

Report Prepared For

Sample Client

Report Prepared On

October 9, 2021

Property Information

3674 Beachwood Lane
Carlsbad, CA 92008



How to Read the Report

General Introduction

This report can be used by three types of investors: the experienced investor, the new investor, and the detail oriented investor. Experienced investors interested in the bottom line "only" can limit their review to the Investment Summary Section (pages 1-8). The new investor may want to review the entire document to become familiar with the details of real estate investing. The new investor will find complete explanations of all tables and charts on most pages, and they will find terminology definitions and other helpful information throughout. Finally, detail oriented investors can go to any chart or spreadsheet for the details they seek.

Report Sections

The report is divided into 6 sections: Investment Summary, Cash Flow Analysis, Investment Growth Analysis, Debt Analysis, Advanced Analysis Details, and Notes & Disclosures.

Investment Summary Section

The Investment Summary section contains the assumptions and inputs used in the analysis, and it provides a quick, easy-to-read summary of the investment. For the busy investor, the Executive Summary puts everything on one page. If the Executive Summary shows a lot of red, you may not need to look any further. You may want to find another investment or property. If the Executive Summary shows a lot of green, take some time to study the other report sections to make sure the investment meets your expectations.

Cash Flow Analysis Section

The Cash Flow Analysis section contains two detailed spreadsheets of the property cash flows and multiple charts illustrating the results. All of the information displayed in the charts is shown in the spreadsheets.

Investment Growth Analysis Section

The Investment Growth Analysis section contains a spreadsheet of the property market value and equity growth, and it contains charts detailing the different types of growth.

Debt Analysis Section

The Debt Analysis section provides multiple detailed spreadsheets for different types of loans, and it provides principal, interest, and other debt related charts. All or part of this section may be omitted if debt is absent or limited in this investment analysis.

Advanced Analysis Section

The Advanced Analysis Details section provides additional charts and explanations of the Advanced Analysis. The Advanced Analysis is sometimes called the Monte Carlo Analysis. This section is summarized in the Consolidated Investment Summary, Advanced ROI.

Notes and Disclosures Section

Finally, the Notes and Disclosures section provides various notes, disclosures, definitions, methodologies and other information about the report.

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(Page numbering varies from this point forward because some pages are not required in some reports.)

Debt Analysis

(Some debt sections may be omitted if the loan was not used.)
Loan 1 - Traditional
Loan 2 - Traditional
Loan 3 - Balloon Payment
Loan 4 - Interest Only
Loan 5 - No Payments
Loan 6 - Variable Rate
Loan Charts
Total Principal and Interest
Net Operating Income, Loans & Debt Coverage Ratio
Loan Consolidation

Advanced Analysis Details

Advanced Analysis Chart: Return on Investment
Advanced Investment Summary and Benchmarks
Advanced Investment Analysis Detailed Description

Notes & Disclosures

Report Description
Executive Summary Detail
Benchmark Description
Additional Information
Glossary
Disclosures
Methodology

Address, Valuation, Expense and Loan Input

Property Street Address	Address 2	City	State	Zip Code
3674 Beachwood Lane		Carlsbad	CA	92008

Current Value and Loan Information	
Current Price or Market Value	\$ 1,210,727
Current or Initial Loan(s)	\$ 429,615
Current or Initial Equity (Down Payment)	\$ 781,112

Future Value and Loan Information	
Market Value After Improvements	\$ 1,210,727
Current or Initial Loan(s)	\$ 429,615
Future Equity	\$ 781,112

Loan Option 1	
Loan Amount	\$ 388,471.00
Loan Interest Rate	3.500%
Loan Fees	\$ -
Loan Amortization Term (Years)	10.25

Loan Option 3	
Loan Amount	\$ -
Loan Interest Rate	3.500%
Loan Fees	\$ -
Loan Amortization Term (Years)	30.00
Balloon Payment Due (Years)	15.00

Annual Expenses	
Property Management Fees	\$ 2,400
Real Estate Taxes	\$ 10,744
Insurance	\$ 2,400
Utilities	\$ 1,500
Reserves & Misc.	\$ 1,500
Maintenance & Repairs	\$ 1,200
HOA	\$ 4,320
Total Expenses	\$ 24,064

Loan Option 2	
Loan Amount	\$ -
Loan Interest Rate	5.240%
Loan Fees	\$ -
Loan Amortization Term (Years)	30.00

Loan Options 4, 5, & 6	
Loan Amount	\$ 41,144.10
Loan Interest Rate	5.240%
Loan Fees	\$ -
#4: Interest Only Loan Term (Years)	30.00
#5: No Payment Term (Years)	0.00
#6: Variable Rate Term (Years)	0.00
#6: Variable Interest Rates	

Other Input

General Information	
Property Type	Townhome
Year Built	2002
Square Footage	2,358
Lot Size	N/A
Zoning	N/A
Land Value	\$ 50,000
Parking	2 Car Garage

Market Value After Improvements	
Initial Property	\$ 1,210,727
Increase After Remodel	
Increase After Improvements	
Total	\$ 1,210,727

Change in Market Value	
Market Value After Improvements	\$ 1,210,727
Current Price or Market Value	\$ 1,210,727
Increase In Market Value	\$ -

Income	
Scheduled Rental Income	\$ 48,000
Annual Other Income	\$ -
Total Annual Income	\$ 48,000

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Other	
Other	\$ -
Other	\$ -
Other	\$ -
Other	\$ -
Other	\$ -
Other	\$ -
Total	\$ -

Remodel & Improvement Costs	
Other	\$ -
Other	\$ -
Other	\$ -
Total	\$ -

Profit or Loss on Improvements	
Market Value After Improvements	\$ 1,210,727
Remodel & Improvement Costs	\$ -
Current or Initial Loan Repayment	\$ (429,615)
Profit or (Loss)	\$ 781,112

Return on Investment	
Current or Initial Equity (Down Payment)	\$ 781,112
Remodel & Improvement Costs	\$ -
Total Investment	\$ 781,112
Return on Investment	100.00%

Report Date	
October 9, 2021	

Advanced Assumptions

Acquisition Costs	
Current Market Value (or Purchase Price)	\$ 1,210,727
Loan Fees - Loans 1 & 2	\$ -
Loan Fees - Loans 3-6	\$ -
Total Closing Costs	\$ -
Remodel and Improvement Costs	\$ -
Total Acquisition Costs	\$ 1,210,727

Initial Investment	
Down Payment	\$ 781,112
Loan Fees - Loans 1 & 2	\$ -
Loan Fees - Loans 3-6	\$ -
Total Closing Costs	\$ -
Remodel and Improvement Costs	\$ -
Initial Investment	\$ 781,112

Tax Information - Consult your tax advisor regarding tax issues. - These assumptions do not apply to all properties.	
Depreciable Basis (Acquisition Costs - Land Value)	\$ 1,160,727
Salvage Value (\$0 if acquired after 1987)	\$ -
Depreciable Life (Residential = 27.5 Years / Commercial = 39 Years)	27.5

Monte Carlo Variables	Minimum	Expected	Maximum
Income Tax Rate	15.00%	30.00%	39.00%
Long-Term Capital Gain Tax Rate	15.00%	15.00%	27.00%
Vacancy Rate & Credit Loss (5% or actual)	2.00%	4.20%	5.00%
Annual Income Increases	2.00%	3.00%	4.00%
Annual Operating Expense Increases	2.00%	3.00%	4.00%
Annual Appreciation Rate	-10.00%	3.00%	10.00%
Other	0.00%	0.00%	0.00%

Other Information	National Benchmark	Subject Property
Weather Risk (National Average = 100)	100	10
Crime (National Average = 1)	1.00	0.57
Vacancy Rate & Credit Loss (5% or actual)	5.40%	4.20%
Annual Residential Turnover	5.00%	5.00%
Fair Market Rents (Monthly)	\$ 1,463	\$ 4,000
Median Household Income (US Census for 2020)	\$ 67,521	\$ 123,409
Educational Index (1 = Low, 5 = High)	3	5

Income Schedule

Unit #	Bedrooms	Bath	Sq Ft	Prkg Spaces	Lease Exp	Last Rent Increase	Security Deposit	Current Mo. Rent	Market Mo. Rent
1	3	3	2358	2		N/A	\$ -	\$ 4,000	\$ 4,000
2									
3									
4									
5									
6									
7									
8									
9									
10									
11									
12									
13									
14									
15									
16									
Total Monthly Rent								\$ 4,000	\$ 4,000
Total Annual Rent								\$ 48,000	\$ 48,000

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

Total Income							\$ 48,000	\$ 48,000
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Notes

Property Taxes source-Redfin
Property Value source-Redfin
Rental Income Source Redfin and Rent-o-Meter
Median Income source-City-Data
Cost of Living source-City-Data
Crime Index source-City-Data
Inflation Rate source-US Inflation Rate calculator
Weather Risk source-City-Data

Executive Summary

Pre-Tax Return Calculations	
15 Year Pre-Tax Average Annual Yield	-1.09%
Cash-on-Cash Return (Year 1)	-3.33%
After-Tax Return Calculations	
15 Year Average Return on Investment (ROI)	8.28%
15 Year Average Return on Equity (ROE)	5.33%
Internal Rate of Return (IRR)	4.93%
Advanced Analysis Return	4.11%
Other Metrics	
Debt Coverage Ratio	45.75%
Capitalization (Cap) Rate	1.81%
Expense Ratio	50%
Gross Rent Multiplier	25.22
Weather Risk	10.00
Crime	0.57
Vacancy Rate	4%
Annual Residential Turnover	5%
Rent / Income Ratio	39%
Educational Index	5

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 which is found at the end of the report. Projects with mostly red or orange showing should be avoided in favor of projects with mainly yellow or green.

