

HOW TO ESTIMATE OPERATING COSTS

Operating costs (or operating expenses – we use them interchangeably) are any expenses that are necessary for the operation of the property.

This worksheet walks you through calculating each of these expenses, so that you can calculate cap rate accurately. Let's get started!

LET'S ESTIMATE OPERATING COSTS STEP-BY-STEP!

Step 1: Property taxes

You may have noticed that Zillow and other similar sites show the property taxes for a property online. But can these be trusted? We recommend you go to the County Assessor's website or office to get the most accurate information. Also, be sure to find out if the area you're investing in has *both* County and City taxes.

County tax + City tax = Property taxes: _____

Step 2: Insurance

Again, you might find this information in a property listing, but it's best to get an actual quote from an insurance agent. Using an estimate for an initial calculation is fine, but if

you are under contract and in the due diligence phase of investing, be sure to get a quote.

Annual Insurance Rate: _____

Step 3: Utilities

Water/sewer: _____

Gas/electric: _____

Trash/recycling: _____

Total Utilities: _____

Step 4: Maintenance and Repairs

You can use a quick calculation when running rough numbers (i.e. when you're trying to decide whether to put an offer in on a property), but when under contract, be sure to calculate more thoroughly. If you are purchasing a property that is under market value, your maintenance will not be in proportion to the purchase cost.

Lawn care: _____

Snow removal: _____

Gutter cleaning: _____

General repairs: _____

Total Repairs and maintenance: _____

Step 5: Capital Expenditures (or Cap Ex)

Capital Expenditures include the major components of the house. We recommend using the *Cap Ex Cash Outlays* spreadsheet to calculate the age and lifespan of particular components and the *YFRP Repair Costs* spreadsheet to keep track of quotes from contractors. After looking through those spreadsheets, you can group them together below, according to location.

Exterior: _____

Interior: _____

Total: _____

Step 6: Management

You can expect to pay around 10% of your Potential Gross Rent on a property management company. If you haven't yet calculated this number, complete the *How to Estimate Rent* worksheet first! And remember, if you plan to self-manage, you still need to include fees to pay yourself for your time.

Potential Gross Rent x 10% (.10) = Management expenses: _____

Step 7: Miscellaneous Items

If your property is located in a Homeowner's Association, then record those fees here:

HOA fees: _____

Other: _____

Step 8: Now it's time to add them all up! So here we go....

Property Taxes: _____

Insurance: _____

Utilities: _____

Maintenance and Repairs: _____

Cap Ex: _____

Management: _____

HOA/miscellaneous fees: _____

TOTAL OPERATING COSTS: _____

Step 8: You can take the above number and use it in the "How to Calculate Cap Rate" worksheet, along with using it in conjunction with the Mega-analyzing Spreadsheet.

Step 9: Give yourself a pat on the back, because you are one step closer to purchasing your first rental property!