Net Worth Statement			
ASSETS		LIABILITIES	
Cash in savings account	$20,000	Car loans	$30,000
IRA account	$150,000	Mortgage on residence	$100,000
Mutual funds	$50,000	Mortgage on vacation home	$50,000
Automobiles	$60,000	Credit card balance	$7,000
Certificate of deposit	$50,000	Life insurance loan	$10,000
Residence	$500,000		
Vacation condo	$150,000		
Life insurance cash value	$15,000		
Personal property	$25,000		
TOTAL	$1,020,000	TOTAL	$197,000

ASSETS	$1,020,000
LIABILITIES	$197,000
NET WORTH	$823,000

Table 4.1 Net Worth Statement

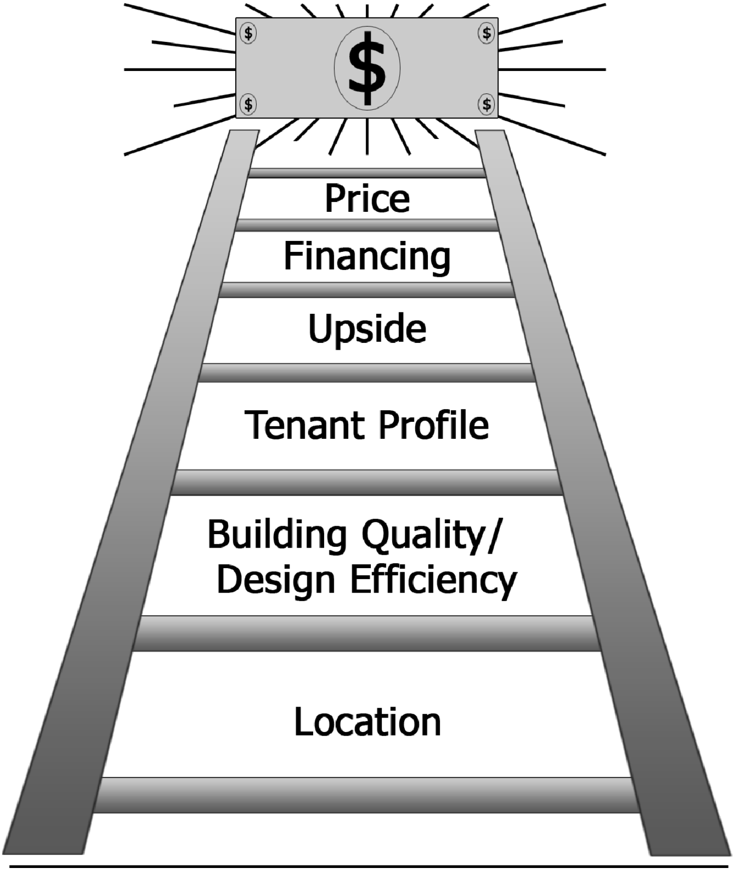

Figure 5.1 The Big Six Ladder to Achieving Real Estate Wealth

Table 8.1 Egmont Gardens

Egmont Gardens
Class B Apartment Building in an "A" Location

Economic Impact of Increasing Rents by 20% at the End of the First Year				
Assumptions: Purchase price $2,000,000. Down payment $500,000. Mortgage $1,500,000 at 4.25% fixed rate, 30-year amortization, 10-year term ($88,500 annual debt service). Value of building predicated on an 6.0 capitalization rate.				
	Existing Rents		**Raising Rents 20%**	
Income	$200,000		$240,000	
Operating Expenses	$70,000		$70,000	
Net Operating Income	$130,000		$170,000	
Debt Service	$88,500		$88,500	
Cash Flow	$41,500		$81,500	
Cash-on-Cash Return	$41,500 / $500,000	= 8.3%	$81,500 / $500,000	= 16.3%
Value of the Building	$130,000 NOI / 6.0% cap rate	= $2,200,000	$170,000 NOI / 6.0% cap rate	= $2,800,000

Equity Buildup over a 10-Year Period			
Assumptions: Property value is $2,800,000 at the end of the first year. At the end of the second year, the property appreciates by 5 percent each year thereafter.			
End of Year	**Value**	**Mortgage**	**Equity**
0	$2,000,000	$1,500,000	$500,000 Cash investment
1	$2,800,000	$1,474,712	$1,325,288
2	$2,940,000	$1,448,328	$1,491,672
3	$3,087,000	$1,420,801	$1,666,199
4	$3,241,350	$1,392,080	$1,849,270
5	$3,403,418	$1,362,115	$2,041,302
6	$3,573,588	$1,330,852	$2,242,737
7	$3,752,268	$1,298,233	$2,454,035
8	$3,939,881	$1,264,201	$2,675,680
9	$4,136,875	$1,228,694	$2,908,181
10	$4,343,719	$1,191,648	$3,152,071

REMEMBER YOU MAKE YOUR MONEY IN BUYING!

