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INVESTMENT, & OPERATIONS GUIDE™

IT'S POSSIBLE FOR TWO INVESTMENTS TO HAVE THE SAME IRR, BUT DIFFERENT NPVS.

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REAL STATE INVESTING IN OPERATIONS GUIDES

It's Possible For Two Investments To Have The Same IRR, But Different Npvs.

As a multifamily investor, it's important to understand the difference between internal rate of return (IRR) and net present value (NPV) when evaluating potential investments. Although IRR is often used as a primary metric for evaluating returns, it's possible for two investments to have the same IRR, but different NPVs. Here's how that can happen:

Let's say you're considering two multifamily investments. Both properties have a purchase price of $1 million, and both are expected to generate $200,000 in net operating income (NOI) each year for the next ten years. Investment A requires $200,000 in renovations upfront, while Investment B is in move-in ready condition.

Using a financial calculator, you determine that both investments have an IRR of 10%. However, when you calculate the NPV of each investment, you find that Investment B has a higher NPV than Investment A.

The reason for this is because NPV takes into account the time value of money, whereas IRR does not. When you calculate NPV, you discount the future cash flows of the investment back to their present value using a discount rate. This discount rate represents the opportunity cost of investing in the property, and it accounts for the fact that money today is worth more than money in the future due to inflation and other factors.

In our example, Investment B has a higher NPV because it requires no upfront renovation costs, and therefore has a lower initial investment. This lower initial investment means that the cash flows generated by Investment B are worth more in present-day dollars than the cash flows generated by Investment A. This difference in NPV indicates that Investment B is a better investment than Investment A, even though they have the same IRR.

So, when evaluating multifamily investments, it's important to look beyond just IRR and also consider the NPV of each investment. By doing so, you can ensure that you're making the best investment decision based on the overall value of the investment. In the case study above, becoming a member of Buy it Rent it Profit and utilizing our underwriting tools and other resources can help you make more informed decisions when evaluating potential multifamily investments. Our community of experienced investors can provide guidance on how to calculate both IRR and NPV, as well as offer insights on which metrics to prioritize when making investment decisions.

As a member, you'll also have access to our underwriting tools, which can help you quickly and accurately evaluate potential investments. Our tools allow you to input key metrics such as purchase price, renovation costs, and projected cash flows, and generate detailed reports that include IRR, NPV, and other important metrics. This can help you compare multiple investments side-by-side and determine which one offers the best overall value.

Furthermore, Buy it Rent it Profit provides a range of resources to help you stay up-to-date on market trends, regulations, and best practices. You can access educational materials on property management, financing, and other important topics, as well as attend webinars and events where you can learn from experts in the field.

Overall, becoming a member of Buy it Rent it Profit can help you make more informed decisions when evaluating multifamily investments. By utilizing our underwriting tools and other resources, you can ensure that you're evaluating investments based on both IRR and NPV, and make the best investment decisions for your portfolio.

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