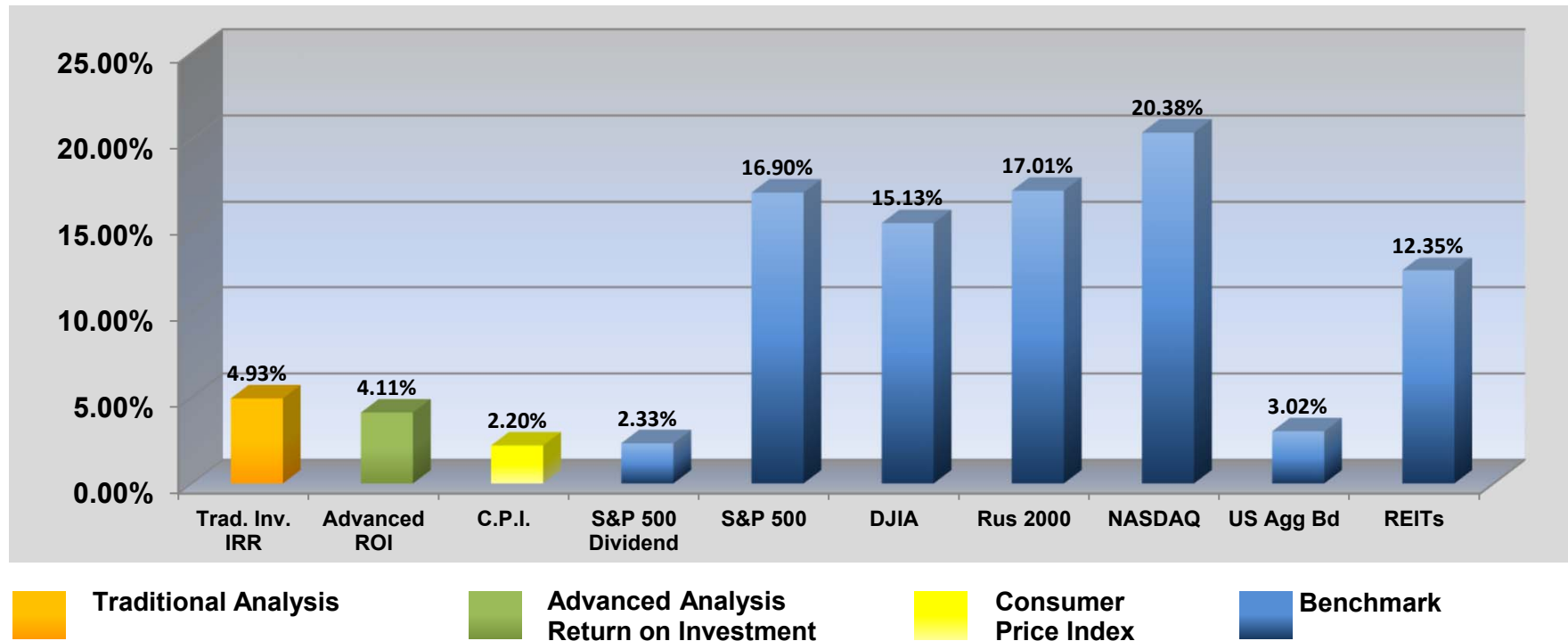


Executive Summary and Detailed Report Cross-reference

	Detailed Report Page Reference
15 Year Pre-Tax Average Annual Yield	8, 10, 11, 15, 16, 21, 38
15 Year Average Return on Equity (ROE)	13, 14, 16, 38, 42
15 Year Average Return on Investment (ROI)	7, 8, 13, 14, 16, 38, 42
Internal Rate of Return (IRR)	7, 8, 38
Advanced Analysis Return	7, 34-38
Debt Coverage Ratio	10, 11, 31, 42
Cash-on-Cash Return (Year 1)	10, 12, 15, 16, 21, 22, 38
Capitalization (Cap) Rate	38, 42
Expense Ratio	38, 42
Gross Rent Multiplier	38, 42
Weather Risk (Low: 1 to High: 100)	39
Crime (National Average = 1)	39
Vacancy Rate	39
Annual Residential Turnover	39
Rent / Income Ratio	39
Educational Index	39

For detailed descriptions of real estate investing terms, please request our Terminology Guide.

Consolidated Investment Summary



This chart shows the Traditional Investment Analysis (Orange), Advanced Analysis (Green), Consumer Price Index [Seasonally Adjusted] (Yellow), and Benchmark Returns (Blue).

The Traditional Analysis and the Advanced Analysis spanned 15 years. The CPI and Benchmarks are annualized historical values for the 10 year period ending 09/23/2012.

If the Orange and Green bars show returns higher than the Blue bars, then this property may outperform a benchmark securities portfolio. If the Orange and Green 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 Orange and Green bars, then this property may underperform a benchmark securities portfolio. Securities (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, income & expenses re-evaluated, another property found, or a securities portfolio should be given serious consideration as a new investment.

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 Average Annual Yield -1.09%

This is the 15-Year Pre-Tax Average Annual Yield (cash-on-cash return). It can be used to compare the returns of this investment with the pre-tax yield of other investments of similar term and risk.

After-Tax Average Annual Yield -0.23%

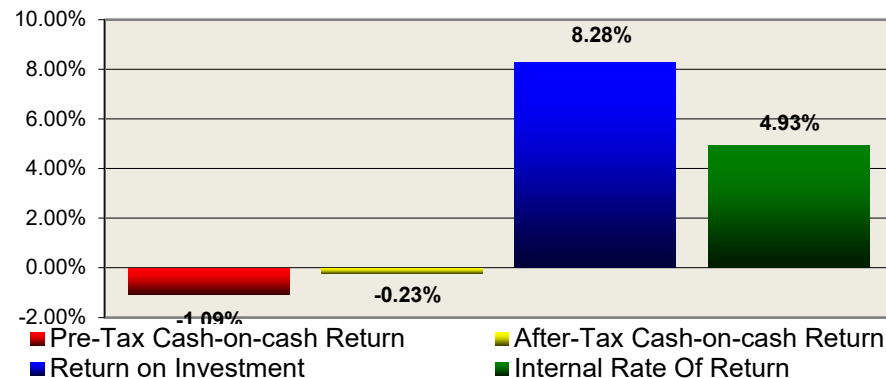
This is the 15-Year After-Tax Average Annual Yield (cash-on-cash return). It can be used to compare the yield of this investment with the after tax yield of other investments of similar term and risk.

Return on Investment (ROI) 8.28%

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

Internal Rate of Return (IRR) 4.93%

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



Pre-Tax Cash Flow -\$8,531

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 -\$1,762

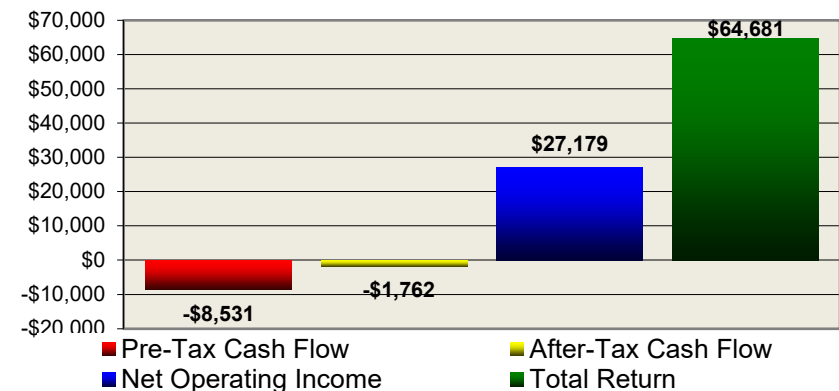
This is the 15-Year Average After-Tax Cash Flow. It can be used to compare the cash flow of this investment with the after tax cash flows of other investments of similar term and risk.

Net Operating Income (NOI) \$27,179

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

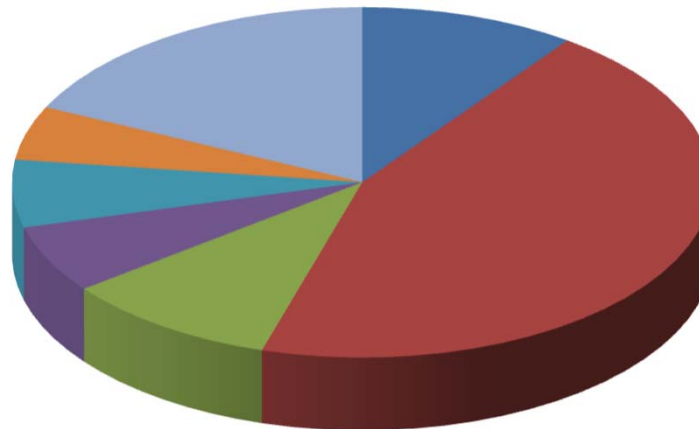
Total Return \$64,681

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



First Year Expense Details

Expenses		
Property Management Fees	\$	2,400
Real Estate Taxes	\$	10,744
Insurance	\$	2,400
Utilities	\$	1,500
Reserves & Misc.	\$	1,500
Maintenance & Repairs	\$	1,200
HOA	\$	4,320
Total Expenses	\$	24,064



- Property Management Fees
- Real Estate Taxes
- Insurance
- Utilities
- Reserves & Misc.
- Maintenance & Repairs
- HOA

Operating and Pre-Tax Cash Flow Analysis

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Operating Cash Flow Analysis								
Scheduled Rent Income	48,000	49,440	50,923	52,451	54,024	55,645	57,315	59,034
+ Other income	0	0	0	0	0	0	0	0
Scheduled Gross Income	48,000	49,440	50,923	52,451	54,024	55,645	57,315	59,034
- Vacancy & Credit Loss	(2,016)	(2,076)	(2,139)	(2,203)	(2,269)	(2,337)	(2,407)	(2,479)
Effective Gross Income	45,984	47,364	48,784	50,248	51,755	53,308	54,907	56,555
Operating Expenses								
- Total Operating Expenses	(24,064)	(24,786)	(25,529)	(26,295)	(27,084)	(27,897)	(28,734)	(29,596)
Net Operating Income	21,920	22,578	23,255	23,953	24,671	25,411	26,174	26,959
Operating Expense Ratio	50.13%	50.13%	50.13%	50.13%	50.13%	50.13%	50.13%	50.13%

Pre-Tax Cash Flow Analysis								
Net Operating Income	21,920	22,578	23,255	23,953	24,671	25,411	26,174	26,959
Total Loan Payments	(47,912)	(47,912)	(47,912)	(47,912)	(47,912)	(47,912)	(47,912)	(47,912)
Pre-Tax Cash Flow	(25,992)	(25,334)	(24,657)	(23,959)	(23,241)	(22,501)	(21,738)	(20,953)
Pre-Tax Cash-on-cash Return	-3.33%	-3.24%	-3.16%	-3.07%	-2.98%	-2.88%	-2.78%	-2.68%
Debt Coverage Ratio	45.75%	47.12%	48.54%	49.99%	51.49%	53.04%	54.63%	56.27%
Preferred Debt Coverage Ratio	125%	125%	125%	125%	125%	125%	125%	125%

