Advanced Property Analysis

Residential – Commercial – Industrial – Retail

Report Prepared By

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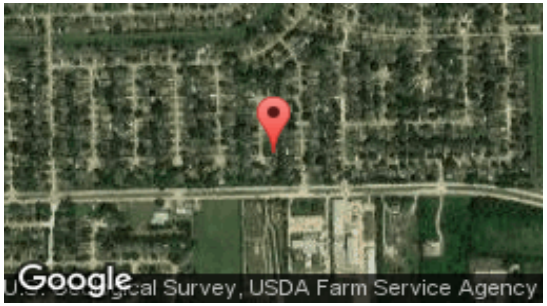
Report Property Maps



Property Address

10547 Quail Ridge Lane
Sugar Land, TX 77498

Table of Contents

10547 Quail Ridge Lane
Sugar Land, TX 77498

Traditional Investment Summary

This summary is based on the traditional, straight-line analysis, and it illustrates 15-year averages for the returns and cash-flows shown. They are intended to assist in comparing this illustration to other investments with similar time, liquidity, cash-flow and risk factors.

Pre-Tax Cash-on-cash Return 6.46%

This is the 15-Year Average Pre-Tax Cash-on-cash Return. It can be used to compare the returns of this investment with the pre-tax returns of other investments of similar term and risk.

After-Tax Cash-on-cash Return 6.14%

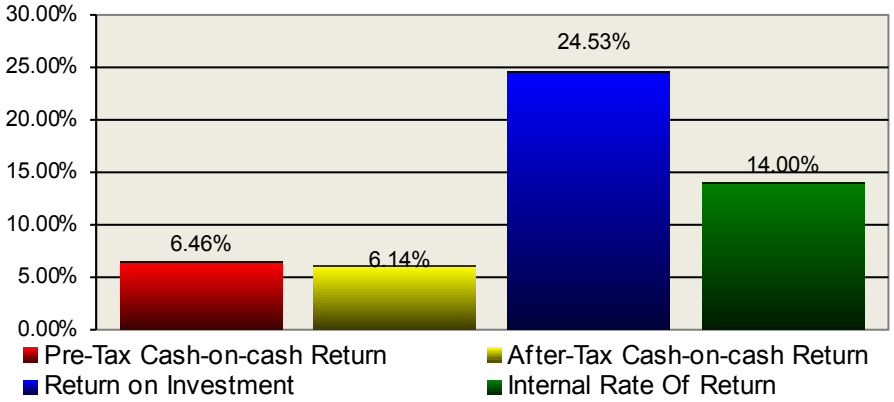
This is the 15-Year Average After-Tax Cash-on-cash Return. It can be used to compare the returns of this investment with the after tax returns of other investments of similar term and risk.

Return on Investment (ROI) 24.53%

This is the 15-year Average Return on Investment for the illustration (Total Return / Initial Investment).

Internal Rate of Return (IRR) 14.00%

This is the discount rate often used in capital budgeting and one of the most common return calculations.



Pre-Tax Cash Flow $1,616

This is the 15-Year Average Pre-Tax Cash Flow. It can be used to compare the cash flow of this investment with the pre-tax cash flows of other investments of similar term and risk.

After-Tax Cash Flow $1,535

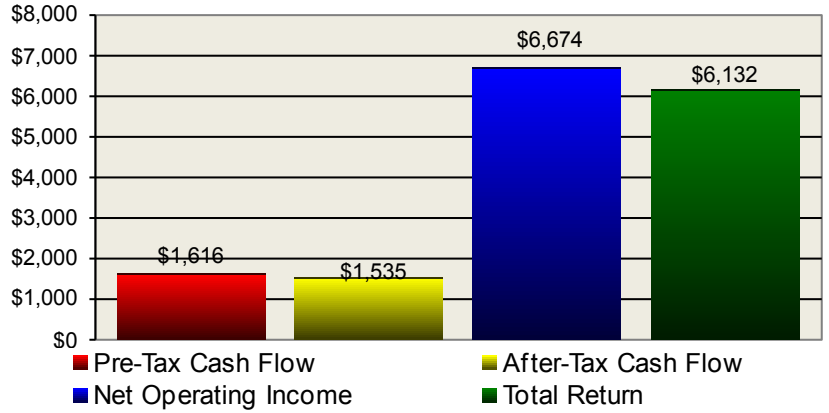
This is the 15-Year After-Tax Cash Flow. It can be used to compare the cash flow of this investment with the after tax cash flows of other investments of similar term and risk.

Total Return $6,132

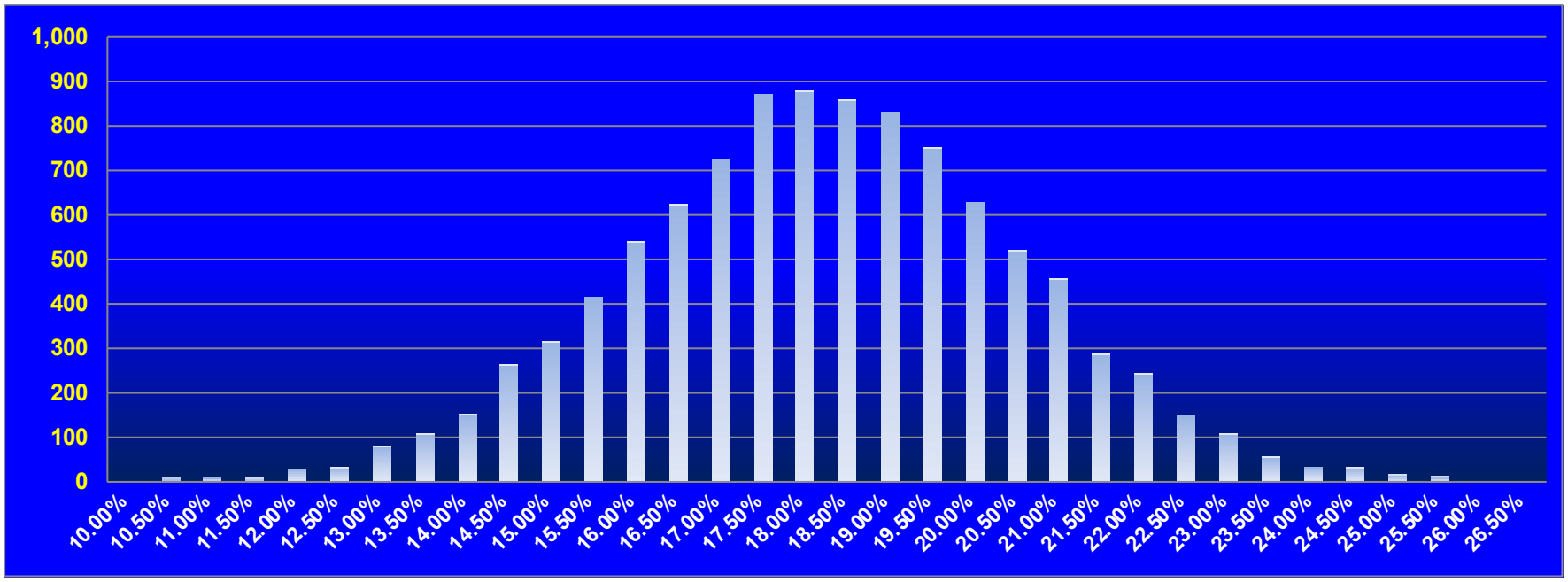
This is the 15-year Average Total Return on the illustration (Annual Pre-Tax Cash Flows + Principal Reductions Loans 1 & 2 + Appreciation).

Net Operating Income (NOI) $6,674

This is the 15-year Average Net Operating Income on the illustration.



Advanced Analysis Chart: Return on Investment (10,000 trials)



The chart shows the distribution of the investment returns from the 10,000 trial runs in the Advanced Analysis. The vertical axis shows the number of times a particular investment return occurred and the horizontal axis shows the percentage returns. The highest columns show the most frequent returns and the most probable investment performance. The Advanced Summary page of this report shows the averages (Mean and Median) of the Advanced Analysis. The investor should give serious consideration to keep or buy this investment if this investment has similar risk/return characteristics, greater liquidity, and greater investment returns to other investment options.

Advanced Investment Summary and Comparisons

This investment summary compares the results of 10,000 trial runs using a variety of investment variables. The investment performance of these trials are compared against traditional investment benchmarks.

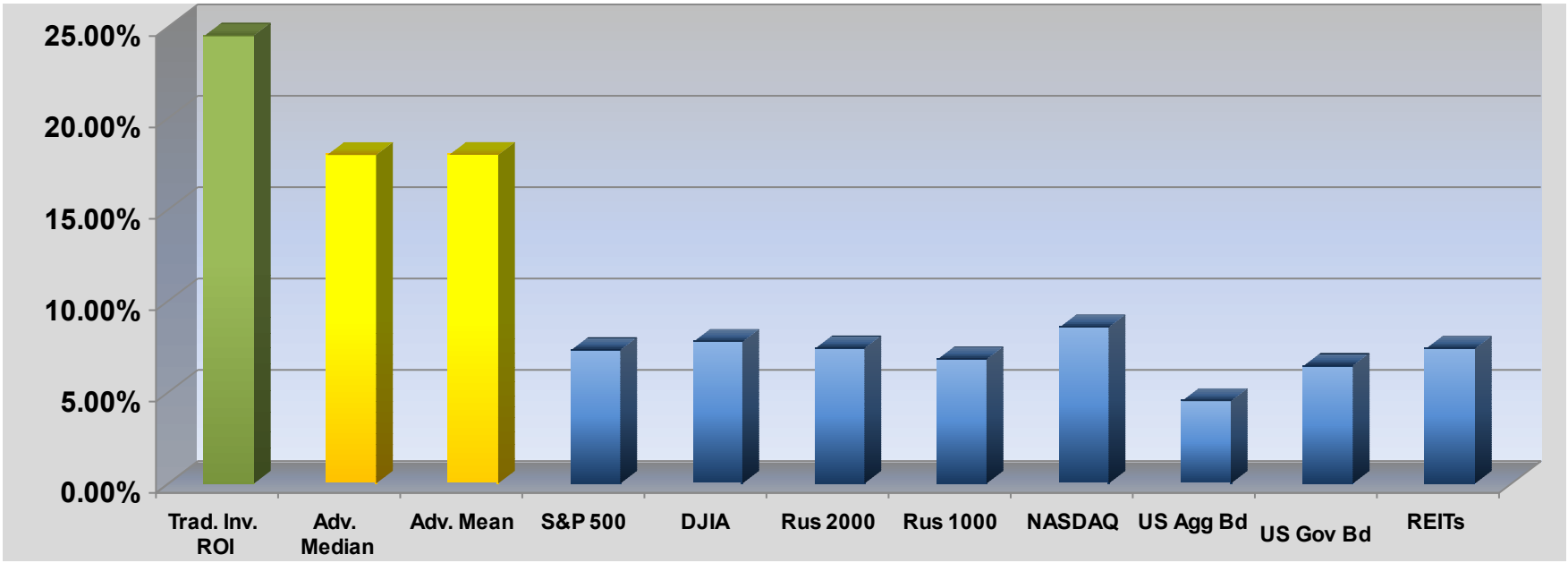
Project Information

Median Project Return	17.98%
Mean Project Return	17.98%
2,500 project trials had a return less than or equal to	16.45%
5,000 project trials had a return less than or equal to	17.98%
7,500 project trials had a return less than or equal to	19.52%

BENCHMARK RETURNS (10 yrs ending of 12-31-2015)

S & P 500	7.31%
S & P 500 10 Year Average Dividend Yield	2.11%
Dow Jones Industrial Average	7.75%
Russell 1000 Index	7.40%
Russell 2000 Index	6.80%
NASDAQ Composite Index	8.55%
Barclays US Aggregate Bond Index	4.51%
Barclays US Government Bond Index - Long Term	6.45%
National Association of Real Estate Investment Trust Equity Index	7.38%

Consolidated Investment Summary



Traditional Analysis Return on Investment

Advanced Analysis Return on Investment

Benchmark Returns (10 Years ending 12/31/15)

This chart shows the projected investment returns from the Traditional Analysis (Green), the average returns from the Advanced Analysis (Yellow), and the 10 year average returns from other benchmark investments (Blue). If the Green and the Yellow bars show returns higher than the Blue bars, then this property may outperform a benchmark securities portfolio. If the Green and Yellow bars show that this investment may provide higher returns, then the property should be kept in the portfolio or the property should be given serious consideration as a new investment.

