

Learning Objectives

- Understand the key financial metrics for coliving deals
- Calculate cash-on-cash return accurately
- Determine debt service coverage ratio (DSCR)
- Know your "walk away" numbers before making offers
- Use the Deal Analyzer tool to evaluate any property

Why Numbers Matter

Here's the truth: most investors lose money on bad deals because they **fell in love with the property** instead of the numbers. They saw potential, got excited, and convinced themselves it would work.

Professional investors do the opposite. They start with the numbers. If the numbers don't work, they walk away—no matter how perfect the property seems.

THE #1 MISTAKE NEW INVESTORS MAKE

Using "optimistic" numbers to make a deal work on paper. Always use conservative estimates. If a deal only works with best-case assumptions, it's not a deal—it's a gamble.

The 5 Key Metrics for Coliving

You need to know these numbers for every deal. Our Deal Analyzer calculates all of them automatically, but understanding what they mean is crucial.

1. Gross Potential Income (GPI)

This is your maximum possible income if every room is rented every day of the year.

EXAMPLE CALCULATION

5-bedroom house × \$750/room/month = \$3,750/month

\$3,750 × 12 months = **\$45,000 GPI annually**

2. Effective Gross Income (EGI)

This is your realistic income after accounting for vacancy. Even the best coliving operators have some turnover.

VACANCY RATE	WHEN TO USE	WHY
5%	Established property, high demand area	Strong demand, quick turnover
10%	Most properties (default)	Conservative, accounts for turnover time
15%	New property or softer market	Extra buffer for uncertainty

EXAMPLE CALCULATION

$$\$45,000 \text{ GPI} \times (1 - 0.10 \text{ vacancy}) = \mathbf{\$40,500 \text{ EGI annually}}$$

3. Net Operating Income (NOI)

This is your income after all operating expenses—but before the mortgage payment. It shows how much the property generates on its own.

COLIVING OPERATING EXPENSES

Typical operating expenses for coliving run 35-45% of EGI. This includes utilities (since you pay them), property taxes, insurance, repairs, property management, and reserves.

Typical Expense Breakdown

EXPENSE CATEGORY	MONTHLY ESTIMATE	NOTES
Utilities (all)	\$300-500	Electric, gas, water, sewer, trash, internet
Property Taxes	Varies by location	Check county records
Insurance	\$150-300	Landlord policy with proper coverage
Repairs & Maintenance	5-8% of rent	Higher for older homes
Property Management	8-10% of rent	If using manager; \$0 if self-managing
CapEx Reserve	5% of rent	Roof, HVAC, appliances fund
Lawn/Snow	\$100-200	If not included in management

EXAMPLE CALCULATION

\$40,500 EGI - \$16,200 expenses (40%) = **\$24,300 NOI annually**

4. Cash-on-Cash Return (CoC)

This is the metric that matters most for investors. It tells you what percentage return you're getting on the actual cash you invested.

Cash-on-Cash Return Formula:

$$\text{CoC} = (\text{Annual Cash Flow} \div \text{Total Cash Invested}) \times 100$$

EXAMPLE CALCULATION

Total Cash Invested:

- Down payment (20% of \$200K): \$40,000
- Closing costs: \$6,000
- Renovation: \$25,000
- Furnishing: \$9,000
- **Total: \$80,000**

Annual Cash Flow:

- NOI: \$24,300
- Annual mortgage payments: \$12,864 (\$1,072/month)
- **Cash Flow: \$11,436**

CoC Return: \$11,436 ÷ \$80,000 = 14.3%

Cash-on-Cash Benchmarks



5. Debt Service Coverage Ratio (DSCR)

DSCR tells you how easily the property can cover its mortgage payments. Lenders use this to qualify you, and you should use it to assess risk.

DSCR Formula:

$$\text{DSCR} = \text{NOI} \div \text{Annual Debt Service}$$

EXAMPLE CALCULATION

NOI: \$24,300 ÷ Annual Mortgage: \$12,864 = **DSCR of 1.89**

This means the property generates 1.89x the income needed to cover the mortgage.