Pre-Tax Return Analysis								
Pre-Tax Cash flow	(25,992)	(25,334)	(24,657)	(23,959)	(23,241)	(22,501)	(21,738)	(20,953)
Principal Reduction of All Loans	32,160	33,285	34,450	35,656	36,904	38,195	39,532	40,916
Return Before Taxes (PTCF+LPR)	6,168	7,951	9,793	11,696	13,663	15,695	17,794	19,963
Pre-Tax Return	0.79%	1.02%	1.25%	1.50%	1.75%	2.01%	2.28%	2.56%

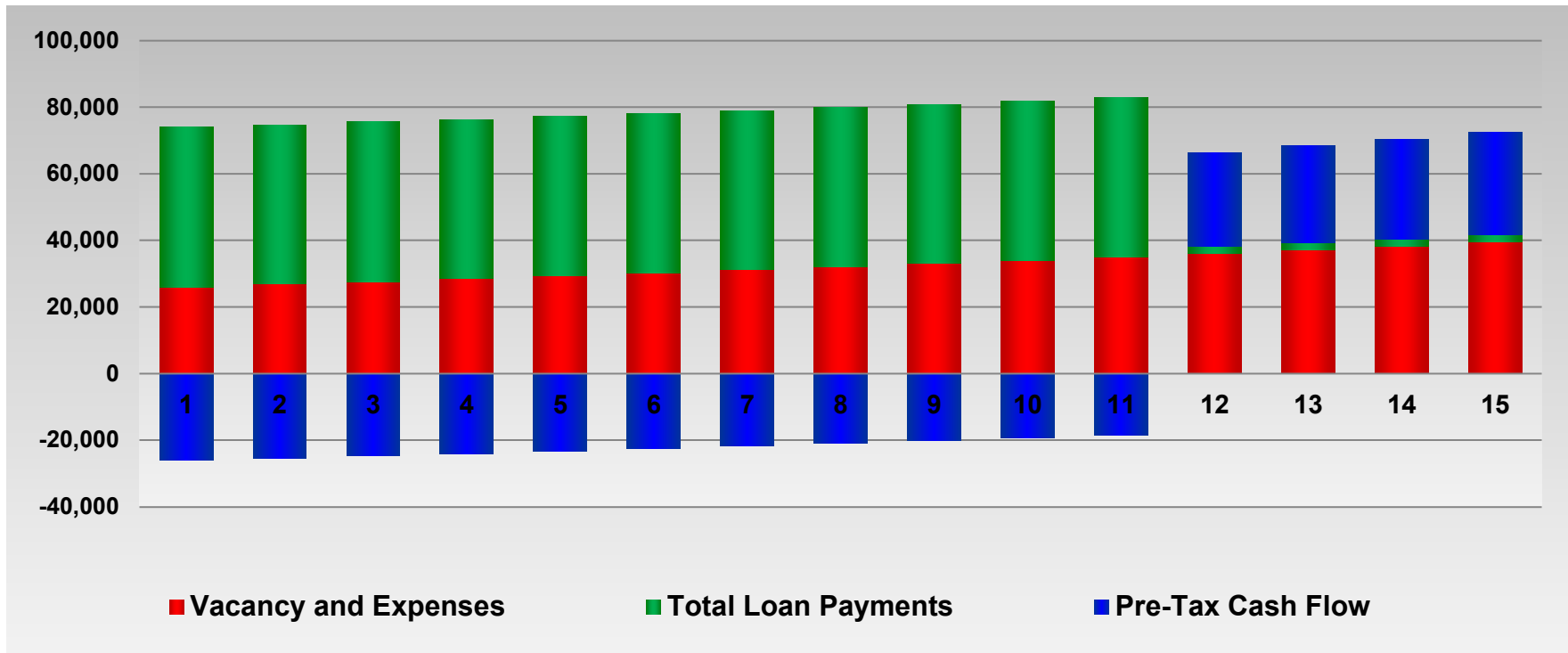
Operating and Pre-Tax Cash Flow Analysis

	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Operating Cash Flow Analysis							
Scheduled Rent Income	60,805	62,629	64,508	66,443	68,437	70,490	72,604
+ Other income	0	0	0	0	0	0	0
Scheduled Gross Income	60,805	62,629	64,508	66,443	68,437	70,490	72,604
- Vacancy & Credit Loss	(2,554)	(2,630)	(2,709)	(2,791)	(2,874)	(2,961)	(3,049)
Effective Gross Income	58,251	59,999	61,799	63,653	65,562	67,529	69,555
Operating Expenses							
- Total Operating Expenses	(30,484)	(31,398)	(32,340)	(33,310)	(34,310)	(35,339)	(36,399)
Net Operating Income	27,768	28,601	29,459	30,342	31,253	32,190	33,156
Operating Expense Ratio	50.13%	50.13%	50.13%	50.13%	50.13%	50.13%	50.13%

Pre-Tax Cash Flow Analysis							
Net Operating Income	27,768	28,601	29,459	30,342	31,253	32,190	33,156
Total Loan Payments	(47,912)	(47,912)	(47,912)	(2,156)	(2,156)	(2,156)	(2,156)
Pre-Tax Cash Flow	(20,144)	(19,311)	(18,453)	28,186	29,097	30,034	31,000
Pre-Tax Cash-on-cash Return	-2.58%	-2.47%	-2.36%	3.61%	3.73%	3.85%	3.97%
Debt Coverage Ratio	57.96%	59.69%	61.48%	1407.38%	1449.60%	1493.09%	1537.88%
Preferred Debt Coverage Ratio	125%	125%	125%	125%	125%	125%	125%

Pre-Tax Return Analysis							
Pre-Tax Cash flow	(20,144)	(19,311)	(18,453)	28,186	29,097	30,034	31,000
Principal Reduction of All Loans	42,348	43,830	45,364	0	0	0	0
Return Before Taxes (PTCF+LPR)	22,204	24,519	26,911	28,186	29,097	30,034	31,000
Pre-Tax Return	2.84%	3.14%	3.45%	3.61%	3.73%	3.85%	3.97%

Operating Expense and Pre-Tax Cash Flow Chart



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 All Loans, before the investor receives the Cash Flow from the project (i.e. PROFIT) before income taxes are paid.

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	21,920	22,578	23,255	23,953	24,671	25,411	26,174	26,959
- Total Loan Interest	(15,752)	(14,627)	(13,462)	(12,256)	(11,008)	(9,717)	(8,380)	(6,996)
- Depreciation	(42,208)	(42,208)	(42,208)	(42,208)	(42,208)	(42,208)	(42,208)	(42,208)
Taxable Passive Income (Loss)	(36,041)	(34,258)	(32,415)	(30,512)	(28,545)	(26,514)	(24,414)	(22,245)
x Tax Bracket	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%
Taxes Paid (Saved) (1)	(10,812)	(10,277)	(9,725)	(9,154)	(8,564)	(7,954)	(7,324)	(6,674)
After-Tax Benefit Analysis	-1.38%	-1.32%	-1.24%	-1.17%	-1.10%	-1.02%	-0.94%	-0.85%

After-Tax Cash Flow Analysis								
Pre-Tax Cash Flow	(25,992)	(25,334)	(24,657)	(23,959)	(23,241)	(22,501)	(21,738)	(20,953)
Taxes Paid (Saved)	(10,812)	(10,277)	(9,725)	(9,154)	(8,564)	(7,954)	(7,324)	(6,674)
After-Tax Cash Flow	(15,180)	(15,057)	(14,932)	(14,806)	(14,677)	(14,547)	(14,414)	(14,279)
After-Tax Cash-on-cash Return	-1.94%	-1.93%	-1.91%	-1.90%	-1.88%	-1.86%	-1.85%	-1.83%

ROI & ROE Analysis								
Pre-tax Cash flow	(25,992)	(25,334)	(24,657)	(23,959)	(23,241)	(22,501)	(21,738)	(20,953)
Principal Reduction of All Loans	32,160	33,285	34,450	35,656	36,904	38,195	39,532	40,916
Appreciation	36,322	37,411	38,534	39,690	40,881	42,107	43,370	44,671
Other	0	0	0	0	0	0	0	0
Total Return	42,489	45,362	48,327	51,386	54,544	57,802	61,164	64,634
Return on Investment	5.44%	5.81%	6.19%	6.58%	6.98%	7.40%	7.83%	8.27%
Return on Equity	5.44%	5.44%	5.43%	5.42%	5.41%	5.39%	5.38%	5.36%

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

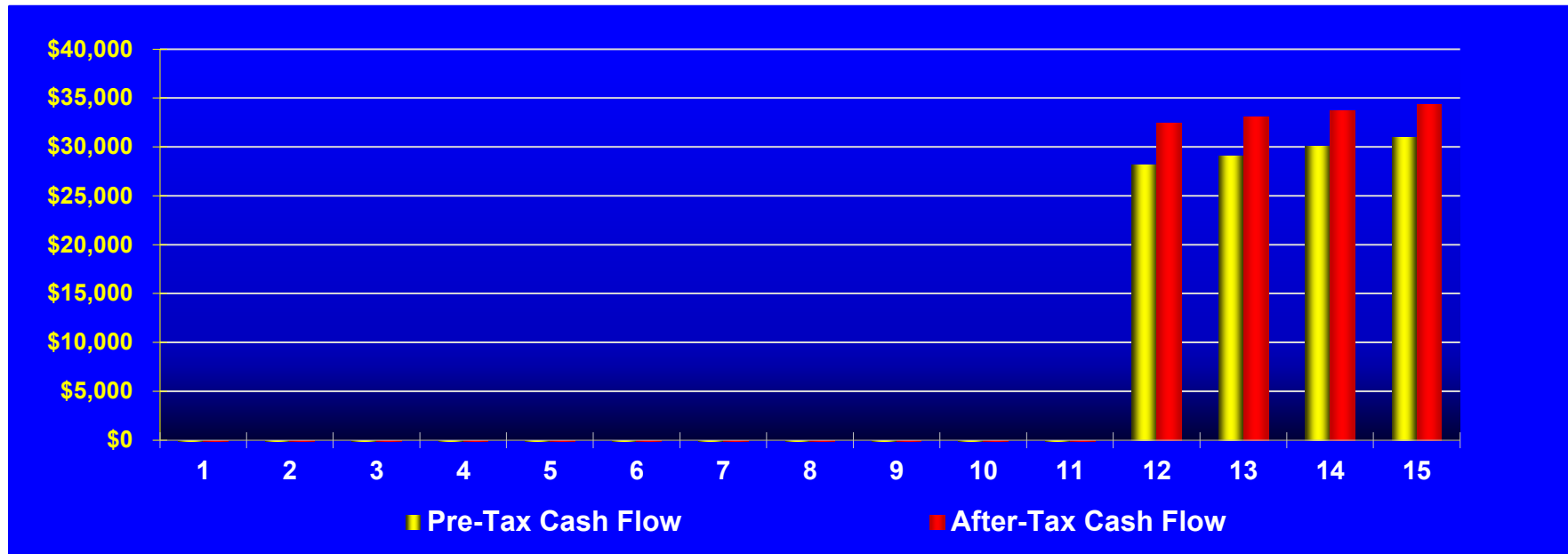
After-Tax & Investment Return Analysis

	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
After-Tax Benefit Analysis							
Net Operating Income	27,768	28,601	29,459	30,342	31,253	32,190	33,156
- Total Loan Interest	(5,564)	(4,082)	(2,548)	(2,156)	(2,156)	(2,156)	(2,156)
- Depreciation	(42,208)	(42,208)	(42,208)	(42,208)	(42,208)	(42,208)	(42,208)
Taxable Passive Income (Loss)	(20,005)	(17,689)	(15,297)	(14,022)	(13,112)	(12,174)	(11,208)
x Tax Bracket	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%
Taxes Paid (Saved) (1)	(6,001)	(5,307)	(4,589)	(4,207)	(3,933)	(3,652)	(3,362)
After-Tax Benefit Analysis	-0.77%	-0.68%	-0.59%	-0.54%	-0.50%	-0.47%	-0.43%

