

SIGMA ALPHA MU FRATERNITY  
PURCHASE OF A CHAPTER HOUSE  
PRELIMINARY ANALYSIS TECHNIQUE  
(Run The Numbers)

- 1) Work with a realtor to get a realistic expectation of the purchase price of the house.
- 2) Make an estimate of the cost to furnish the house and remodeling/repairs; typically, this cost will be about 15% of the cost of the house.
- 3) The realtor officer should provide a current interest rate for a mortgage loan; for a second mortgage from the Endowment Fund, contact the office for an estimate.
- 4) The term of the first mortgage will be between 20-30 years; second mortgages will be 15 years.
- 5) The first mortgage will be approximately 80% of the house purchase cost; the second mortgage will have to cover the balance of the house purchase plus furnishings. Any "brick fund" money should be subtracted from the second mortgage requirement.

EXPENSES

- 6) Use a pocket calculator, Internet service, or financial tables to calculate the debt service on the first and second mortgage.
- 7) Ask the realtor to give you information on local real estate taxes or talk with the local county appraiser.
- 8) Make an estimate of insurance costs, utilities cost, and house operations cost (be resourceful in getting the estimates and do not underestimate - err on the high side).
- 9) Sum all these annual costs and then add a 10% contingency to determine total expenses.

INCOME

- 10) Estimate the average number of members in the chapter for the next five years. ( Do not estimate significant increases in chapter size based upon the new facility - experience has proven that it does not happen).
- 11) Determine how many people will sleep in the house.
- 12) Calculations for income should 10% of sleeping capacity will be empty beds
- 13) Determine a monthly rent for In House members using dormitory rates and apartment rates in the same neighborhood as the proposed house (a market rent should always be charged).
- 14) In House revenue is equal to monthly rate times 9 months times 90% of the sleeping capacity.
- 15) All other members should pay an Out Of House fee; Multiply fee times 9 months times members not living in the house.
- 16) The sum of the two components should be reduced by 10% to reflect nonpayment of fees by the membership (bad debt expense).
- 17) A brick/building fund should be charged to each member upon initiation. (As these funds are a capital improvement fund, they are not included in the accompanying example).

BOTTOM LINE

- 18) Compare income and expenses; if they are reasonably close, continue to pursue purchase of the house; if not, forget the option.

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Cost of House	\$ 400,000
Furnishings/Remodeling	<u>60,000</u>
Total Amount to be Financed	\$ 460,000
Interest Rate	7.5%
First Mortgage Term	25 years
Second Mortgage Term	15 years
First Mortgage	80% x \$ 400,000 = \$ 320,000
Second Mortgage	\$140,000

**EXPENSES**

Debt Service, First Mortgage	\$2364.77/mo. x 12 mo.	\$ 28,380
Debt Service, Second Mortgage	1297.82/mo. x 12 mo.	15,570
Real Estate Taxes		3,500
Property & Other Insurance		8,550
Utilities		8,000
Operations		<u>12,000</u>
	SUBTOTAL	\$ 76,000
10% Contingency		<u>7,600</u>
	TOTAL EXPENSES	\$ 83,600

**INCOME**

Members = 40    House Sleeps = 15  
Base calculation that 10% of sleeping capacity will be empty beds = 13.5 beds rented

In House Income:	Rent = \$600/mo. x 9 mo. x 13.5	\$ 72,900
Out of House Income:	Charge = \$60/mo. x 9 mo. x 26.5	<u>14,300</u>
	SUBTOTAL	\$ 87,200
Less 10% for nonpayment		<u>(8,720)</u>
	TOTAL INCOME	\$ 78,480