DSCR Benchmarks

DSCR	MEANING	LENDER VIEW
Below 1.0	Property loses money	Won't qualify for most loans
1.0 - 1.2	Barely covers mortgage	May qualify, but risky
1.2 - 1.5	Comfortable cushion	Most lenders happy
1.5+	Strong cash flow	Excellent qualification

The Deal Analyzer Process

Here's the step-by-step process for analyzing any coliving deal:

Step 1: Gather Property Information

- Asking price
- Number of bedrooms (and which can be converted to rentable rooms)
- Square footage
- Year built and condition
- Current property taxes

Step 2: Research Market Rents

- Check PadSplit listings in the ZIP code
- Check Furnished Finder, Craigslist, Facebook Marketplace
- Use the **lower end** of the range for analysis

ROOM RENT RESEARCH TIP

Search "rooms for rent [ZIP code]" and "furnished room [city]" to see what competitors charge. Look at what's actually renting, not just what's listed.

Step 3: Estimate All Costs

Acquisition Costs

- **Down payment:** 15-25% for investment property
- **Closing costs:** 2-4% of purchase price
- **Inspection & appraisal:** \$500-1,000

Renovation Costs (if needed)

- **Light refresh:** \$5,000-15,000 (paint, flooring, fixtures)
- **Moderate renovation:** \$15,000-40,000 (add bathroom, kitchen update)
- **Heavy renovation:** \$40,000+ (major systems, layout changes)

Furnishing Costs

- **Per room:** \$1,500-3,000 (bed, dresser, desk, chair, lamp, bedding)
- **Common areas:** \$2,000-5,000 (living room, kitchen items)

Step 4: Run the Numbers

Input everything into the Deal Analyzer and review the output:

- Is Cash-on-Cash above 15%? or
- Is DSCR above 1.25? or
- Is monthly cash flow positive by at least \$500? or

Step 5: Stress Test

What happens if things don't go perfectly?

- What if rents are 10% lower than expected?
- What if vacancy is 15% instead of 10%?
- What if renovation costs 20% more?

THE STRESS TEST RULE

If the deal still works with worse assumptions, it's a solid deal. If it only works with perfect conditions, walk away.

PadSplit vs. Self-Managed Analysis

The numbers look different depending on which platform approach you use.

PADSPLIT**Key Differences**

- PadSplit takes ~12% of gross rent
- They handle tenant placement
- Weekly payment collection
- Lower vacancy (typically 5-8%)
- Less management time

Net income may be similar due to lower vacancy and management costs.

SELF-MANAGED**Key Differences**

- No platform fees
- You handle tenant finding
- Monthly payment collection
- Higher vacancy risk (8-12%)
- More management time

Higher gross income but more work and risk.

Our Deal Analyzer lets you toggle between both approaches to see how the numbers compare.

Know Your "Walk Away" Numbers

Before you analyze any deal, know your minimum requirements:

Suggested Minimums for Coliving

Cash-on-Cash Return:

≥ 12%

DSCR:

≥ 1.25

Monthly Cash Flow:

≥ \$400

Cash Flow per Room:

≥ \$100

These are starting points. As you gain experience, you'll develop your own criteria based on your market and goals.

⚠️ Common Analysis Mistakes

❌ Mistakes to Avoid

- Using asking price instead of your offer price
- Forgetting closing costs in total investment
- Using "market high" rent estimates
- Underestimating renovation costs
- Forgetting furnishing costs
- Using 0% vacancy (unrealistic)
- Forgetting CapEx reserves
- Not accounting for platform fees

✅ Best Practices

- Analyze at YOUR offer price
- Include ALL cash required
- Use conservative rent estimates
- Add 15-20% contingency to reno
- Budget \$2,000+ per room to furnish
- Use 10% vacancy minimum
- Reserve 5% for CapEx
- Run both platform scenarios

✅ Action Steps

1. **Open the Deal Analyzer tool** and familiarize yourself with all inputs

2. **Practice with a sample property:** Use Zillow to find a 4+ bedroom home and run the numbers
3. **Research room rents** in your target market
4. **Define your walk-away criteria** (minimum CoC, DSCR, cash flow)
5. **Analyze 5 properties** this week to build your analysis muscle

Key Takeaways

- **Cash-on-Cash Return** is the most important metric—target 15%+
- **DSCR above 1.25** means comfortable debt coverage
- Always use **conservative estimates**—if a deal only works with optimistic numbers, it's not a deal
- **Stress test every deal**—what if things go wrong?
- Know your walk-away numbers **before** you start analyzing
- Practice makes perfect—analyze many deals to develop intuition



Ready to Analyze Deals?

Use the Deal Analyzer to evaluate any coliving property instantly.



Module 3 Complete!

You now have the skills to research markets, score neighborhoods, and analyze deals like a pro. Next up: funding your first deal.