After-Tax Cash Flow Analysis							
Pre-Tax Cash Flow	(20,144)	(19,311)	(18,453)	28,186	29,097	30,034	31,000
Taxes Paid (Saved)	(6,001)	(5,307)	(4,589)	(4,207)	(3,933)	(3,652)	(3,362)
After-Tax Cash Flow	(14,143)	(14,004)	(13,864)	32,393	33,030	33,686	34,362
After-Tax Cash-on-cash Return	-1.81%	-1.79%	-1.77%	4.15%	4.23%	4.31%	4.40%

ROI & ROE Analysis							
Pre-tax Cash flow	(20,144)	(19,311)	(18,453)	28,186	29,097	30,034	31,000
Principal Reduction of All Loans	42,348	43,830	45,364	0	0	0	0
Appreciation	46,011	47,392	48,813	50,278	51,786	53,340	54,940
Other	0	0	0	0	0	0	0
Total Return	68,215	71,911	75,724	78,464	80,883	83,374	85,940
Return on Investment	8.73%	9.21%	9.69%	10.05%	10.35%	10.67%	11.00%
Return on Equity	5.34%	5.32%	5.30%	5.20%	5.19%	5.17%	5.16%

Pre-Tax Cash Flow and After-Tax Cash Flow Chart

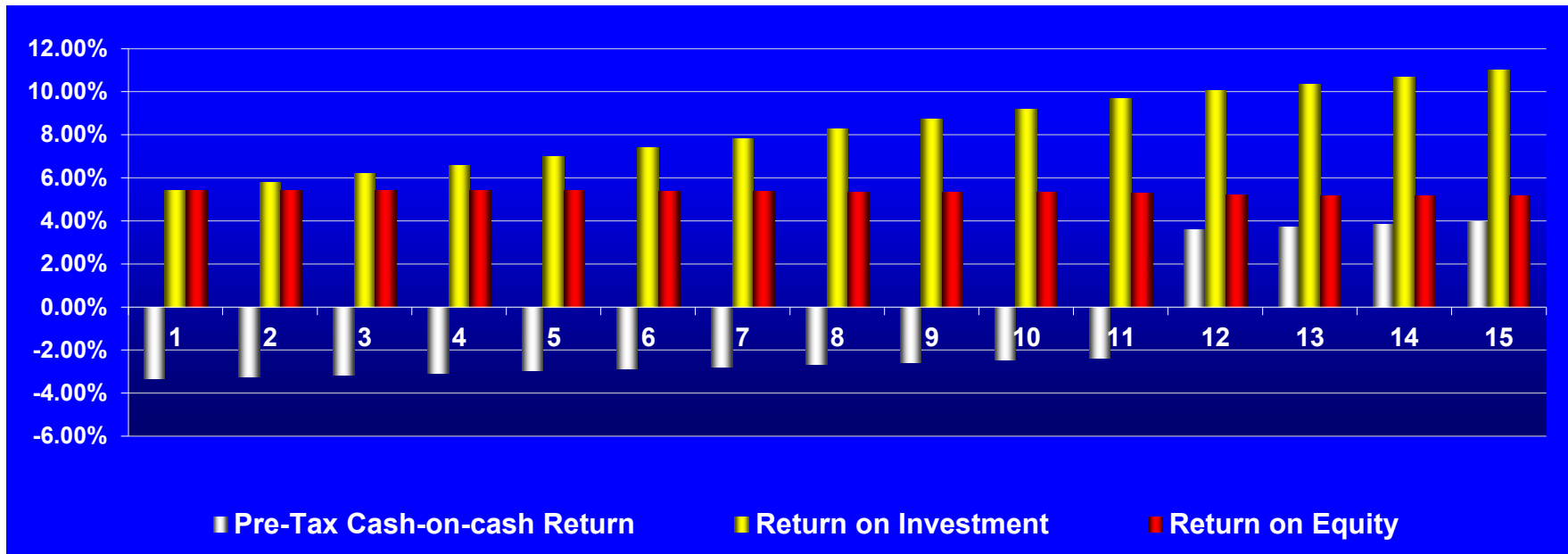


The After-Tax Cash Flow may be larger than the Pre-Tax Cash Flow if depreciation expenses create a tax savings for the investor. This After-Tax Cash Flow may or may not be applicable to your circumstances. Always check with your tax advisor regarding the tax impact of any investment.

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: $(\text{Net Operating Income} - \text{Annual Debt Service})$.

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: $(\text{Net Operating Income} - \text{Annual Debt Service} - \text{Taxes})$.

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: $(\text{Pre-Tax Cash-on-cash Return} / \text{Initial Investment})$.

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: $(\text{Total Return} / \text{Initial Investment})$.

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: $(\text{Total Return} / \text{Total Equity})$.

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	1,210,727	1,247,049	1,284,460	1,322,994	1,362,684	1,403,564	1,445,671	1,489,041
Capital Appreciation	36,322	37,411	38,534	39,690	40,881	42,107	43,370	44,671
Appreciated Value	1,247,049	1,284,460	1,322,994	1,362,684	1,403,564	1,445,671	1,489,041	1,533,713

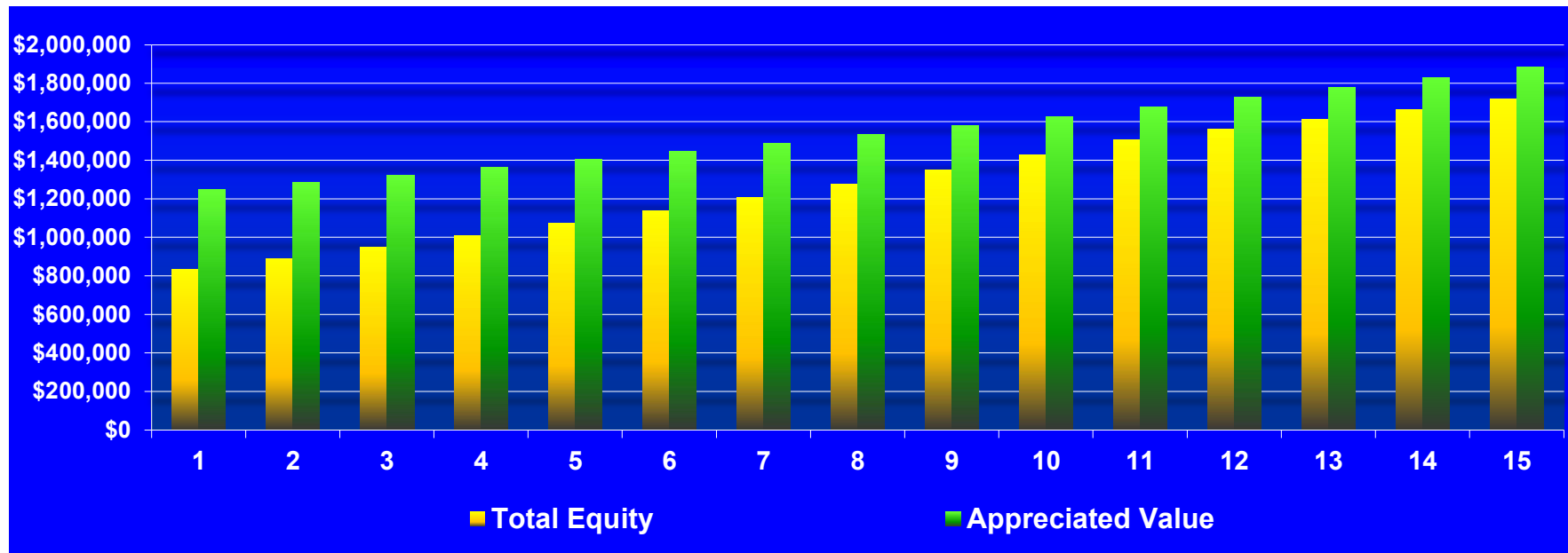
Equity Analysis								
Down Pmt/Beginning of Yr Equity	781,112	834,413	890,053	948,104	1,008,644	1,071,751	1,137,507	1,205,995
Remodel and Improvement Costs	0	0	0	0	0	0	0	0
Unrealized Capital Apprec	36,322	37,411	38,534	39,690	40,881	42,107	43,370	44,671
Loan 1 Principal Reduction	32,160	33,285	34,450	35,656	36,904	38,195	39,532	40,916
Loan 2 Principal Reduction	0	0	0	0	0	0	0	0
Loan 3 Principal Reduction	0	0	0	0	0	0	0	0
Loan 4 Principal Reduction	0	0	0	0	0	0	0	0
Loan 5 Principal Addition	0	0	0	0	0	0	0	0
Loan 6 Principal Reduction	0	0	0	0	0	0	0	0
Negative After-Tax Cash Flow	(15,180)	(15,057)	(14,932)	(14,806)	(14,677)	(14,547)	(14,414)	(14,279)
Total Equity	834,413	890,053	948,104	1,008,644	1,071,751	1,137,507	1,205,995	1,277,303

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	1,533,713	1,579,724	1,627,116	1,675,929	1,726,207	1,777,993	1,831,333
Capital Appreciation	46,011	47,392	48,813	50,278	51,786	53,340	54,940
Appreciated Value	1,579,724	1,627,116	1,675,929	1,726,207	1,777,993	1,831,333	1,886,273