Alternatively, if the Blue bars show higher returns than the Green and Yellow bars, then this property may underperform a benchmark securities portfolio. The benchmark securites (Blue bars) provide the investor with faster access to cash, lower selling costs, more liquidity, and less management involvement than real estate investments. If the Blue bars show that a benchmark securities portfolio may provide higher returns, then the property should be sold, rents & income re-evaluated, another property found, or a securities portfolio should be given serious consideration as a new investment.

Executive Summary

Pre-Tax Cash-on-Cash Return	6.46%
After-Tax Cash-on-Cash Return	6.14%
Return on Investment (ROI)	24.53%
Internal Rate of Return (IRR)	14.00%
Advanced Analysis Return	17.98%
Debt Coverage Ratio	138.79%
Liquidity Return Ratio	57%
Cap Rate	6.38%
Expense Ratio	50%
Gross Rent Multiplier	7.05

The color rating scale above is designed to provide a quick visual reference for the quality of the proposed investment. With green representing good and red representing poor, this color scale ranks the proposed investment against various metrics explained on the Executive Summary Details page. Projects with red or orange showing should be avoided in favor of green project measurements.

Poor **Neutral** **Good**

Executive Summary Details

The color rating system in the Executive Summary is based on the color scales below:

Pre-Tax Cash-on-Cash Return:
Red = 1+% below the 10 year average dividend yield on the S&P 500.
Yellow = The 10 year average dividend yield on the S&P 500.
Green = 1+% over the 10 year average dividend yield onthe S&P 500.

After-Tax Cash-on-Cash Return:
Red = 1+% below the 10 year average dividend yield on the S&P 500.
Yellow = The 10 year average dividend yield on the S&P 500.
Green = 1+% over the 10 year average dividend yield on the S&P 500.

Liquidity Return Ratio:
Red = Ratio is less than 10%.
Yellow = Ratio is equal to 20%.
Green = Ratio is greater than 30%.

Debt Coverage Ratio:
Red = DCR is less than 112%.
Yellow = DCR is equal to 115%.
Green = DCR is greater than 135%.

Capitalization Rate (Cap Rate):
Red = 2+% below the 10 year annualized return on the S&P 500.
Yellow = The 10 year annualized return on the S&P 500.
Green = 2+% over the 10 year annualized return on the S&P 500.

Return on Investment:
Red = 2+% below the 10 year annualized return on the S&P 500.
Yellow = The 10 year annualized return on the S&P 500.
Green = 2+% over the 10 year annualized return on the S&P 500.

Expense Ratio:
Red = Ratio is greater than 55%.
Yellow = Ratio is equal to 40%.
Green = Ratio is less than 30%.

Gross Rent Multiplier:
Red = A Gross Rent Multiplier of 16 or more.
Yellow = A Gross Rent Multiplier of 12.
Green = A Gross Rent Multiplier of 8 or less.

Internal Rate of Return:
Red = 2+% below the 10 year annualized return on the S&P 500.
Yellow = The 10 year annualized return on the S&P 500.
Green = 2+% over the 10 year annualized return on the S&P 500.

Advanced Analysis Return:
Red = 2+% below the 10 year annualized return on the S&P 500.
Yellow = The 10 year annualized return on the S&P 500.
Green = 2+% over the 10 year annualized return on the S&P 500.

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Explanation of the S&P 500 Benchmark Comparison

Why have we used the S&P 500 as the benchmark for this comparison?
The answer is simple. The S&P 500 is the standard by which most equity investments are measured. The S&P 500 index has these investment qualities:

- Solid long-term returns
- Easily purchased in many different types of funds
- Low acquisiton cost
- Passive investment that requires no work and no time from the investor
- Daily liquidity: You can sell it in 1 day and have your cash in 3 days

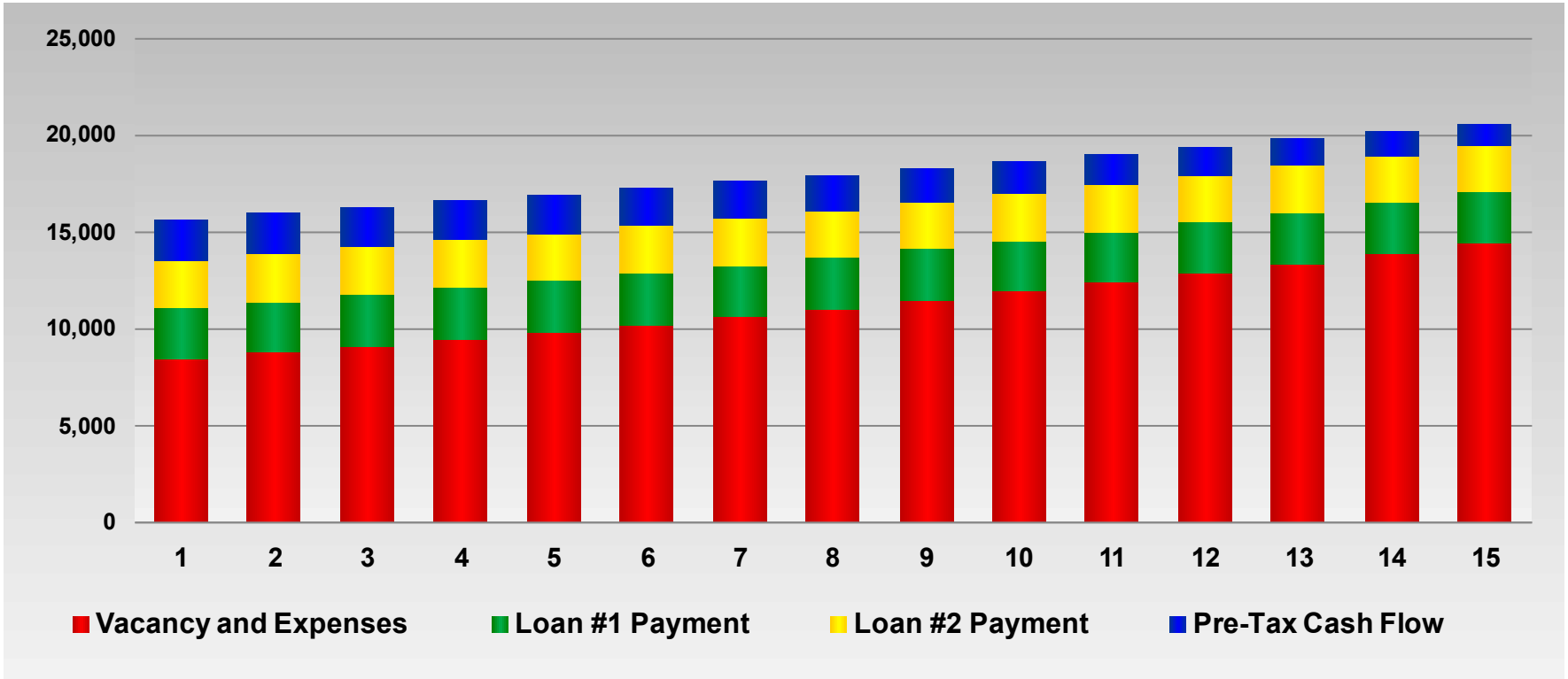
If your real estate investment returns can't beat the S&P 500, you should buy something that can.

Why do we say that?
The S&P 500 is a completely passive index investment. Real estate, even with property management, is not completely passive. As a real estate investor you will have to:

- Monitor your property manager
- Make repair decisions
- Make tenancy & eviction decisions
- Perform accounting on the property
- Manage the entity (LLC, Partnership, Corporation, etc.) which owns the property
- Re-evaluate your loan periodically
- Wait for extended periods of time to turn the investment into cash
- Perform other activities.

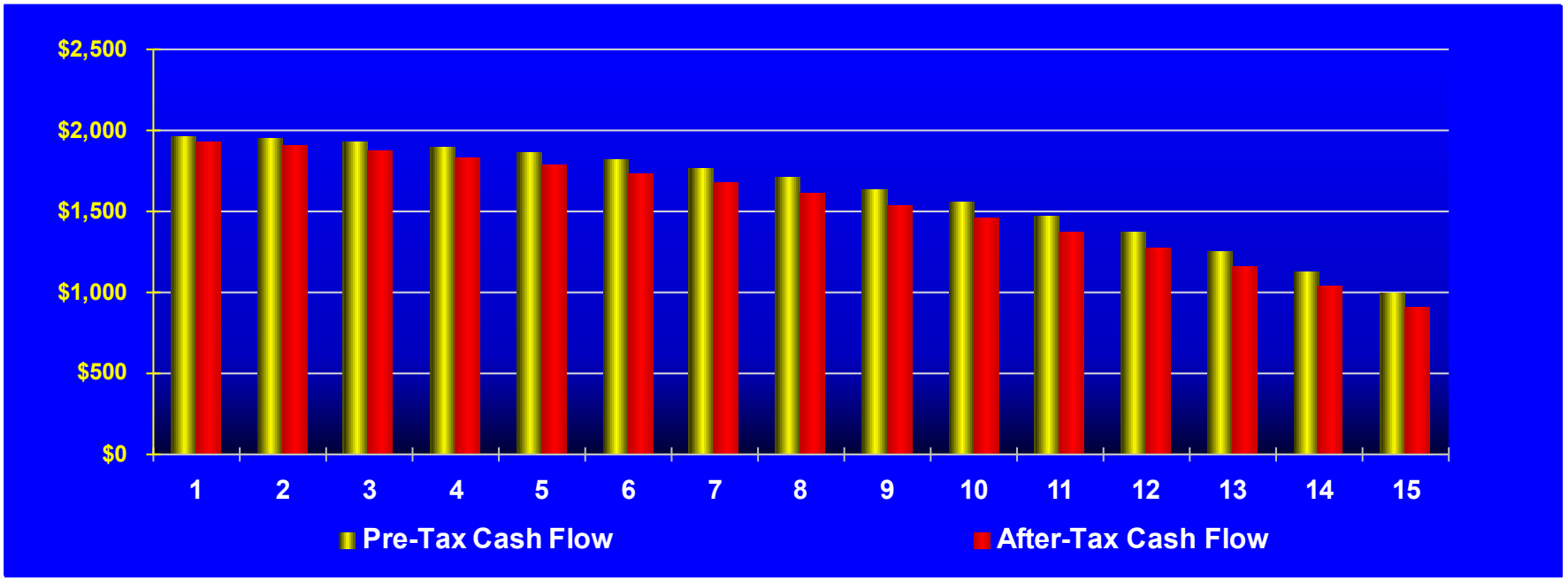
In short, the S&P 500 is passive, and real estate investing is not. You should expect to be paid a higher return from real estate because it has more risk and it requires more of your work and your time.

