scenarios are perceivable for any residential real estate investment. The success of any real estate investment is subject to the business model selected for the chosen property. *The calculated profit of the investment and return on investments assume the assets are liquidated after «HP» years (i.e. holding period).* Zillmeter forecasts the financials of all perceivable options including buying the residential property for:

* Rental: Rent out for a long period of time and then sell
* Vacation Rental: Rent out for a short period of time and then sell
* Primary Residence: Personal primary residence and then sell
* Budget Residence: Personal primary residence while renting part of the premise for a short period of time
* Flipping: Improve and then sell

Methodology

Zillmeter’s financial model is a platform that generates Before-Tax and After-Tax cashflow for the real estate investment you desire, and for a specific period chosen by yourself. The strength of this model is containing the accredited real estate data base that goes years back, with the carefully designed algorithm formula that takes many designed variables into account, connects those findings, and compare them with the benchmark of your choice, for example S&P 500.

With Zillmeter, you can choose the property that appeals most to your taste. Then, choose the investment period you have in mind, throw it into our precise data base system, and sit back while the system is calculating which real estate investment is the best option for you.

In this formula, our scientist and data analysist team incorporated as much variables as possible to make the most accurate prediction for your investment. Some of these variables are stated below:

* Possibility for crashing of the real estate market and stock market as it was experienced back in 2008
* The possible monthly operation expenses based on each type of investment
* The impact of real estate appreciation and inflation on the type of investment made
* The possible monthly income after taking all the real estate investment aspect into account, such as a property’s age, condition, size, etc.
* Tax benefits of paid interest, property depreciation, and capital gain tax instead of ordinary income tax

Data mining strategy

There are several sources of data to run Zillmeter’s analysis. The basic information, like the house characteristics and owner’s information, is collected from an accredited real estate data base that goes years back in data, county assessor’s database which provides the most accurate and up to date information, mortgage companies, and insurance companies.

Once the data is collected from several data bases (some mentioned above), the information is then used in the proprietary machine learning algorithms built by Zillmeter’s scientists, to estimate the market value of a specific property.

The rental and vacation rental from popular websites are collected from the past decade to today’s date, to forecast the most accurate rent growth rate. To keep our rental and vacation rental database updated on a real time basis, we then combine the data from the past with the most recent available property rental data. This allows the system to forecast the most accurate rental income. This prediction of the rental income is driven from various factors such as location, number of bedrooms, number of bathrooms, and the condition of the property.

Decision Making Process

Our financial modeling treats each scenario as an independent business entity. This means, a complete cash flow through the period of the ownership is projected which encompasses any money contributed to and earned from the investment all the way from acquisition to disposition. Having cash flows of an investment, the next step is to calculate the *net present value of the cash flow* as well as the *internal rate of return of the cash flow*. Internal Rate of Return and Net Present Value are robust metrics to evaluate the

performance of any financial investment and are reliable means to make the right decision.

* *Net Present Value (Net Profit)*: Money’s value changes over time. A discount rate at a risk-free rate (equal with the general inflation rate) is assumed to bring the future value of cashflows of each scenario to the present value. The sum of all net present values of cash flow is the “Net Present Value”. This metric is very crucial as it shows the net profit of the projected cash flow at the given discount rate, which in Zillmeter’s calculation is «DISR». This rate is set to be equal with the Average Inflation Rate. Therefore, the presented net profit is technically adjusted for inflation.
* *Internal Rate of Return (Annual Yield):* If the projected cash flow of any given investment is discounted at the “Internal Rate of return” the net present value of that cash flow would be equal to zero. This metric is specifically helpful when investor know the anticipated rate of yield in another investment. Commonly It is preferred to choose the investment with a higher IRR. However, this parameter cannot be referenced solely in the financial decision-making process because it does not explicitly define the real amount of money earned out of the investment. Therefore, it is advised to consider both IRR and Net Present Value to select the most lucrative investment strategy.

The prime objective of this report is to steer the prospective or current owner of the property at “«ADRS»” to discover following items:

* The profitability of all perceivable investment scenarios related to this home
* Compare the financial performance of each scenario with a known benchmark *(“S&P500”) (*how much would be earned investing the equal initial cash for a similar period of time in the benchmark investment)
* Project cash flows during the holding period of property for each scenario
* Insights for money in / money out of pocket throughout the ownership period

What is the Benchmark Investment?

The initial cash allocated for buying this home can also be invested elsewhere for similar holding period, this is called the “Benchmark Investment”. In this report the performance of each investment scenario is benchmarked against the return of *“*[*S&P500 index*](https://en.wikipedia.org/wiki/S%26P_500_Index)*”* or approximately «BR» *average* annual return in the past «HP» years. This means investment in S&P500 index has an anticipated yield of «BR». The Benchmark cash flow is calculated assuming the earned dividend is reinvested in the Benchmark.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Year 0** | **«YR1»** | | **«YR2»** | **«YR3»** | **«YR4»** | **«YR5»** | |
| **INVEST** | **INVEST** |  | |  |  |  |  |
| Initial Cash Invested | **«IC»** |  | |  |  |  |  | |
| **INVESTMENT PERIOD** |  | | **INVESTMENT HORIZON** | | | | |
| Principal Collection |  | «IN1» | | «IN2» | «IN3» | «IN4» | «IN5» | |
| Interest Collection |  | «OE1» | | «OE2» | «OE3» | «OE4» | «OE5» | |
| Less: Income Tax |  | «IT1» | | «IT2» | «IT3» | «IT4» | «IT5» | |
| **Net Cash Flow** | **«IC»** | **«OF1»** | | **«OF2»** | **«OF3»** | **«OF4»** | **«OF5»** | |

\*Profit is the “*Net Worth”* of projected cash flow going in and out of pocket to invest in the benchmark

Key Financial Metrics in this investment

1. Internal Rate of Return (Yield): This metric, also called “Yield” in Zillmeter’s website and other documents, measures the investment’s annual return throughout the entire property ownership timeframe. Internal Rate of Return is calculated on Before-Tax Cash Flow as well as After-Tax Cash Flow.

|  |  |  |
| --- | --- | --- |
| If Property is sold after «HP» years | Before Tax Yield | After Tax Yield |
| Benchmark | «BBR» | «ABR» |
| Budget Residence | «BBRR» | «ABRR» |
| Primary Residence | «BPRR» | «APRR» |
| Rental | «BRR» | «ARR» |
| Vacation Rental | «BVRR» | «AVRR» |
| If Property is sold in a year | Before Tax Yield | After Tax Yield |
| Benchmark | «BBR» | «ABR» |
| Flipping | «BFR» | «AFR» |

1. Net profit of the investment: This table shows the present value of the profit from the real estate investment. Net profit is calculated for the entire period of ownership of the property until selling and liquidating the investment. Then the cash flows are discounted at the risk-free rate «DISR» (equals with the general inflation rate) to the present value and the net value is assumed as the net profit or loss on the investment.

|  |  |  |
| --- | --- | --- |
| If Property is sold after «HP» years | Before Tax Profit | After Tax Profit |
| Benchmark | **«BBPV»** | **«ABPV»** |
| Budget Residence | «BVRPV» | «AVRPV» |
| Primary Residence | «BRPV» | «ARPV» |
| Rental | «BPPV» | «APPV» |
| Vacation Rental | «BBRPV» | «ABRPV» |
| If Property is sold in a year | Before Tax Profit | After Tax Profit |
| Benchmark | «BSBPV» | «ASBPV» |
| Flipping | «BFPV» | «AFPV» |