Equity Analysis							
Down Pmt/Beginning of Yr Equity	1,277,303	1,351,519	1,428,737	1,509,050	1,559,328	1,611,114	1,664,454
Remodel and Improvement Costs	0	0	0	0	0	0	0
Unrealized Capital Apprec	46,011	47,392	48,813	50,278	51,786	53,340	54,940
Loan 1 Principal Reduction	42,348	43,830	45,364	0	0	0	0
Loan 2 Principal Reduction	0	0	0	0	0	0	0
Loan 3 Principal Reduction	0	0	0	0	0	0	0
Loan 4 Principal Reduction	0	0	0	0	0	0	0
Loan 5 Principal Addition	0	0	0	0	0	0	0
Loan 6 Principal Reduction	0	0	0	0	0	0	0
Negative After-Tax Cash Flow	(14,143)	(14,004)	(13,864)	0	0	0	0
Total Equity	1,351,519	1,428,737	1,509,050	1,559,328	1,611,114	1,664,454	1,719,394

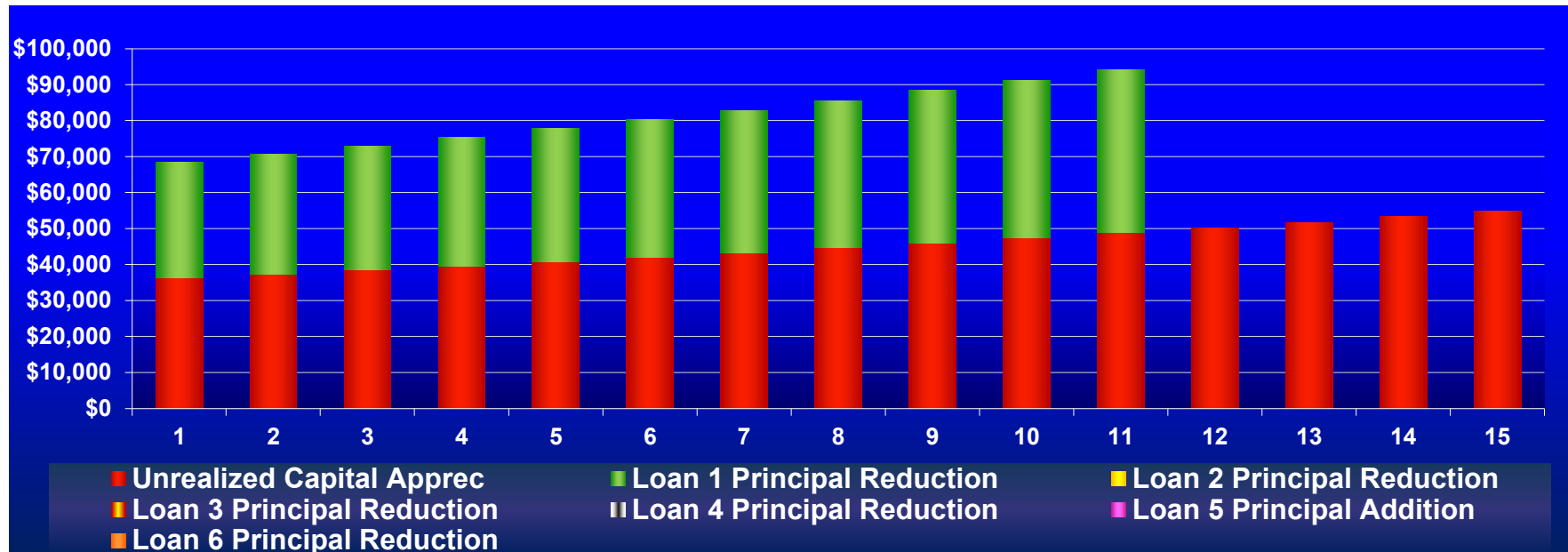
Total Equity and Appreciated Value



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

Investment Growth and Equity Growth

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

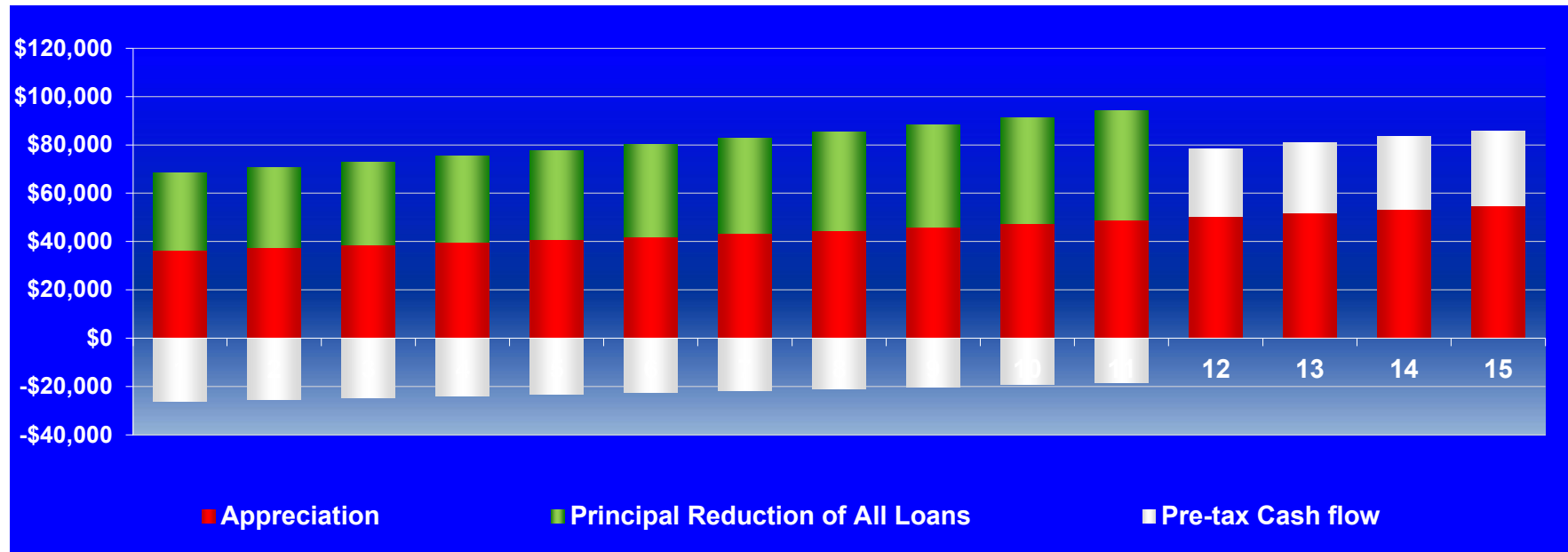


Returns in a real estate investment generally come from three components. Cash Flow from the operations of the project, increases in the market value of the property (called Unrealized Capital Appreciation), and increases in your equity resulting from loan repayment (called Loan Principal Reduction). 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) and the Principal Reduction of All Loans.

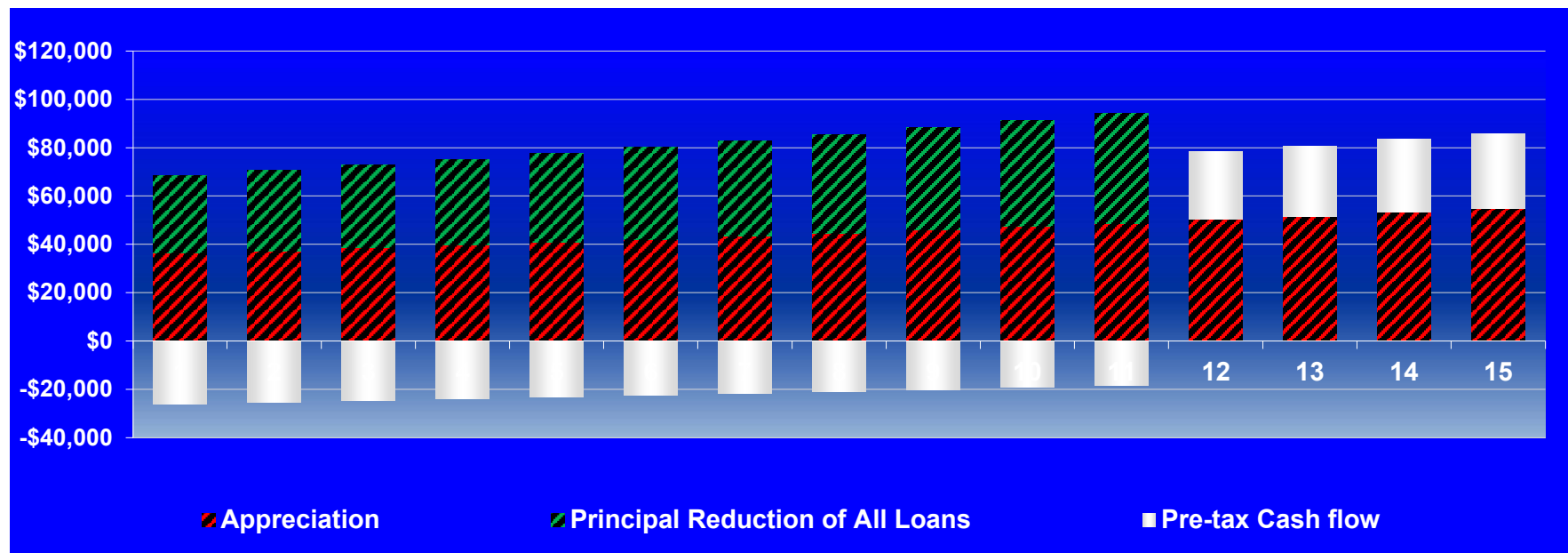
Total Investment Return: Liquid + Illiquid Sources

Market Value Appreciation, Loan Principal Reduction in All Loans
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 All Loans, and Pre-tax Cash Flows.

Total Investment Return Liquid Returns Vs. Illiquid Returns



Comparing Illiquid Cash-Flow With Liquid Cash Flow

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 and green) 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.

Negative Cash-Flow Warning

Please note that Pre-tax Cash Flows (white) below \$0 are negative cash flows. In those years, the investor can expect to pay "out-of-pocket" to meet the operating expenses and mortgage payments on the investment. That investment will not pay for itself in those years. Investments with Negative Cash Flows are very risky investments. Many lenders will not finance this type of investment.