How the Rental Income is Spent



This chart shows the various components of the cash flow from the project in years 1-15. It shows where the rental income is spent in the operation of the property. The Scheduled Gross Income is spent on Vacancy and Operating Expenses, Payments on Loan #1, and Payments on Loan #2, before the investor receives the Cash Flow from the project (i.e. PROFIT) before income taxes are paid.

Pre-Tax Cash Flow and After-Tax Cash Flow

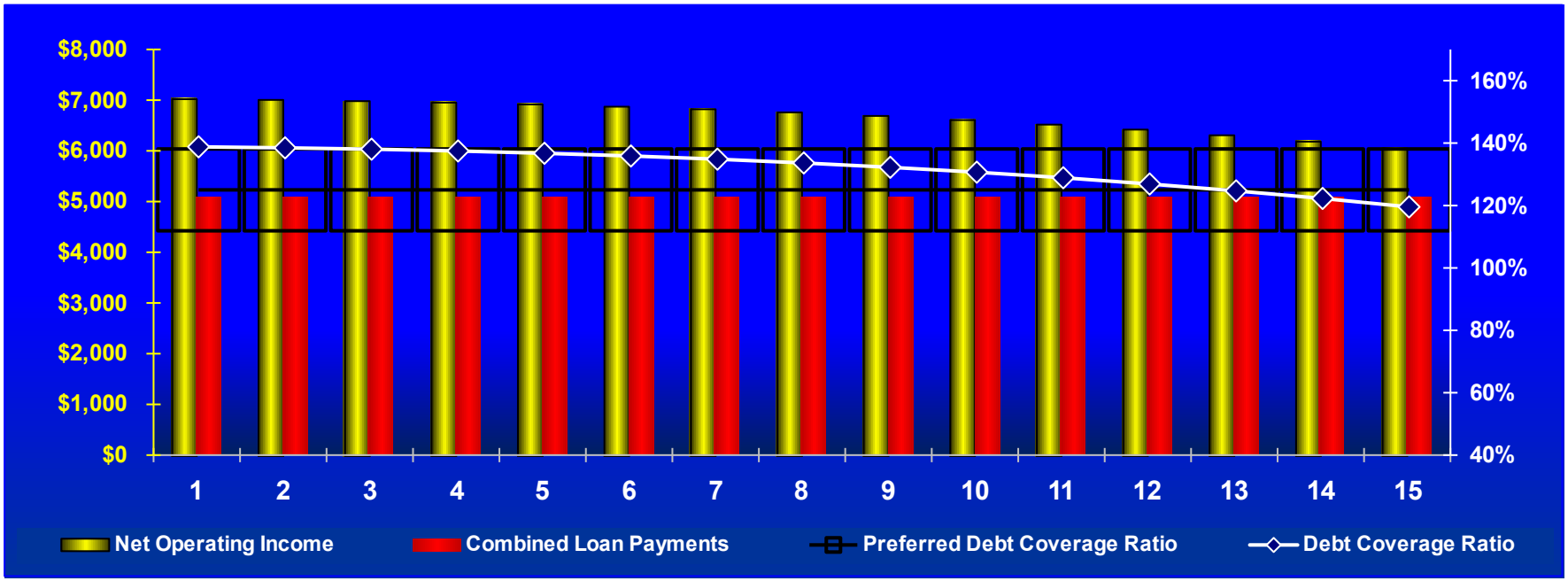


The After-Tax Cash Flow may be larger than the Pre-Tax Cash Flow if depreciation expenses create a tax savings for the investor. This After-Tax Cash Flow may or may not be applicable to your circumstances. Always check with your tax advisor regarding the tax impact of any investment.

Pre-Tax Cash Flow is the annual cash flow before taxes. Included in the Pre-Tax Cash Flow is operating income less all operating expenses and all debt payments. It is calculated as: (Net Operating Income - Annual Debt Service).

After-Tax Cash Flow is the annual cash flow after taxes. Included in the After-Tax Cash Flow is operating income less all operating expenses, all debt payments, and income taxes. It is calculated as: (Net Operating Income - Annual Debt Service - Taxes).

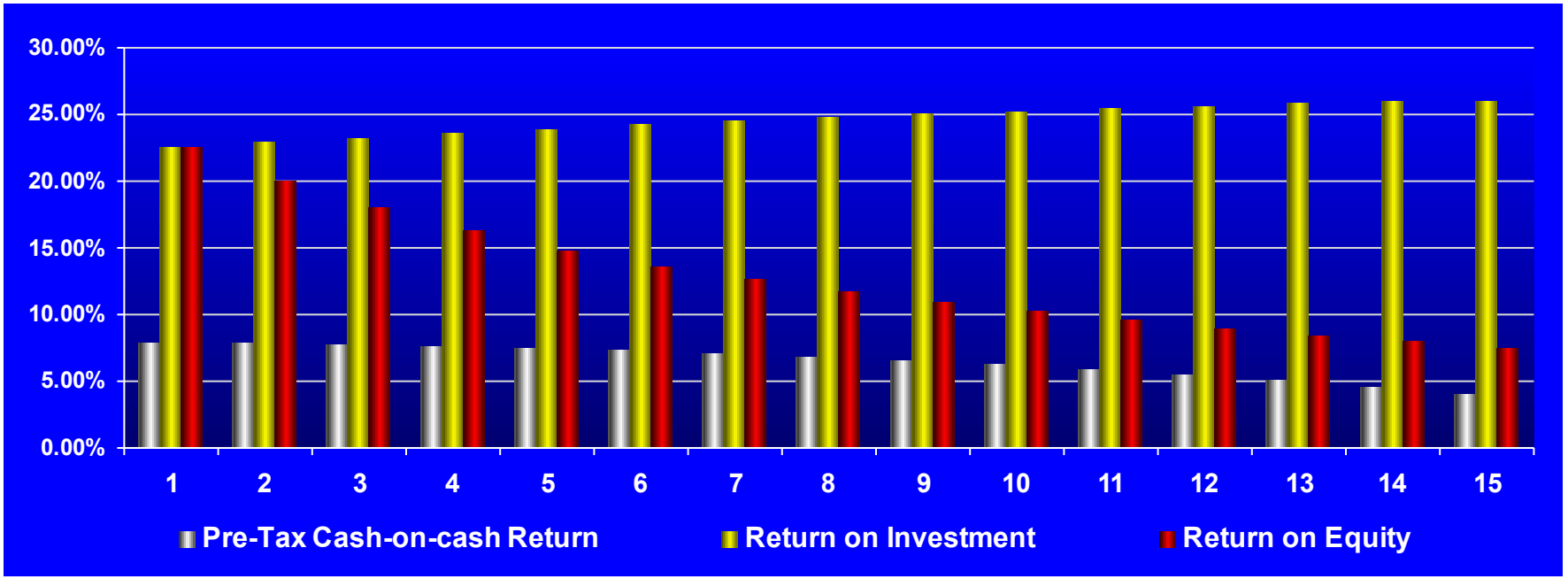
Net Operating Income, Loan Payments, and Debt Coverage Ratio



Net Operating Income of the project is the Scheduled Rental Income Less Vacancy, Credit Losses and Operating Expenses. Net Operating Income is the income from the property before the loans are paid and before income taxes are paid.

Debt Coverage Ratio is the ratio between Net Operating Income and Annual Debt Service. It tells the lender how much income is available to pay the annual loan payments. A Debt Coverage Ratio less than 100% means that the property cash flow is not sufficient to pay the mortgage payments, and most lenders will not make this loan. A Debt Coverage Ratio of 200% means that the Net Operating Income is double the amount needed to pay the mortgage(s). A Debt Coverage Ratio of 115% - 135%+ is preferred by lenders. Lenders may not lend when the project's Debt Coverage Ratio is below the preferred range. The Debt Coverage Ratio is calculated as: (Net Operating Income / Annual Debt Service).

