

Introduction to Financial Analysis for

Introduction to Financial Analysis for Property Managers

Property Managers

Purpose: Provide a quick-reference guide that helps property managers understand the core concepts, tools, and steps needed to evaluate the financial performance of real-estate assets.

1. Why Financial Analysis Matters

Benefit	What It Enables You to Do
Assess profitability	Identify which properties generate the best returns.
Control costs	Spot expense trends and areas for reduction.
Make investment decisions	Compare acquisition, renovation, or disposal options.
Communicate with stakeholders	Present clear, data-driven reports to owners, lenders, and investors.
Plan for the future	Build realistic budgets, cash-flow forecasts, and capital expenditure (CapEx) plans.

2. Key Financial Statements & Metrics

Statement	Primary Use	Typical Frequency
Income Statement (Profit & Loss)	Shows revenue vs. operating expenses & Net Operating Income (NOI).	Monthly, quarterly, annual
Balance Sheet	Snapshot of assets, liabilities, and equity at a point in time.	Quarterly, annual
Cash-Flow Statement	Tracks actual cash in/out & Operating, investing, financing cash flow.	Monthly, quarterly, annual

Core Metrics

Metric	Formula	Interpretation
Gross Potential Rent (GPR)	Sum of all lease rates if 100% occupied.	Upper bound of rental income.

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Metric	Formula	Interpretation
Effective Gross Income (EGI)	$GIR - Vacancy \& Credit Losses + Other Income.$	Realistic income after expected losses.
Net Operating Income (NOI)	$EGI - Operating Expenses (excluding debt service, depreciation, taxes).$	Property's earnings before financing.
Capitalization Rate (Cap Rate)	$NOI \div Current Market Value (or Purchase Price).$	Yield; helps compare properties.
Cash-on-Cash Return	$Annual Pre-Tax Cash Flow \div Total Cash Invested.$	Return on the actual cash put into the asset.
Debt Service Coverage Ratio (DSCR)	$NOI \div Annual Debt Service.$	Ability to meet loan payments; DSCR > 1.2 is typical.
Operating Expense Ratio (OER)	$Operating Expenses \div Effective Gross Income.$	Cost efficiency; lower OER = better performance.
Break-Even Occupancy	$(Operating Expenses + Debt Service) \div Gross Potential Rent.$	Minimum occupancy needed to cover costs.
Internal Rate of Return (IRR)	Discount rate that makes NPV = 0 for cash flow series.	Overall profitability over holding period.
Net Present Value (NPV)	$\sum (Cash Flow_t / (1+r)^t) - Initial Investment$	Value added (positive NPV) or lost (negative NPV).

3. Step-by-Step Financial Analysis Process

1. Collect Data

- Lease agreements, rent rolls, utility bills, maintenance logs.
- Historical income & expense statements (at least 12-24 months).
- Market data: comparable rents, vacancy rates, cap rates.

2. Prepare the Income Statement

- **Revenue:** Rental income, parking, laundry, fees, other ancillary income.
- **Adjust for Vacancy & Credit Loss:** Apply market vacancy % or property-specific trends.
- **Add Other Income:** Service fees, reimbursements, etc.

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3. Calculate Operating Expenses

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- Fixed: Property