Debt Service Schedule
Loan 1 - Traditional

Loan 1: Traditional 30 Year Amortization								
Beginning Loan Principal	388,471							
Interest Rate	3.500%							
Annual Payment	(45,755.99)							
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Payment	(45,756)	(45,756)	(45,756)	(45,756)	(45,756)	(45,756)	(45,756)	(45,756)
Interest Paid	13,596	12,471	11,306	10,100	8,852	7,561	6,224	4,840
Principal Reduction	32,160	33,285	34,450	35,656	36,904	38,195	39,532	40,916
Principal Balance Remaining	356,311	323,026	288,576	252,921	216,017	177,821	138,289	97,373
Loan-to-Value	50%	29%	25%	22%	19%	15%	12%	9%

	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Payment	(45,756)	(45,756)	(45,756)	0	0	0	0
Interest Paid	3,408	1,926	392	0	0	0	0
Principal Reduction	42,348	43,830	45,364	0	0	0	0
Principal Balance Remaining	55,025	11,195	0	0	0	0	0
Loan-to-Value	6%	3%	1%	0%	0%	0%	0%

Debt Service Schedule
Loan 2 - Traditional

Loan 2: Traditional 30 Year Amortization								
Beginning Loan Principal	0	Total Loan Fees		\$ -				
Interest Rate	5.240%	Term (Years)		30.00				
Annual Payment	0.00	Monthly Payment		0.00				
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Payment	0	0	0	0	0	0	0	0
Interest Paid	0	0	0	0	0	0	0	0
Principal Reduction	0	0	0	0	0	0	0	0
Principal Balance Remaining	0	0	0	0	0	0	0	0
Loan-to-Value	0%	0%	0%	0%	0%	0%	0%	0%

	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Payment	0	0	0	0	0	0	0
Interest Paid	0	0	0	0	0	0	0
Principal Reduction	0	0	0	0	0	0	0
Principal Balance Remaining	0	0	0	0	0	0	0
Loan-to-Value	0%	0%	0%	0%	0%	0%	0%

Debt Service Schedule
Loan 3 - Balloon Payment

Loan 3: Amortized Over 30 Years with Balloon Payment Due in 15 Years								
Beginning Loan Principal	0	Total Loan Fees	\$	-				
Interest Rate	3.500%	Term (Years)		30				
		Balloon Payment in Year		15				
Annual Payment	0.00	Monthly Payment		0.00				
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Payment	0	0	0	0	0	0	0	0
Interest Paid	0	0	0	0	0	0	0	0
Principal Reduction	0	0	0	0	0	0	0	0
Principal Balance Remaining	0	0	0	0	0	0	0	0
Total Annual Payment	0	0	0	0	0	0	0	0
Loan-to-Value	0%	0%	0%	0%	0%	0%	0%	0%

	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Payment	0	0	0	0	0	0	0
Interest Paid	0	0	0	0	0	0	0
Principal Reduction	0	0	0	0	0	0	0
Principal Balance Remaining	0	0	0	0	0	0	0
Total Annual Payment	0	0	0	0	0	0	0
Loan-to-Value	0%	0%	0%	0%	0%	0%	0%

Debt Service Schedule

Loan 4 - Interest Only

Loan 4: Interest Only Loan								
Beginning Loan Principal	41,144	Total Loan Fees		\$ -				
Interest Rate	5.240%	Term (Years)		30.00				
Annual Payment	(2,155.95)	Monthly Payment		179.66				
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Payment	(2,156)	(2,156)	(2,156)	(2,156)	(2,156)	(2,156)	(2,156)	(2,156)
Interest Paid	2,156	2,156	2,156	2,156	2,156	2,156	2,156	2,156
Principal Reduction	0	0	0	0	0	0	0	0
Principal Balance Remaining	41,144	41,144	41,144	41,144	41,144	41,144	41,144	41,144
Total Annual Payment	(2,156)	(2,156)	(2,156)	(2,156)	(2,156)	(2,156)	(2,156)	(2,156)
Loan-to-Value	5%	3%	3%	3%	3%	3%	3%	3%

	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Payment	(2,156)	(2,156)	(2,156)	(2,156)	(2,156)	(2,156)	(2,156)
Interest Paid	2,156	2,156	2,156	2,156	2,156	2,156	2,156
Principal Reduction	0	0	0	0	0	0	0
Principal Balance Remaining	41,144	41,144	41,144	41,144	41,144	41,144	41,144
Total Annual Payment	(2,156)	(2,156)	(2,156)	(2,156)	(2,156)	(2,156)	(2,156)
Loan-to-Value	3%	3%	3%	2%	2%	2%	2%

Debt Service Schedule

Loan 5 - No Payments

Loan 5: No Payments-Balloon at end of Term								
Beginning Loan Principal	0	Total Loan Fees		\$ -				
Interest Rate	5.240%	Term (Years)		0.00				
Annual Payment	0.00	Monthly Payment		0.00				
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Payment	0	0	0	0	0	0	0	0
Interest Due	0	0	0	0	0	0	0	0
Addition to Principal	0	0	0	0	0	0	0	0
Principal + Accrued Interest	0	0	0	0	0	0	0	0
Loan-to-Value	0%	0%	0%	0%	0%	0%	0%	0%

	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Payment	0	0	0	0	0	0	0
Interest Due	0	0	0	0	0	0	0
Addition to Principal	0	0	0	0	0	0	0
Principal + Accrued Interest	0	0	0	0	0	0	0
Loan-to-Value	0%	0%	0%	0%	0%	0%	0%

Debt Service Schedule

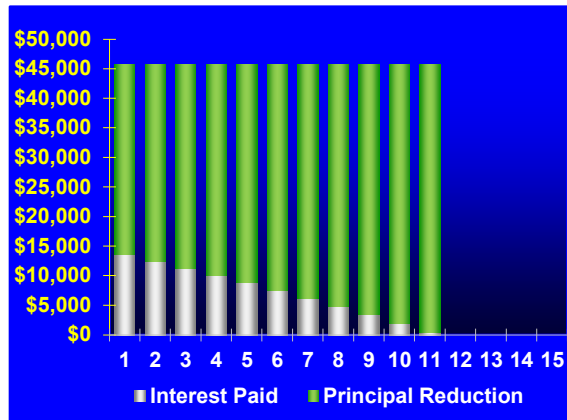
Loan 6 - Variable Rate

Loan 6: Variable Rate Loan								
Beginning Loan Principal	0	Total Loan Fees		\$ -				
Interest Rate	5.240%	Term (Years)		0.00				
Annual Payment	Variable	Monthly Payment		Variable				
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Interest Rate	5.240%	5.240%	5.240%	5.240%	5.240%	5.240%	5.240%	5.240%
Payment	0	0	0	0	0	0	0	0
Interest Paid	0	0	0	0	0	0	0	0
Principal Reduction	0	0	0	0	0	0	0	0
Principal Balance Remaining	0	0	0	0	0	0	0	0
Loan-to-Value	0%	0%	0%	0%	0%	0%	0%	0%

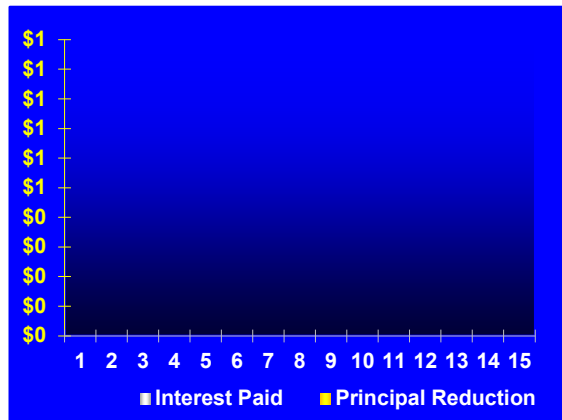
	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Interest Rate	5.240%	5.240%	5.240%	5.240%	5.240%	5.240%	5.240%
Payment	0	0	0	0	0	0	0
Interest Paid	0	0	0	0	0	0	0
Principal Reduction	0	0	0	0	0	0	0
Principal Balance Remaining	0	0	0	0	0	0	0
Loan-to-Value	0%	0%	0%	0%	0%	0%	0%

Loan Charts

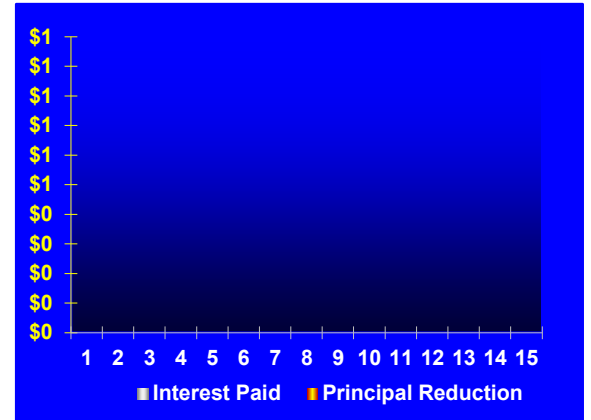
Loan #1: Traditional
Loan Amount \$ 388,471 Interest Rate 3.50%



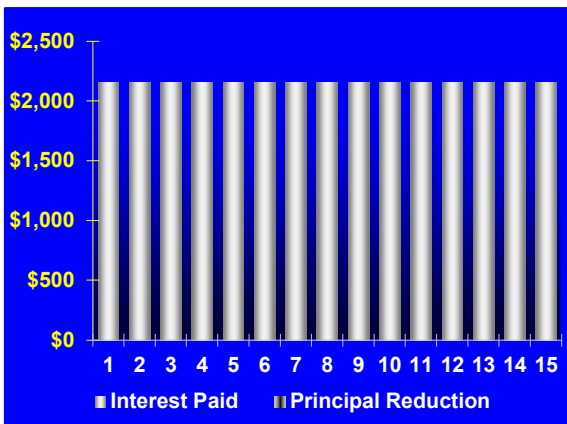
Loan #2: Traditional
Loan Amount \$ - Interest Rate 5.24%



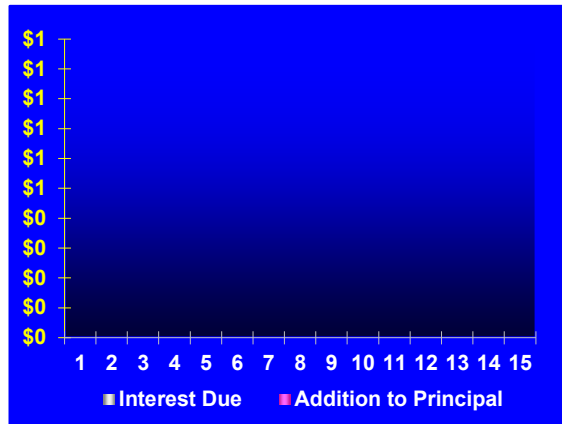
Loan #3: Balloon Payment
Loan Amount \$ - Interest Rate 3.50%
(30 Year Amortization with the Balance Due in 15 Years)