Cash-on-Cash Return, Return on Investment, & Return on Equity



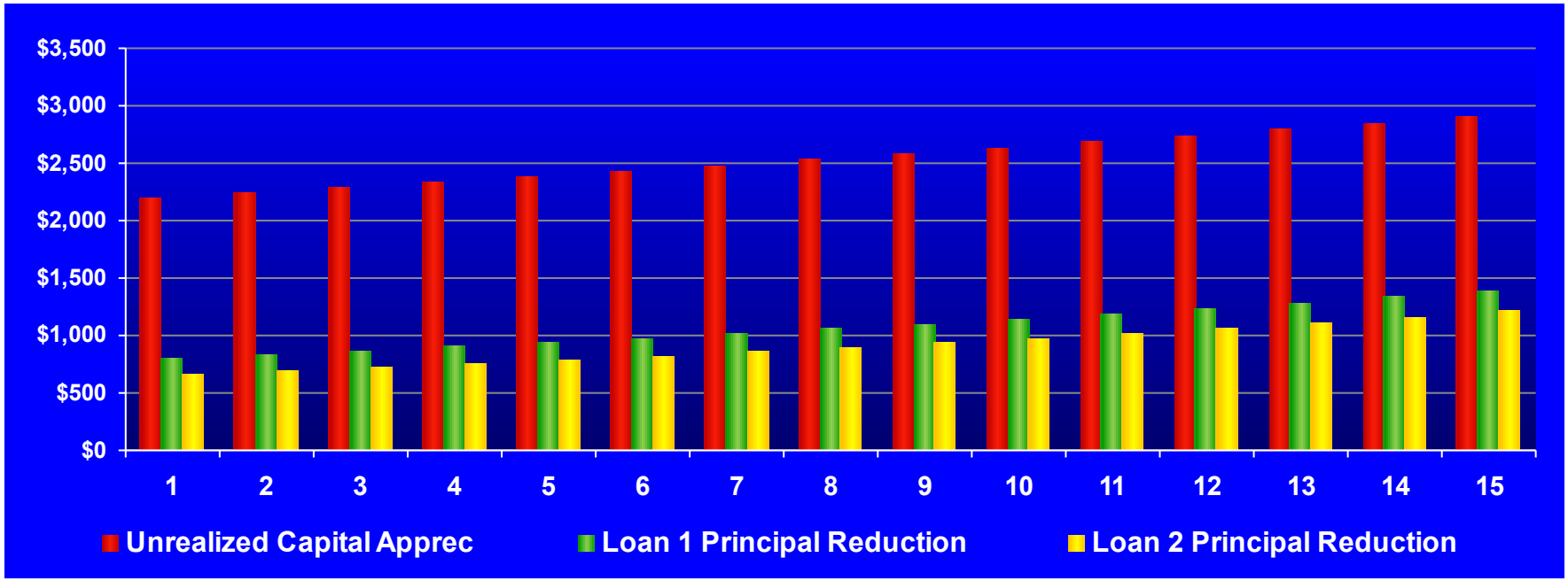
Pre-Tax Cash-on-cash Return is the annual Pre-Tax Cash Flow divided by the Initial Investment in the property. The Pre-Tax Cash Flow includes projected income less expenses and debt services. Initial Investment includes the down payment, lender fees, transaction closing costs, etc. It is calculated as: (Pre-Tax Cash-on-cash Return / Initial Investment).

Return on Investment (ROI) is the annual Total Return divided by the Initial Investment in the property. The annual Total Return includes pre-tax cash flow, plus loan principal reduction plus appreciation. Initial Investment includes the down payment, lender fees, transaction closing costs, etc. It is calculated as: (Total Return / Initial Investment).

Return on Equity (ROE) is the annual Total Return divided by the Total Equity in the property. Total Return includes pre-tax cash flow, plus loan balance reduction plus appreciation. Total Equity includes the down payment plus appreciation, and it increases each year. Since the Total Equity grows each year, the Return on Equity often declines year-over-year. It is calculated as: (Total Return / Total Equity).

Investment Growth and Equity Growth

Investment Growth through Market Value Increases from Unrealized Capital Appreciation and Equity Growth through Loan Repayment

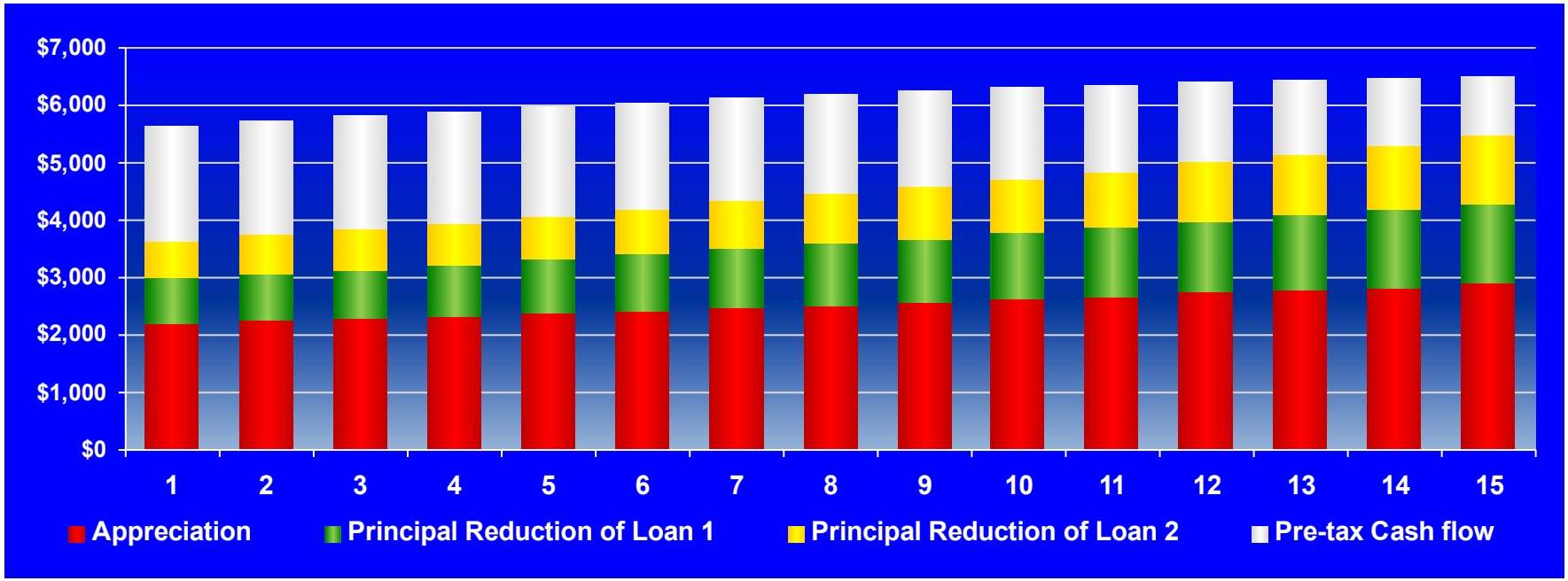


Returns in a real estate investment generally come from three places: Cash Flow from the operations of the project, increases in the market value of the property (called Unrealized Capital Appreciation), and increases in your equity resulting from loan repayment (called Loan Principal Reduction). Of those three components of the returns, only cash flow provides money that is readily available to the investor. Capital Appreciation and Loan Reductions are illiquid returns.

This chart illustrates equity growth from Unrealized Capital Appreciation (i.e. the projected increase in the market value of the property), the Principal Reduction of Loan #1, and the Principal Reduction of Loan #2.

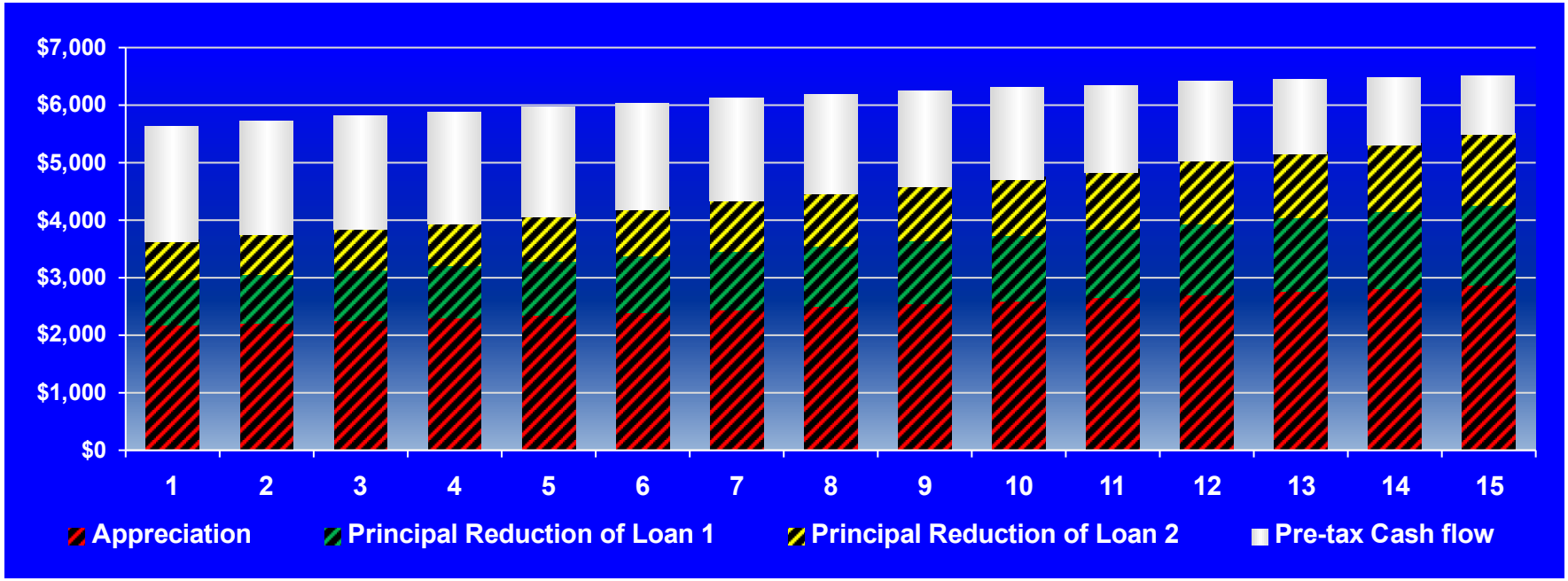
Total Investment Return: Liquid + Illiquid Sources

Market Value Appreciation, Loan Principal Reduction in Loans 1 & 2 and Pre-Tax Cash Flow



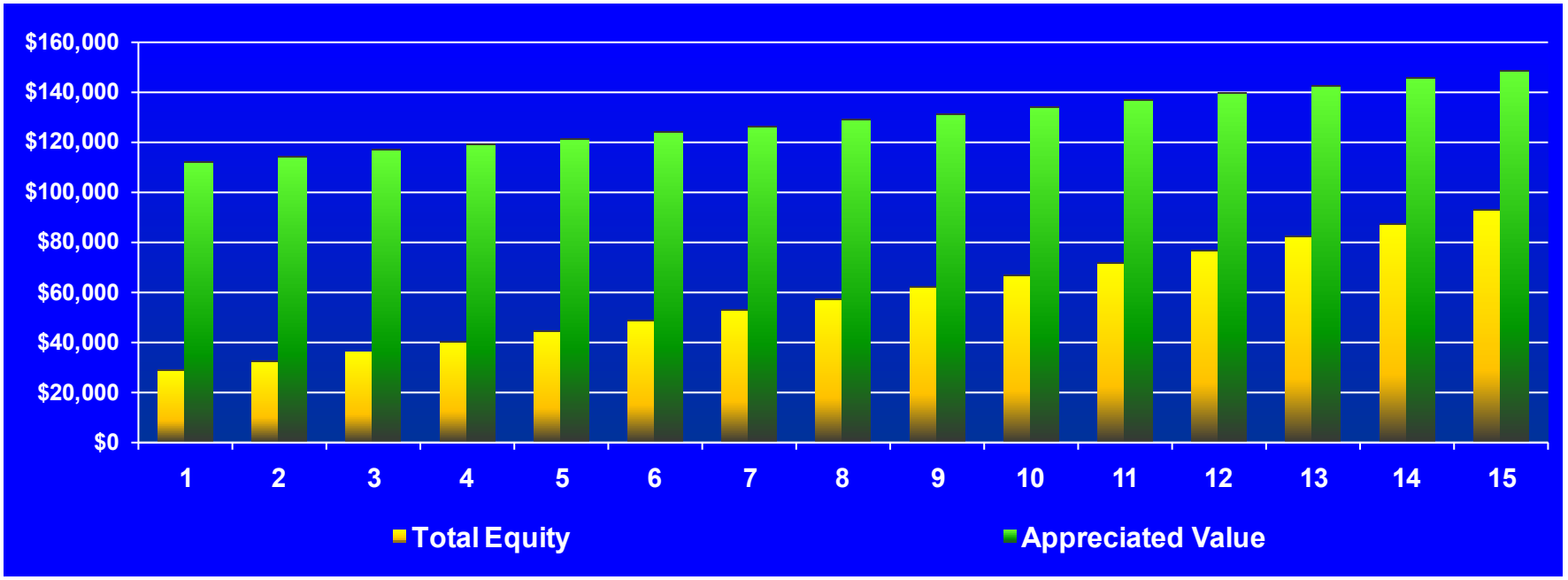
Returns in a real estate investments generally come from three components: Capital Appreciation (i.e. increases in the market value of the property), Loan Principal Reduction (i.e. increases in your equity resulting from loan repayment), and Pre-tax Cash Flow from operations. This chart illustrates the Total Return from Unrealized Capital Appreciation, the Principal Reduction of Loan #1, the Principal Reduction of Loan #2, and Pre-tax Cash Flows.

Total Investment Return
Liquid Returns Vs. Illiquid Returns



This chart shows the annual returns in each of the 15 years of the projection. Capital Appreciation and Loan Principal Reductions (shown in black-striped red, green, and yellow) are illiquid returns. Those illiquid returns cannot be used to pay emergency, basic or life-style living expenses. Only the Pre-tax Cash Flow (shown in white) is liquid and can be used to pay living expenses. When the black striped portions of the returns are greater than the white portion, then the investment should be considered a longer term, illiquid investment. If more of the investment return needs to be used for living expenses, then another property or other investment options should be considered.

Total Equity and Appreciated Value



This chart projects the total equity in the project and the projected appreciated market value of the project on a year-over-year basis.

Cap Rate, Gross Rent Multiplier (GRM), and Expense Ratio

Capitalization Rate (Cap Rate), Gross Rent Multiplier (GRM), and Expense Ratio are traditional real estate investment measurements. These figures are taken from the traditional analysis portion of the report and are based upon the first year of operation. These measures hold little predictive value because they only measure the first year of operations; however they have been used for many years, and some investors continue to review them.

Capitalization Rate (Cap rate) 6.38%

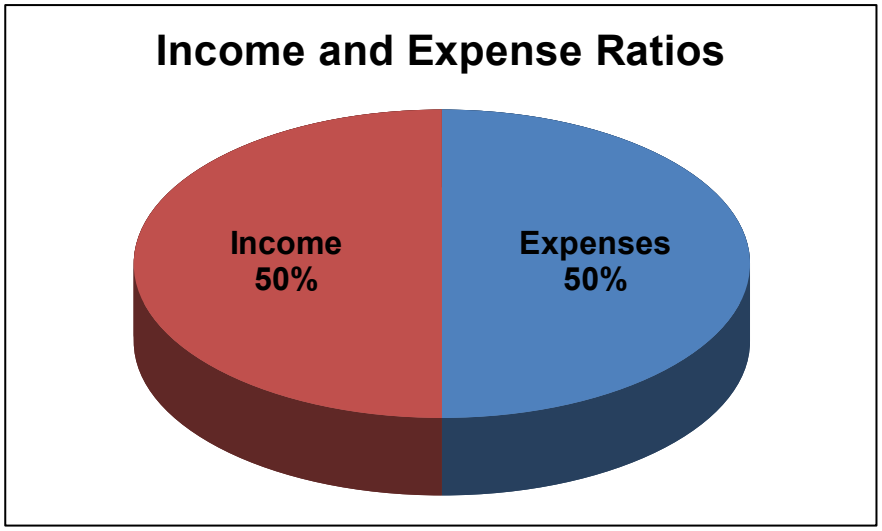
Capitalization rate (or "cap rate") is a measure of the ratio between the cash flow produced by an asset (usually real estate) and its capital cost (the original price paid to buy the asset) or alternatively its current market value. The cap rate is calculated as follows: (Rental Income - Expenses) / Cost (or Value) = Capitalization Rate. For example, a building is purchased for a $1,000,000 sale price, and it produces a $100,000 annual income after subtracting expenses. The Cap Rate is 10% ($100,000 / $1,000,000 = 10%).

Gross Rent Multiplier (GRM) 7.05

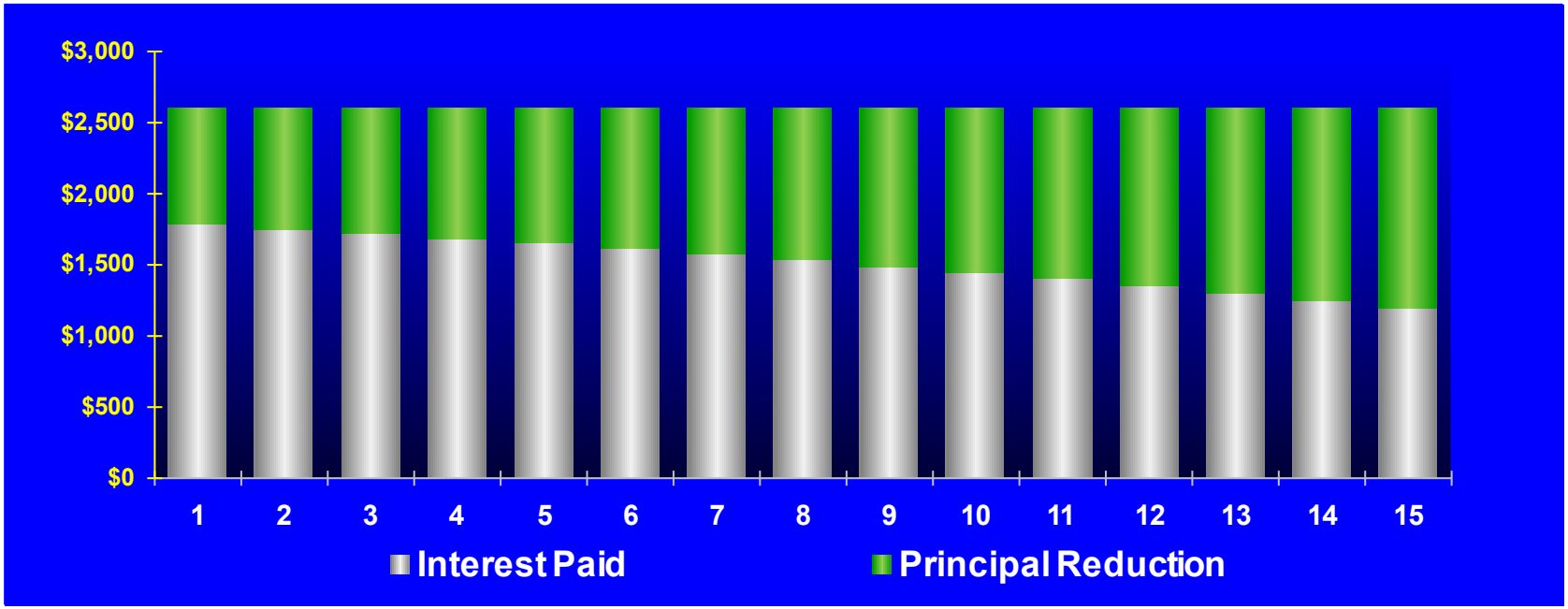
Gross Rent Multiplier is the ratio of the price of a real estate investment to its annual rental income before expenses such as property taxes, insurance, property management, utilities, etc. To sum up Gross Rent Multiplier, it is the number of years the property would take to pay for itself in gross received rent. For the investor, a higher GRM (perhaps over 20) is a poorer opportunity, whereas a lower one (12 or lower) is better. It is calculated as: (Purchase Price / Gross Rental Income = GRM).

Expense Ratio 50%

Expense Ratio is the ratio of the income of a real estate investment to its annual expenses such as property taxes, insurance, property management, utilities, etc. It provides the investor with a partial measure of the property's cash flow before debt service. For the investor, a higher Expense Ratio (possibly 60%) is a poorer opportunity, whereas a lower one (maybe under 40%) is better. It is calculated as: (Operating Expenses / Gross Scheduled Income).