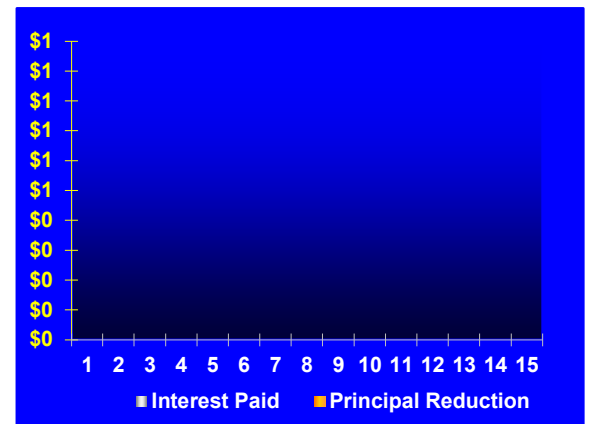
Loan #4: Interest Only
Loan Amount 41,144 Interest Rate 5.24%
(Interest Only Loan with the Balance Due in 30 Years)



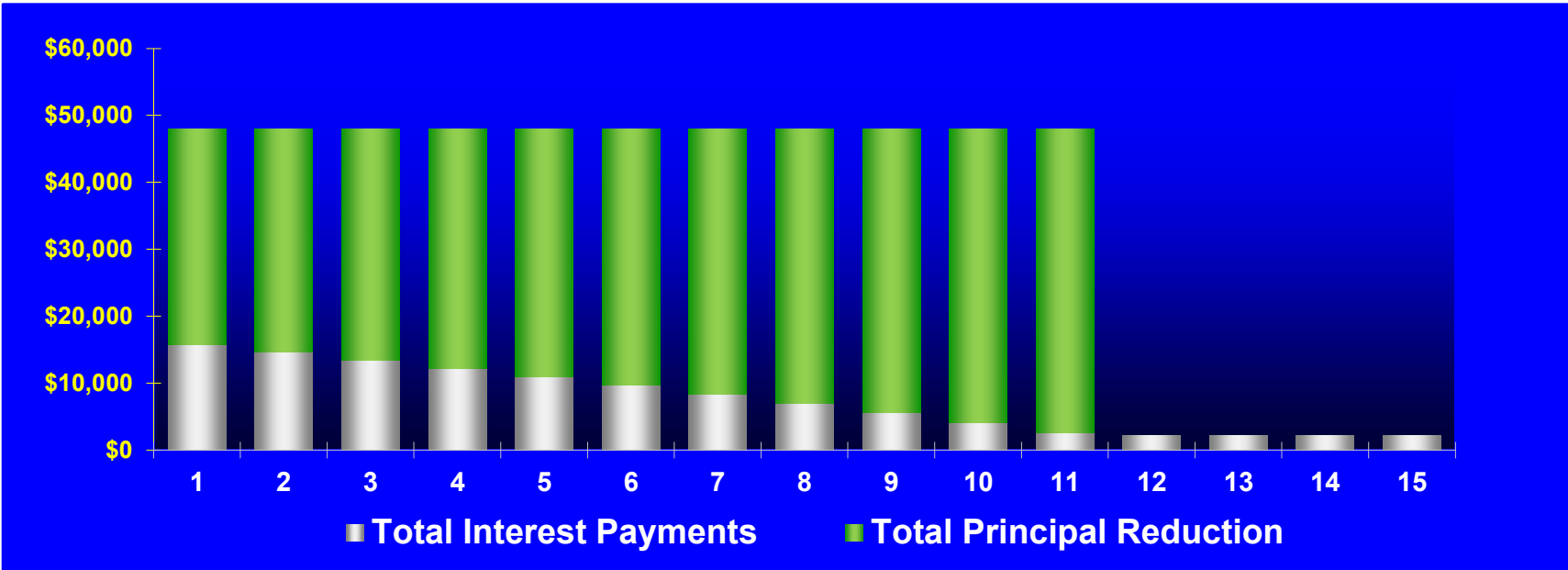
Loan #5: No Payment Loan
Loan Amount 0 Interest Rate 5.24%
(No Payment Loan with the Balance Due in 0 Years)



Loan #6: Variable Rate Type Loan Amortized Over 30 Years
Loan Amount 0 Interest Rate 5.24%
(Variable Rate Loan Amortized Over 0 Years)



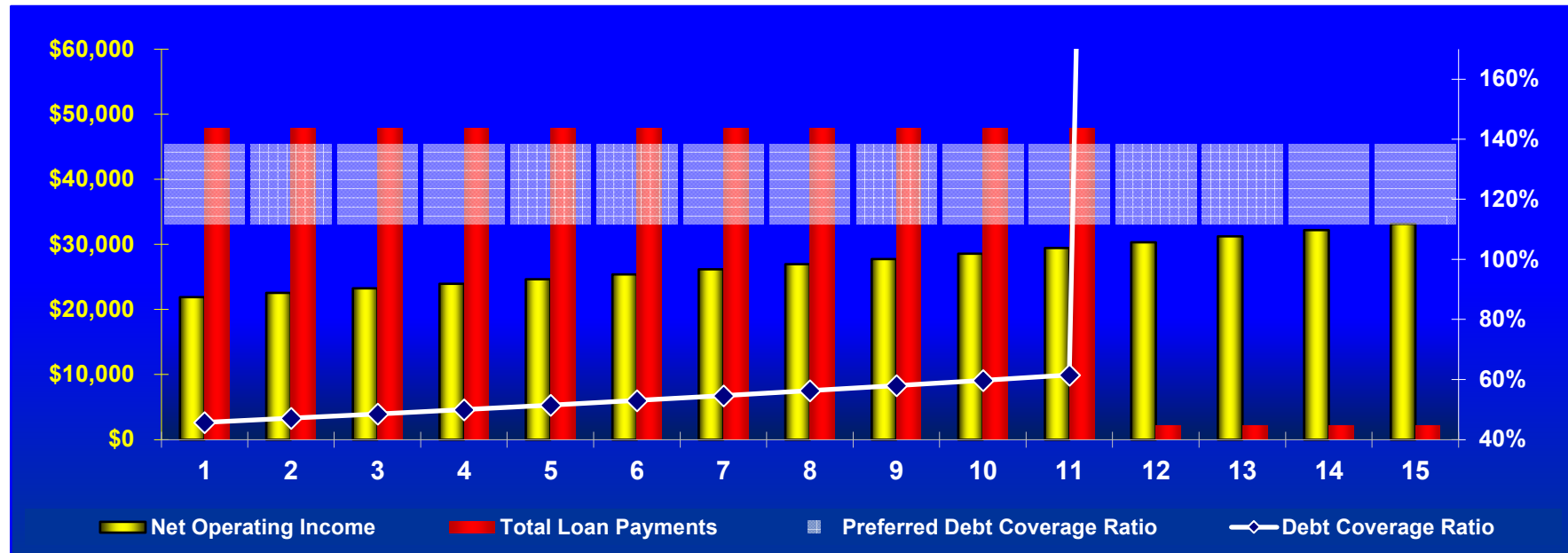
Total Principal and Interest



Principal and Interest payments

See the individual Loan Pages, the Input Page, and the Loan Consolidation Page for additional details.

Net Operating Income, Loan Payments, and Debt Coverage Ratio



Net Operating Income

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

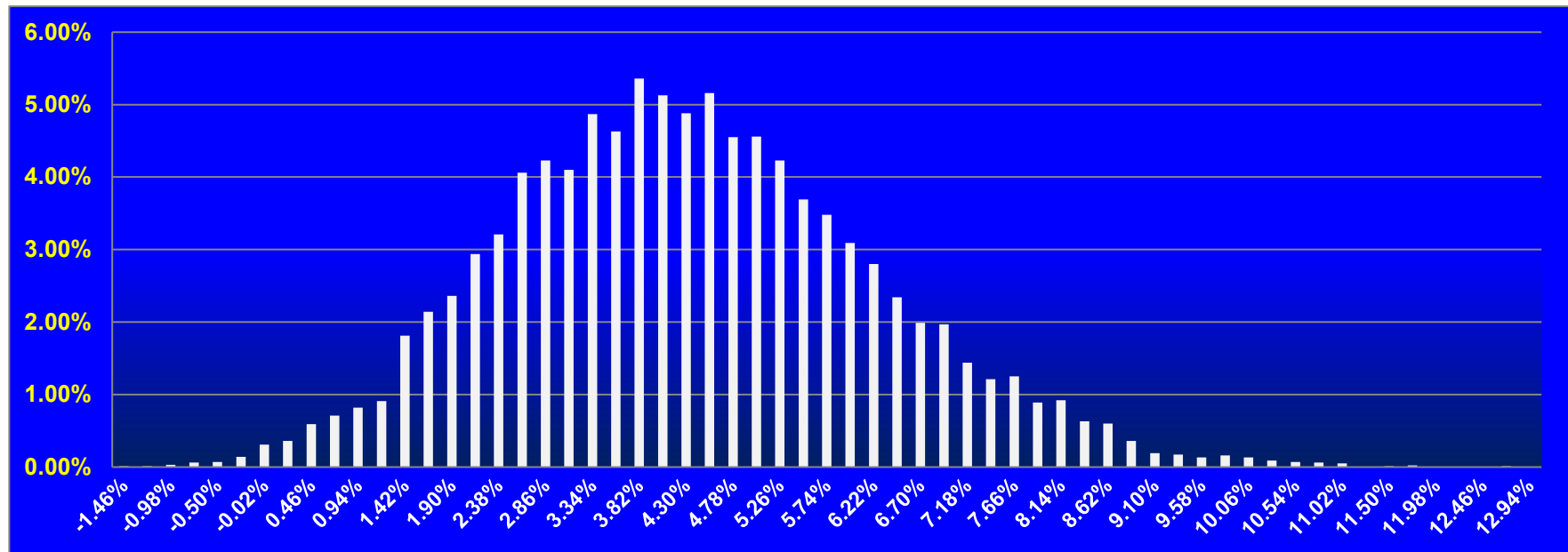
Debt Coverage Ratio is the ratio between Net Operating Income and Annual Debt Service. It tells the lender how much income is available to pay the annual loan payments. A Debt Coverage Ratio less than 100% means that the property cash flow is not sufficient to pay the mortgage payments, and most lenders 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: $(\text{Net Operating Income} / \text{Annual Debt Service})$.