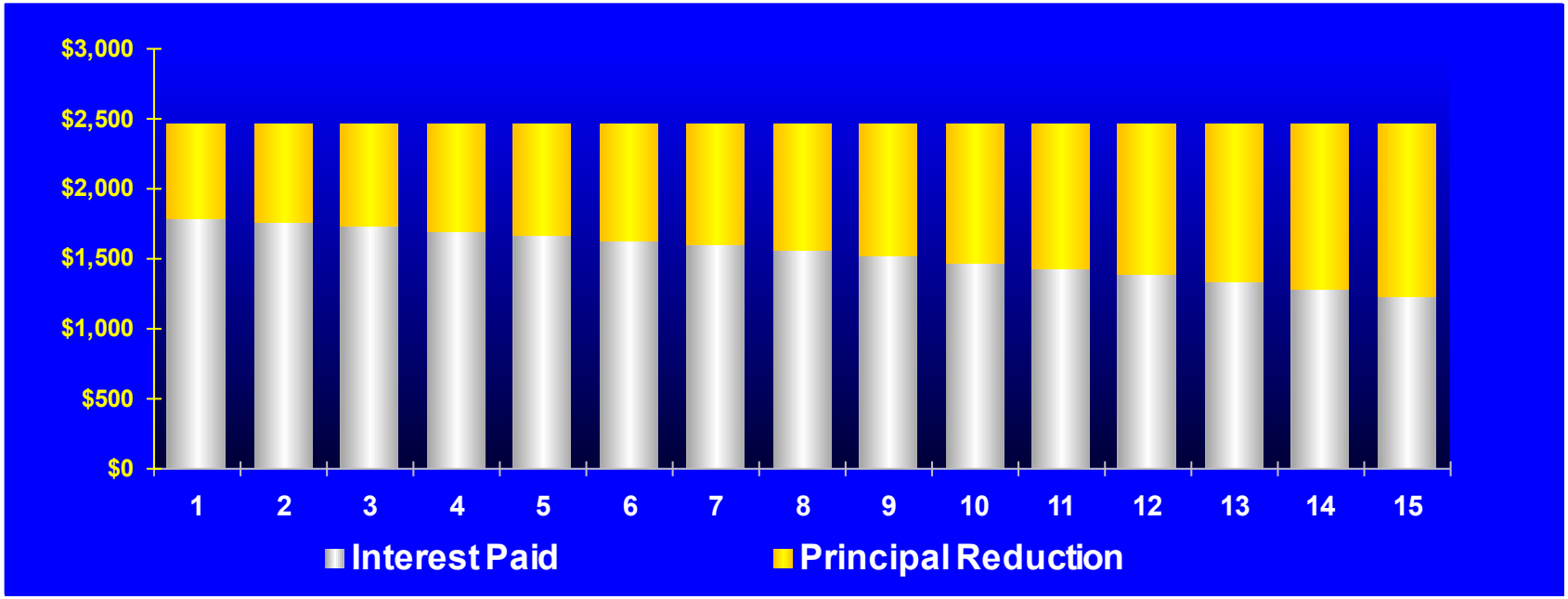
Loan #1 Principal and Interest



Loan #1 Principal and Interest payments

Loan Amount	$	45,000
Loan Interest Rate		4.00%
Loan Term (Years)		30

Loan #2 Principal and Interest

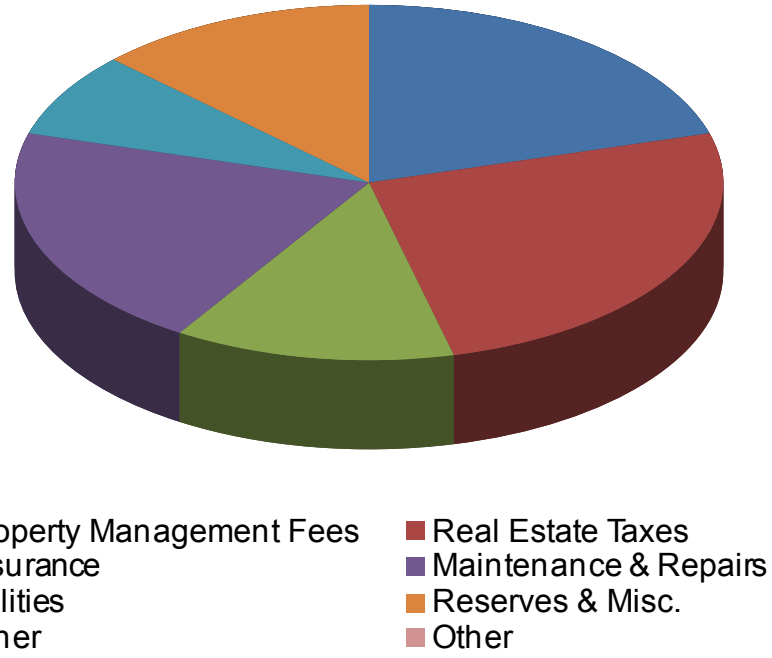


Loan #2 Principal and Interest payments

Loan Amount	$	40,000
Loan Interest Rate		4.50%
Loan Term (Years)		30

First Year Expense Details

Expenses		
Property Management Fees	$	1,600
Real Estate Taxes	$	2,000
Insurance	$	1,000
Maintenance & Repairs	$	1,600
Utilities	$	600
Reserves & Misc.	$	1,000
Other	$	-
Other	$	-
Total Expenses	$	7,800



General, Income, Expense and Loan Input

Property Street Address	Address 2	City	State	Zip Code
10547 Quail Ridge Lane		Sugar Land	TX	77498

General Information		
Purchase Price or Market Value	$	110,000
Down Payment or Existing Equity	$	25,000
Land Value	$	20,000
Total Escrow & Closing Costs	$	-
Scheduled Rental Income	$	15,600
Annual Other Income	$	-
Total Annual Income	$	15,600

Expenses		
Property Management Fees	$	1,600
Real Estate Taxes	$	2,000
Insurance	$	1,000
Maintenance & Repairs	$	1,600
Utilities	$	600
Reserves & Misc.	$	1,000
Other	$	-
Other	$	-
Total Expenses	**$**	**7,800**

Loan #1		
Loan Amount	$	45,000.00
Loan Interest Rate		4.000%
Loan Fees	$	-
Loan Term (Years)		30.00

Loan #2		
Loan Amount	$	40,000.00
Loan Interest Rate		4.500%
Loan Fees	$	-
Loan Term (Years)		30.00

Advanced Assumptions

Acquisition Costs		
Current Market Value (or Purchase Price)	$	110,000
Loan Fees - Loan 1	$	-
Loan Fees - Loan 2	$	-
Total Closing Costs	$	-
Other	$	-
Total Acquisition Costs	$	110,000

Initial Investment		
Down Payment	$	25,000
Loan Fees - Loan 1	$	-
Loan Fees - Loan 2	$	-
Total Closing Costs	$	-
Other	$	-
Initial Investment	$	25,000

Tax Information - Consult your tax advisor regarding tax issues. - These assumptions do not apply to all properties.		
Depreciable Basis (Acquisition Costs - Land Value)	$	90,000
Salvage Value ($0 if acquired after 1987)	$	-
Depreciable Life (27.5 / 31.5)		27.5

Monte Carlo Variables	Minimum	Expected	Maximum
Income Tax Rate	25.00%	25.00%	40.00%
Long-Term Capital Gain Tax Rate	15.00%	15.00%	40.00%
Vacancy Rate & Credit Loss (5% or actual)	3.00%	5.00%	10.00%
Annual Income Increases	-1.00%	2.00%	3.00%
Annual Operating Expense Increases	1.00%	4.00%	6.00%
Annual Appreciation Rate	-2.00%	2.00%	4.00%
Other	0.00%	0.00%	0.00%

Income Schedule

Unit #	Bedrooms	Bath	Sq Ft	Prkg Spaces	Lease Exp	Last Rent Increase	Security Deposit	Current Mo. Rent	Market Mo. Rent
1							$ -	$ 1,300	$ 1,300
2									
3									
4									
5									
6									
7									
8									
9									
10									
11									
12									
13									
14									
15									
16									
Total Monthly Rent								$ 1,300	$ 1,300
Total Annual Rent								**$ 15,600**	**$ 15,600**

Other Income	Current	Market
Laundry	$ -	$ -
Parking	$ -	$ -
Storage Rent	$ -	$ -
Other Income	$ -	$ -
Total Other Income (Monthly)	$ -	$ -
Total Other Income (Annual)	**$ -**	**$ -**

Total Income	$ 15,600	$ 15,600

Debt Service Schedule

General Debt Information			
Purchase Price	$	110,000	%
Total Debt	$	85,000	77%
Required Down Payment	$	25,000	23%

Loan #1

Beginning Loan Principal	45,000		Total Loan Fees	$ -				
Interest Rate	4.000%		Term (Years)	30.00				
Annual Payment	(2,602.35)		Monthly Payment	(214.84)				
	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**
Payment	(2,602)	(2,602)	(2,602)	(2,602)	(2,602)	(2,602)	(2,602)	(2,602)
Interest Paid	1,800	1,768	1,735	1,700	1,664	1,626	1,587	1,547
Principal Reduction	802	834	868	903	939	976	1,015	1,056
Principal Balance Remaining	44,198	43,363	42,495	41,593	40,654	39,678	38,663	37,607
Loan-to-Value	**41%**	**39%**	**38%**	**36%**	**35%**	**33%**	**32%**	**31%**

Loan #2

Beginning Loan Principal	40,000		Total Loan Fees	$ -				
Interest Rate	4.500%		Term (Years)	30.00				
Annual Payment	(2,455.66)		Monthly Payment	(202.67)				
	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**
Payment	(2,456)	(2,456)	(2,456)	(2,456)	(2,456)	(2,456)	(2,456)	(2,456)
Interest Paid	1,800	1,770	1,740	1,707	1,674	1,639	1,602	1,563
Principal Reduction	656	685	716	748	782	817	854	892
Principal Balance Remaining	39,344	38,659	37,943	37,195	36,413	35,596	34,742	33,850
Loan-to-Value	**36%**	**35%**	**34%**	**33%**	**31%**	**30%**	**29%**	**27%**

Combined Loan Payments	(5,058)	(5,058)	(5,058)	(5,058)	(5,058)	(5,058)	(5,058)	(5,058)
Combined Loan-to-Value	**77%**	**74%**	**72%**	**69%**	**66%**	**63%**	**61%**	**58%**

Debt Service Schedule

Loan #1							
Beginning Loan Principal							
Interest Rate							
Annual Payment							
	Year 9	**Year 10**	**Year 11**	**Year 12**	**Year 13**	**Year 14**	**Year 15**
Payment	(2,602)	(2,602)	(2,602)	(2,602)	(2,602)	(2,602)	(2,602)
Interest Paid	1,504	1,460	1,415	1,367	1,318	1,266	1,213
Principal Reduction	1,098	1,142	1,188	1,235	1,285	1,336	1,389
Principal Balance Remaining	36,509	35,367	34,179	32,944	31,659	30,323	28,934
Loan-to-Value	**29%**	**28%**	**26%**	**25%**	**24%**	**22%**	**21%**

Loan #2							
Beginning Loan Principal							
Interest Rate							
Annual Payment							
	Year 9	**Year 10**	**Year 11**	**Year 12**	**Year 13**	**Year 14**	**Year 15**
Payment	(2,456)	(2,456)	(2,456)	(2,456)	(2,456)	(2,456)	(2,456)
Interest Paid	1,523	1,481	1,437	1,392	1,344	1,294	1,241
Principal Reduction	932	974	1,018	1,064	1,112	1,162	1,214
Principal Balance Remaining	32,917	31,943	30,925	29,861	28,749	27,587	26,373
Loan-to-Value	**26%**	**25%**	**24%**	**23%**	**21%**	**20%**	**19%**

Combined Loan Payments	(5,058)	(5,058)	(5,058)	(5,058)	(5,058)	(5,058)	(5,058)
Combined Loan-to-Value	**55%**	**53%**	**50%**	**48%**	**45%**	**42%**	**40%**

Market Value & Equity Analysis

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Projected Market Value								
Purchase Price / Market Value	110,000	112,200	114,444	116,733	119,068	121,449	123,878	126,355
Capital Appreciation	2,200	2,244	2,289	2,335	2,381	2,429	2,478	2,527
Appreciated Value	112,200	114,444	116,733	119,068	121,449	123,878	126,355	128,883

Equity Analysis								
Down Pmt/Beginning of Yr Equity	25,000	28,658	32,422	36,294	40,280	44,382	48,604	52,951
Unrealized Capital Apprec	2,200	2,244	2,289	2,335	2,381	2,429	2,478	2,527
Loan 1 Principal Reduction	802	834	868	903	939	976	1,015	1,056
Loan 2 Principal Reduction	656	685	716	748	782	817	854	892
Negative After-Tax Cash Flow	0	0	0	0	0	0	0	0
Total Equity	28,658	32,422	36,294	40,280	44,382	48,604	52,951	57,426

Market Value & Equity Analysis

	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Projected Market Value							
Purchase Price / Market Value	128,883	131,460	134,089	136,771	139,507	142,297	145,143
Capital Appreciation	2,578	2,629	2,682	2,735	2,790	2,846	2,903
Appreciated Value	131,460	134,089	136,771	139,507	142,297	145,143	148,046