Loan Consolidation	General Debt Information							
	Purchase Price	\$ 1,210,727	%					
	Total Debt	\$ 429,615	35%					
	Required Down Payment	\$ 781,112	65%					
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Payments								
Loan 1	(45,756)	(45,756)	(45,756)	(45,756)	(45,756)	(45,756)	(45,756)	(45,756)
Loan 2	0	0	0	0	0	0	0	0
Loan 3	0	0	0	0	0	0	0	0
Loan 4	(2,156)	(2,156)	(2,156)	(2,156)	(2,156)	(2,156)	(2,156)	(2,156)
Loan 5	0	0	0	0	0	0	0	0
Loan 6	0	0	0	0	0	0	0	0
Total Loan Payments	(47,912)	(47,912)	(47,912)	(47,912)	(47,912)	(47,912)	(47,912)	(47,912)
Interest Paid								
Loan 1	13,596	12,471	11,306	10,100	8,852	7,561	6,224	4,840
Loan 2	0	0	0	0	0	0	0	0
Loan 3	0	0	0	0	0	0	0	0
Loan 4	2,156	2,156	2,156	2,156	2,156	2,156	2,156	2,156
Loan 5	0	0	0	0	0	0	0	0
Loan 6	0	0	0	0	0	0	0	0
Total Interest Payments	15,752	14,627	13,462	12,256	11,008	9,717	8,380	6,996
Principal Reduction								
Loan 1	32,160	33,285	34,450	35,656	36,904	38,195	39,532	40,916
Loan 2	0	0	0	0	0	0	0	0
Loan 3	0	0	0	0	0	0	0	0
Loan 4	0	0	0	0	0	0	0	0
Loan 5	0	0	0	0	0	0	0	0
Loan 6	0	0	0	0	0	0	0	0
Total Principal Reduction	32,160	33,285	34,450	35,656	36,904	38,195	39,532	40,916
Principal Balance Remaining								
Loan 1	356,311	323,026	288,576	252,921	216,017	177,821	138,289	97,373
Loan 2	0	0	0	0	0	0	0	0
Loan 3	0	0	0	0	0	0	0	0
Loan 4	41,144	41,144	41,144	41,144	41,144	41,144	41,144	41,144
Loan 5	0	0	0	0	0	0	0	0
Loan 6	0	0	0	0	0	0	0	0
Total Principal Balance Remaining	397,456	364,170	329,720	294,065	257,161	218,965	179,433	138,517

Loan Consolidation

	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Payments							
Loan 1	(45,756)	(45,756)	(45,756)	0	0	0	0
Loan 2	0	0	0	0	0	0	0
Loan 3	0	0	0	0	0	0	0
Loan 4	(2,156)	(2,156)	(2,156)	(2,156)	(2,156)	(2,156)	(2,156)
Loan 5	0	0	0	0	0	0	0
Loan 6	0	0	0	0	0	0	0
Total Loan Payments	(47,912)	(47,912)	(47,912)	(2,156)	(2,156)	(2,156)	(2,156)
Interest Paid							
Loan 1	3,408	1,926	392	0	0	0	0
Loan 2	0	0	0	0	0	0	0
Loan 3	0	0	0	0	0	0	0
Loan 4	2,156	2,156	2,156	2,156	2,156	2,156	2,156
Loan 5	0	0	0	0	0	0	0
Loan 6	0	0	0	0	0	0	0
Total Interest Payments	5,564	4,082	2,548	2,156	2,156	2,156	2,156
Principal Reduction							
Loan 1	42,348	43,830	45,364	0	0	0	0
Loan 2	0	0	0	0	0	0	0
Loan 3	0	0	0	0	0	0	0
Loan 4	0	0	0	0	0	0	0
Loan 5	0	0	0	0	0	0	0
Loan 6	0	0	0	0	0	0	0
Total Principal Reduction	42,348	43,830	45,364	0	0	0	0
Principal Balance Remaining							
Loan 1	55,025	11,195	0	0	0	0	0
Loan 2	0	0	0	0	0	0	0
Loan 3	0	0	0	0	0	0	0
Loan 4	41,144	41,144	41,144	41,144	41,144	41,144	41,144
Loan 5	0	0	0	0	0	0	0
Loan 6	0	0	0	0	0	0	0
Total Principal Balance Remaining	96,169	52,339	41,144	41,144	41,144	41,144	41,144

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 average (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 Benchmark 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 (Confidence Interval Outputs)

5,000 project trials had a return greater than or equal to (50% - Median Project Return)	4.11%
7,000 project trials had a return greater than or equal to (70%)	3.16%
9,500 project trials had a return greater than or equal to (95%)	1.30%
9,900 project trials had a return greater than or equal to (99%)	0.22%

Benchmarks (10 year annualized returns ending 09/23/2021)

Consumer Price Index (Seasonally Adjusted - 1 Month Lag)	2.20%
S & P 500 10 Year Average Dividend Yield	2.33%
S & P 500	16.90%
Dow Jones Industrial Average	15.13%
Russell 1000 Index	17.01%
Russell 2000 Index	14.71%
NASDAQ Composite Index	20.38%
Barclays US Aggregate Bond Index	3.02%
Barclays US Government Bond Index - Long Term	2.23%
National Association of Real Estate Investment Trust Equity Index	12.35%

Advanced Investment Analysis Detailed Description

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.

The Advanced Analysis Chart shows the average annual return on investment for a sample of 10,000 possible runs. All of the illustration trials used the same range of assumptions as those on the Input, Advanced Assumptions, Income, 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 Year 1 and model potential changes over time. Changes to variables were randomly selected using the ranges shown on the Input and Advanced Assumptions pages of this report. Those variables are: Income Tax Rates, Capital Gain Tax Rates, Vacancy Rates, Annual Increases/Decreases in the Gross Scheduled Income, Annual Net Operating Expense Increases/Decreases, and Annual Market Appreciation Rates.

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.

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. A fiduciary may not be able to hold an unproductive or under-productive asset.

Fiduciary Considerations

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 financial model are shown on the Traditional Summary page of this report.

Advanced Analysis

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 some 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 Advanced Assumptions 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

Report Format

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 (if required by your advisor), and the right footer contains the date the program and analysis was run.

Executive Summary Details

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

15 Year Average Pre-Tax Annual Yield (Cash-on-Cash Return):

Red = 30% less than the 15 year average dividend yield on the S&P 500.

Yellow = The 15 year average dividend yield on the S&P 500.

Green = 10%+ over the 15 year average dividend yield on the S&P 500.

15 Year Average Return on Investment (ROI):

Red = 30% less than the 15 year annualized return on the S&P 500.

Yellow = The 15 year annualized return on the S&P 500.

Green = 10+ over the 15 year annualized return on the S&P 500.

Advanced Analysis Return:

Red = 30% less than the 15 year annualized return on the S&P 500.

Yellow = The 15 year annualized return on the S&P 500.

Green = 10%+ over the 15 year annualized return on the S&P 500.

Pre-Tax Cash-on-Cash Return (Year 1):

Red = 30% less than the 15 year average dividend yield on the S&P 500.

Yellow = The 15 year average dividend yield on the S&P 500.

Green = 10%+ over the 15 year average dividend yield on the S&P 500.

Expense Ratio:

Red = Ratio is greater than 60%.

Yellow = Ratio is equal to 50%.

Green = Ratio is less than 45%.

15 Year Average Return on Equity (ROE):

Red = 30% less than the 15 year annualized return on the S&P 500.

Yellow = The 15 year annualized return on the S&P 500.

Green = 10%+ over the 15 year annualized return on the S&P 500.

Internal Rate of Return (IRR):

Red = 30% less than the 15 year annualized return on the S&P 500.

Yellow = The 15 year annualized return on the S&P 500.

Green = 10%+ over the 15 year annualized return on the S&P 500.

Debt Coverage Ratio (DCR):

Red = DCR is less than 112%.

Yellow = DCR is equal to 115%.

Green = DCR is greater than 125%.

Capitalization Rate (Cap Rate):

Red = 4%.

Yellow = 8%.

Green = 12%.

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.

Executive Summary Details

Continued

Weather Risk:

Red = 200 which is twice the risk of the National Average.
Yellow = 100 which is the National Average for weather related risks.
Green = 80 which is below the National Average.

Vacancy Rate:

Red = Vacancy Rate is 10% or higher.
Yellow = Vacancy Rate is 6%.
Green = Vacancy Rate is 4% or lower.

Rent / Income Ratio:

Red = Rent represents 50% or more of the Median Income.
Yellow = Rent represents 40% of the Median Income.
Green = Rent represents 30% or less of the Median Income.

Crime:

Red = Crime Rate is 1.2.
Yellow = The National Average Total Crime Rate is 1.
Green = Crime Rate is 0.8.

Annual Residential Turnover:

Red = Annual Tenant Turnover Rate is 10% or higher.
Yellow = Annual Tenant Turnover Rate is 6%.
Green = Annual Tenant Turnover Rate is 4% or lower.

Educational Index:

Red = Educational Index is 2.
Yellow = Educational Index is 3.
Green = Educational Index is 4.

Benchmark Description

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 acquisition 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, it requires more of your work, and it takes more of your time.

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 2-5 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 5% 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 the software designer 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, mixed-use, 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.

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: $(\text{Rental Income} - \text{Expenses}) / \text{Cost (or Market Value)} = \text{Capitalization Rate}$ 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: $(\text{Net Operating Income} / \text{Annual Debt Service})$.

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: $(\text{Operating Expenses} / \text{Gross Scheduled Income})$.

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: $(\text{Purchase Price} / \text{Gross Rental Income} = \text{GRM})$.

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: $(\text{Total Return} / \text{Total Equity})$.

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. $(\text{Gain from Investment} - \text{Cost of Investment}) / \text{Cost of Investment}$.

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 and see our Terminology Guide.

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. This report does not provide 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 hypothetical investment returns.

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

The company is not a licensed real estate agent or broker, is not a Registered Investment Advisor (RIA), and is not 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.

Methodology

IMPORTANT: The projections or other information generated in the Advanced Property Analysis reports 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 or future performance of any investment or investment strategy. This disclaimer applies to the whole report including the Traditional Analysis and the Advanced Property Analysis.

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 or approved.

Traditional Analysis Methodology:

Appreciated Value = Purchase Price or Market Value + Capital Appreciation

Total Equity = Beginning of Year Equity + Unrealized Capital Appreciation + Principal Reduction of all loans + 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 of all loans

Pre-Tax Return = Pre-Tax Cash Flow + Principal Reduction of all loans

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.