Equity Analysis							
Down Pmt/Beginning of Yr Equity	57,426	62,034	66,779	71,667	76,702	81,888	87,232
Unrealized Capital Apprec	2,578	2,629	2,682	2,735	2,790	2,846	2,903
Loan 1 Principal Reduction	1,098	1,142	1,188	1,235	1,285	1,336	1,389
Loan 2 Principal Reduction	932	974	1,018	1,064	1,112	1,162	1,214
Negative After-Tax Cash Flow	0	0	0	0	0	0	0
Total Equity	62,034	66,779	71,667	76,702	81,888	87,232	92,739

Operating and Pre-Tax Investment Analysis

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Operating Cash Flow Analysis								
Scheduled Rent Income	15,600	15,912	16,230	16,555	16,886	17,224	17,568	17,919
+ Other income	0	0	0	0	0	0	0	0
Scheduled Gross Income	15,600	15,912	16,230	16,555	16,886	17,224	17,568	17,919
- Vacancy & Credit Loss	(780)	(796)	(812)	(828)	(844)	(861)	(878)	(896)
Effective Gross Income	14,820	15,116	15,419	15,727	16,042	16,362	16,690	17,024
Operating Expenses								
- Total Operating Expenses	(7,800)	(8,112)	(8,436)	(8,774)	(9,125)	(9,490)	(9,869)	(10,264)
Net Operating Income	7,020	7,004	6,982	6,953	6,917	6,873	6,820	6,759
Operating Expense Ratio	***50.00%***	***50.98%***	***51.98%***	***53.00%***	***54.04%***	***55.10%***	***56.18%***	***57.28%***

Pre-Tax Cash Flow Analysis								
Net Operating Income	7,020	7,004	6,982	6,953	6,917	6,873	6,820	6,759
Debt Service on Loan 1	(2,602)	(2,602)	(2,602)	(2,602)	(2,602)	(2,602)	(2,602)	(2,602)
Debt Service on Loan 2	(2,456)	(2,456)	(2,456)	(2,456)	(2,456)	(2,456)	(2,456)	(2,456)
Pre-Tax Cash Flow	1,962	1,946	1,924	1,895	1,859	1,815	1,762	1,701
Pre-Tax Cash-on-cash Return	***7.85%***	***7.79%***	***7.70%***	***7.58%***	***7.43%***	***7.26%***	***7.05%***	***6.80%***
Debt Coverage Ratio	***138.79%***	***138.48%***	***138.04%***	***137.47%***	***136.75%***	***135.88%***	***134.84%***	***133.63%***
Preferred Debt Coverage Ratio	125%	125%	125%	125%	125%	125%	125%	125%

Pre-Tax Return Analysis								
Pre-Tax Cash flow	1,962	1,946	1,924	1,895	1,859	1,815	1,762	1,701
Principal Reduction of Loan 1	802	834	868	903	939	976	1,015	1,056
Principal Reduction of Loan 2	656	685	716	748	782	817	854	892
Return Before Taxes (PTCF + LPR)	3,420	3,466	3,508	3,546	3,579	3,608	3,631	3,649
Pre-Tax Return	***13.68%***	***13.86%***	***14.03%***	***14.18%***	***14.32%***	***14.43%***	***14.53%***	***14.60%***

Operating and Pre-Tax Investment Analysis

	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Operating Cash Flow Analysis							
Scheduled Rent Income	18,278	18,643	19,016	19,397	19,785	20,180	20,584
+ Other income	0	0	0	0	0	0	0
Scheduled Gross Income	18,278	18,643	19,016	19,397	19,785	20,180	20,584
- Vacancy & Credit Loss	(914)	(932)	(951)	(970)	(989)	(1,009)	(1,029)
Effective Gross Income	17,364	17,711	18,065	18,427	18,795	19,171	19,555
Operating Expenses							
- Total Operating Expenses	(10,675)	(11,102)	(11,546)	(12,008)	(12,488)	(12,988)	(13,507)
Net Operating Income	6,689	6,609	6,520	6,419	6,307	6,184	6,048
Operating Expense Ratio	***58.40%***	***59.55%***	***60.72%***	***61.91%***	***63.12%***	***64.36%***	***65.62%***

Pre-Tax Cash Flow Analysis							
Net Operating Income	6,689	6,609	6,520	6,419	6,307	6,184	6,048
Debt Service on Loan 1	(2,602)	(2,602)	(2,602)	(2,602)	(2,602)	(2,602)	(2,602)
Debt Service on Loan 2	(2,456)	(2,456)	(2,456)	(2,456)	(2,456)	(2,456)	(2,456)
Pre-Tax Cash Flow	1,631	1,551	1,462	1,361	1,249	1,126	990
Pre-Tax Cash-on-cash Return	***6.52%***	***6.21%***	***5.85%***	***5.44%***	***5.00%***	***4.50%***	***3.96%***
Debt Coverage Ratio	***132.25%***	***130.67%***	***128.90%***	***126.91%***	***124.70%***	***122.25%***	***119.56%***
Preferred Debt Coverage Ratio	125%	125%	125%	125%	125%	125%	125%

Pre-Tax Return Analysis							
Pre-Tax Cash flow	1,631	1,551	1,462	1,361	1,249	1,126	990
Principal Reduction of Loan 1	1,098	1,142	1,188	1,235	1,285	1,336	1,389
Principal Reduction of Loan 2	932	974	1,018	1,064	1,112	1,162	1,214
Return Before Taxes (PTCF + LPR)	3,662	3,668	3,667	3,660	3,646	3,624	3,593
Pre-Tax Return	***14.65%***	***14.67%***	***14.67%***	***14.64%***	***14.58%***	***14.49%***	***14.37%***

After-Tax & Investment Return Analysis

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
After-Tax Benefit Analysis								
Net Operating Income	7,020	7,004	6,982	6,953	6,917	6,873	6,820	6,759
- Interest Loan #1	(1,800)	(1,768)	(1,735)	(1,700)	(1,664)	(1,626)	(1,587)	(1,547)
- Interest Loan #2	(1,800)	(1,770)	(1,740)	(1,707)	(1,674)	(1,639)	(1,602)	(1,563)
- Depreciation	(3,273)	(3,273)	(3,273)	(3,273)	(3,273)	(3,273)	(3,273)	(3,273)
Taxable Passive Income (Loss)	147	193	235	273	307	335	359	377
x Tax Bracket	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%
Taxes Paid (Saved) (1)	37	48	59	68	77	84	90	94
After-Tax Benefit Analysis	***0.15%***	***0.19%***	***0.24%***	***0.27%***	***0.31%***	***0.34%***	***0.36%***	***0.38%***
After-Tax Cash Flow Analysis								
Pre-Tax Cash Flow	1,962	1,946	1,924	1,895	1,859	1,815	1,762	1,701
Taxes Paid (Saved)	37	48	59	68	77	84	90	94
After-Tax Cash Flow	1,925	1,898	1,865	1,827	1,782	1,731	1,673	1,607
After-Tax Cash-on-cash Return	***7.70%***	***7.59%***	***7.46%***	***7.31%***	***7.13%***	***6.92%***	***6.69%***	***6.43%***
ROI & ROE Analysis								
Pre-tax Cash flow	1,962	1,946	1,924	1,895	1,859	1,815	1,762	1,701
Principal Reduction of Loan 1	802	834	868	903	939	976	1,015	1,056
Principal Reduction of Loan 2	656	685	716	748	782	817	854	892
Appreciation	2,200	2,244	2,289	2,335	2,381	2,429	2,478	2,527
Other	0	0	0	0	0	0	0	0
Total Return	5,620	5,710	5,797	5,881	5,961	6,037	6,109	6,176
Return on Investment	*22.48%*	*22.84%*	*23.19%*	*23.52%*	*23.84%*	*24.15%*	*24.44%*	*24.71%*
Return on Equity	***22.48%***	***19.92%***	***17.88%***	***16.20%***	***14.80%***	***13.60%***	***12.57%***	***11.66%***

Note: (1) Assumes tax losses are deducted from Adj. Gross or Passive Income

After-Tax & Investment Return Analysis

	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
After-Tax Benefit Analysis							
Net Operating Income	6,689	6,609	6,520	6,419	6,307	6,184	6,048
- Interest Loan #1	(1,504)	(1,460)	(1,415)	(1,367)	(1,318)	(1,266)	(1,213)
- Interest Loan #2	(1,523)	(1,481)	(1,437)	(1,392)	(1,344)	(1,294)	(1,241)
- Depreciation	(3,273)	(3,273)	(3,273)	(3,273)	(3,273)	(3,273)	(3,273)
Taxable Passive Income (Loss)	389	395	395	388	373	351	321
x Tax Bracket	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%
Taxes Paid (Saved) (1)	97	99	99	97	93	88	80
After-Tax Benefit Analysis	***0.39%***	***0.40%***	***0.39%***	***0.39%***	***0.37%***	***0.35%***	***0.32%***

After-Tax Cash Flow Analysis							
Pre-Tax Cash Flow	1,631	1,551	1,462	1,361	1,249	1,126	990
Taxes Paid (Saved)	97	99	99	97	93	88	80
After-Tax Cash Flow	1,534	1,453	1,363	1,264	1,156	1,038	909
After-Tax Cash-on-cash Return	***6.14%***	***5.81%***	***5.45%***	***5.06%***	***4.62%***	***4.15%***	***3.64%***

ROI & ROE Analysis							
Pre-tax Cash flow	1,631	1,551	1,462	1,361	1,249	1,126	990
Principal Reduction of Loan 1	1,098	1,142	1,188	1,235	1,285	1,336	1,389
Principal Reduction of Loan 2	932	974	1,018	1,064	1,112	1,162	1,214
Appreciation	2,578	2,629	2,682	2,735	2,790	2,846	2,903
Other	0	0	0	0	0	0	0
Total Return	6,239	6,297	6,349	6,396	6,436	6,470	6,496
Return on Investment	*24.96%*	*25.19%*	*25.40%*	*25.58%*	*25.74%*	*25.88%*	*25.98%*
Return on Equity	***10.86%***	***10.15%***	***9.51%***	***8.92%***	***8.39%***	***7.90%***	***7.45%***

15-Year Cumulative Returns and 15-Year Average Returns

	15 Year Cumulative	15 Year Average
Net Operating Income	$ 100,104	$ 6,674
Operating Expense Ratio	862%	57.48%
Pre-Tax Cash Flow	$ 24,234	$ 1,616
Pre-Tax Cash-on-cash Return	97%	6.46%
Return Before Taxes (PTCF + LPR)	$ 53,928	$ 3,595
Pre-Tax Return	216%	14.38%
After-Tax Cash Flow	$ 23,025	$ 1,535
After-Tax Cash-on-cash Return	92%	6.14%
Total Return	$ 91,973	$ 6,132
Return on Investment	368%	24.53%
Return on Equity	192%	12.82%

Report Description

General Introduction

Real estate investments hold significant assets, and often there is no objective assessment showing how that property and those assets are performing. If the property is producing a negative cash flow, investors and fiduciaries may be motivated to sell the property. However, when the property is producing a positive cash flow, investors and fiduciaries may be lulled into complacency without really examining how the investment is performing. An owner can hold an unproductive or under-producing asset. However, a fiduciary may be open to liability for failing to monitor and assess investments under their care. To assist in better understanding the investment and how it may perform under changing circumstances, we have provided two components to this illustration: A standard, traditional analysis and an advanced analysis.

Traditional Analysis

The traditional analysis uses fixed variables and assumes that the project will perform similarly each year. The assumptions used in that analysis are shown in the Assumptions and Input pages of the report, and the investment returns and cash flows generated by the computer model are shown on the Traditional Summary page of this report.

Advanced Analysis (Paid Users Only)

The advanced analysis uses a Monte Carlo simulation. It is an advanced form of the traditional report which uses most of the same assumptions, yet it goes quite a bit further. Instead of using a single number for each of the variables in the report, it uses a range of possible values for certain variables. Both the variables and the ranges are shown on the Input page in the Monte Carlo Variables section. The results are shown on the Advanced Summary and Consolidated Summary pages. Additionally, the advanced analysis compares this project with various other investment benchmark returns to assist with the buy, sell or hold decision.

How to read the report

The bottom of each page contains three footers. The left footer identifies a specific part of the report (e.g. Introduction, Assumptions, Expense, etc.), the center footer contains specific advisor requested language, and the right footer contains the date the program and analysis was run.

Advanced Investment Analysis Detailed Description

The Advanced Report is available to paid users only. This advanced real estate investment simulation illustrates possible variations in growth and/or loss of an investment under unpredictable future conditions. The simulation introduces uncertainty by randomly changing certain variables in the analysis. The graph and related calculations do not presuppose or analyze any particular investment or investment strategy. This long-term hypothetical model is used to help show potential effects of economic volatility on a hypothetical investment's performance. This is not a projection, but an illustration of uncertainty.

This chart shows the average annual return on investment for a sample of 10,000 projects. All of the projects used the same range of assumptions as those on the Assumptions, Input, and other pages of this report. This is NOT a projection or a forecast of how your investment will perform: That is not possible. There is too much uncertainty to measure that. Instead, it is a measure of how this hypothetical investment performed over a 15 year period under 10,000 combinations of circumstances.

The simulations begin in the current year and model potential changes over time. Changes to variables were randomly selected using the ranges shown on the Input page of this report. Those variables are: Income Tax Rates, Capital Gain Tax Rates, Vacancy Rates, Miscellaneous Expenses, Annual Market Appreciation Rates, Annual Increases/Decreases in the Gross Scheduled Income, and Annual Net Operating Expense Increases/Decreases.

Observing results from this large number of simulations may offer insight into the shape, trends, and potential range of future outcomes under volatile market conditions. The program randomly selects from the range of variables, runs this report, repeats this process 10,000 times, and graphs the outcome of the modeling from each of those 10,000 trials. The result is a chart that graphs the Average Annual Return on Investment from each of those 10,000 trials of the program. The purpose is to provide the investor a range of possible outcomes under the various conditions applied to each run of the program.

Notes

Run on 9-7-17.

Additional Information

Liquidity

Liquidity is the measure of the investor's ability to sell the investment and turn it into cash. Real estate is illiquid, and it can take from 45 days to several years to sell a real estate investment. Real estate is complex and expensive to sell. Factors affecting a property's liquidity include the local market, interest rates, local and national economy, supply, demand, local customs, etc. Though real estate liquidity may range from 45 days to several years, many other investments have greater liquidity. For example, stocks, bonds, and marketable securities range from 3-5 day liquidity. Bank savings accounts and checking accounts usually have immediate liquidity. Liquidity cost is a measure of the expenses associated with selling the asset. Real estate selling expenses range from 6% to 12% of the sale price. Securities generally range from 1% to 3% and banking accounts generally have no cost.

Local Expertise Required

Rents, vacancy rates, property management fees, utility expenses, rent control, maintenance costs, interest rates, municipal codes and many other critically important factors vary from city-to-city and state-to-state. Real estate investment performance will also vary with national, regional, and local economic conditions. Every real estate market is different and a local real estate specialist should be consulted before investing. Neither your consultant nor Advanced Property Analysis nor DBS Consulting, Inc. is a local real estate specialist.

Specialty Expertise Required

In addition to familiarity with local markets, the real estate specialist should also be experienced in working with the specific type of property the investor is considering. Some of the various real estate sub-specialties include: residential, multi-family (apartment buildings), industrial, warehousing, commercial, manufacturing, retail, and others. Each property type carries risks that may be unique to or exacerbated in that market.

If you have any questions regarding this report, please contact your consultant or Advanced Property Analysis at www.advancedpropertyanalysis.com or info@advancedpropertyanalysis.com.

Glossary

Capitalization Rate (Cap Rate)
Capitalization rate (or "cap rate") is a measure of the ratio between the cash flow produced by an asset (usually real estate) and its capital cost (the original price paid to buy the asset) or alternatively its current market value. The cap rate is calculated as follows: (Rental Income - Expenses) / Cost (or Market Value) = Capitalization Rate For example, a building is purchased for a $1,000,000 sale price, and it produces a $100,000 annual income after subtracting expenses. The Cap Rate is 10% ($100,000 / $1,000,000 = 10%).

Debt Coverage Ratio
Debt Coverage Ratio is the ratio between Net Operating Income and Annual Debt Service. A Debt Coverage Ratio less than 100% means that the property cash flow is not sufficient to pay the mortgage payments. A Debt Coverage Ratio of 200% means that the Net Operating Income is double the amount needed to pay the mortgage(s). A Debt Coverage Ratio of 115%-135%+ is preferred. It is calculated as: (Net Operating Income / Annual Debt Service).

Expense Ratio
Expense Ratio is the ratio of the income of a real estate investment to its annual expenses such as property taxes, insurance, property management, utilities, etc. It provides the investor with a partial measure of the property's cash flow before debt service. For the investor, a higher Expense Ratio (such as 60%) is a poorer opportunity, whereas a lower Expense Ratio (perhaps under 40%) is better. It is calculated as: (Operating Expenses / Gross Scheduled Income).

Gross Rent Multiplier (GRM)
Gross Rent Multiplier is the ratio of the price of a real estate investment to its annual rental income before expenses such as property taxes, insurance, property management, utilities, etc. To sum up Gross Rent Multiplier, it is the number of years the property would take to pay for itself in gross rents received. For the investor, a higher GRM (perhaps over 20) is a poorer opportunity, whereas a lower one (perhaps under 15) is better. It is calculated as: (Purchase Price / Gross Rental Income = GRM).

Return on Equity (ROE)
A measure of an investment's profitability that reveals how much profit a property or stock generates from the equity invested. It is calculated as: (Total Return / Total Equity).

Return on Investment (ROI)
A performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. To calculate ROI, the benefit (return) of an investment is divided by the cost of the investment; the result is expressed as a percentage or a ratio. (Gain from Investment - Cost of Investment) / Cost of Investment.

Total Return
Total Return is the total increase in the value of an asset. This includes the increase in the market value of the asset, increase in equity resulting from loan principal repayment and the cash flow from the investment operations.

More Definitions: For more definitions, visit our website.

Disclosures

General Disclaimers

While the information contained in this report is believed to be accurate, it is not guaranteed. The assumptions used in this analysis were provided by the client or by the client's other advisors. We provide investment analysis, we do not claim local market knowledge. An active local real estate professional should be used for local market assumptions. Real estate investing is inherently risky and unpredictable. Some of the risks include reinvestment, interest rate, foreclosure, legal, political, expense, tenancy, vacancy, inflation/deflation, liability, casualty, pest, environmental, weather, and other risks. No investment illustration can consider or account for all risks. When hypothetical illustrations of 5 to 30 years are made, small errors in assumptions result in large errors in the results which will cause the results to vary significantly from the actual investment performance. Though a specific project name and/or addresses is shown in the report, no illustration can predict how a property will perform or what its investment performance will be. There are far too many uncontrollable factors which will influence the investment's actual performance.

This information is provided for informational purposes only and should not be relied upon for tax, legal, investment, or transactional purposes. Neither Advanced Property Analysis (APA) nor DBS Consulting, Inc (DBS). provides tax, accounting, securities, or legal advice; and investors should discuss all matters with an appropriate professional. Additionally, return calculation methods vary greatly among investment types and investment analysis programs. It is critical to read the calculation methodology and definitions before comparing investment returns.

Real Estate Agent/Broker, Registered Investment Advisor, FINRA Member

Neither APA nor DBS is a licensed real estate agent or broker, A Registered Investment Advisor (RIA), or a member of FINRA. A local market real estate professional is recommended for real estate transaction services. An RIA or FINRA Member is recommended for securities transactions, financial planning, and advisory services.

General Information

If you have any questions regarding this report, please contact your consultant. General programming and additional report information is found at www.advancedpropertyanalysis.com.
Progamming and report comments can be sent to: info@advancedpropertyanalysis.com.

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Methodology

IMPORTANT: The projections or other information generated in the Advanced Property Analysis: Traditional Analysis and the Advanced Property Analysis: Advanced Analysis (APA Analysis) regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. Information is for illustrative purposes only. Do not rely upon the results of this report to predict actual future performance of any investment or investment strategy.

Methodology, Criteria, Assumptions, and Limitations:
In most instances, the calculation methodology for the charts in this projection are described on each page of the projection where that chart is displayed. In instances where the methodology is not described on that page, the Traditional Analysis Methodology applies. All values and assumptions used in this report are client supplied.

Traditional Analysis Methodology:
Appreciated Value = Purchase Price or Market Value + Capital Appreciation
Total Equity = Beginning of Year Equity + Unrealized Capital Appreciation + Loan 1 Principal Reduction + Loan 2 Principal Reduction + After-Tax Cash Flow
Scheduled Gross Income = Scheduled Rent Income + Other Income
Effective Gross Income = Scheduled Gross Income - Vacancy and Credit Loss
Net Operating Income = Effective Gross Income - Total Operating Expenses
Total Operating Expenses = Property Management Fees + Real Property Taxes + Insurance + Maintenance and Repairs + Utilities + Reserves & Miscellaneous + Other Expenses
Pre-Tax Cash Flow = Net Operating Income - Debt Service Loan 1 - Debt Service Loan 2
Pre-Tax Return = Pre-Tax Cash Flow + Principal Reduction of Loan 1 + Principal Reduction of Loan 2
Total Return = Pre-Tax Return + Appreciation

A summary description of the differences between the Traditional and the Advanced Reports is provided on the Description page of the report.

Advanced Analysis Methodology:
A full description of the methodology, criteria, assumptions, and limitations of the Advanced Analysis is shown on the Advanced Investment Description page of the report.