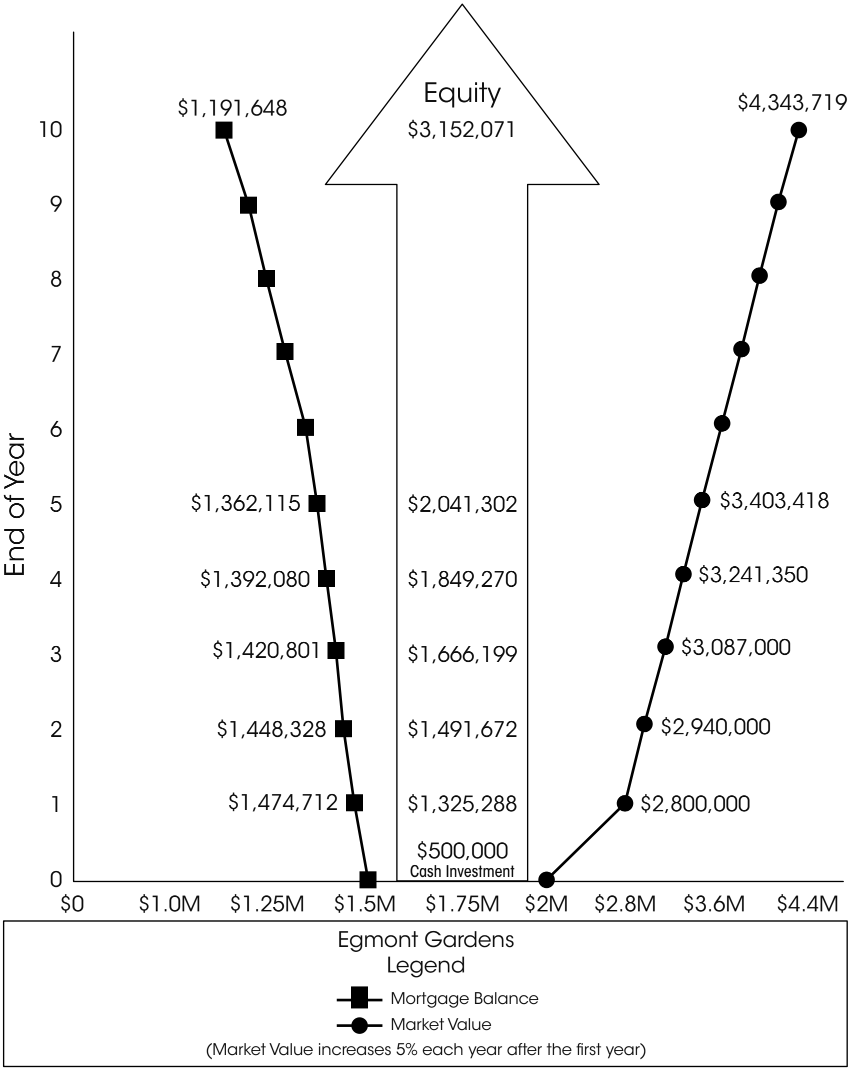

Figure 8.1 Egmont Gardens: Equity Buildup

Table 9.1 Jason's Place: A Small Professional Office Building

Assumptions:

Price: $1,500,000; Cash down: $375,000.

Mortgage loan $1,125,000 based on 25-year amortization

Ten-year balloon; Interest fixed at 4.25%.

Scenario A: Assume an Annual Appreciation Rate of 3%

End of Year	Value of Building	Principal Paid	Balance of Loan	New Loan at 75% LTV*
0	$1,500,000	$0	$1,125,000	$0
1	$1,545,000	$25,821	$1,099,179	$1,158,750
2	$1,591,350	$26,940	$1,072,239	$1,193,513
3	$1,639,091	$28,108	$1,044,131	$1,229,318
4	$1,688,263	$29,326	$1,014,805	$1,266,197
5	$1,738,911	$30,597	$ 984,208	$1,304,183
6	$1,791,078	$31,923	$ 952,285	$1,343,309
7	$1,844,811	$33,306	$ 918,979	$1,383,608
8	$1,900,155	$34,750	$ 884,229	$1,425,116
9	$1,957,160	$36,256	$ 847,973	$1,467,870
10	$2,015,875	$37,827	$ 810,147	**$1,511,906**

Scenario B: Assume an Annual Appreciation Rate of 5%

End of Year	Value of Building	Principal Paid	Balance of Loan	New Loan at 75% LTV*
0	$1,500,000	$0	$1,125,000	$0
1	$1,575,000	$25,821	$1,099,179	$1,181,250
2	$1,653,750	$26,940	$1,072,239	$1,240,313
3	$1,736,438	$28,108	$1,044,131	$1,302,328
4	$1,823,259	$29,326	$1,014,805	$1,367,445
5	$1,914,422	$30,597	$ 984,208	$1,435,817
6	$2,010,143	$31,923	$ 952,285	$1,507,608
7	$2,110,651	$33,306	$ 918,979	$1,582,988
8	$2,216,183	$34,750	$ 884,229	$1,662,137
9	$2,326,992	$36,256	$ 847,973	$1,745,244
10	$2,443,342	$37,827	$ 810,147	**$1,832,506**

*By increasing the loan with the same bank or refinancing with another bank, the balance of the loan can easily be paid off well before the end of 10 years.

Table 9.2 The Romance of Leverage

Assumptions:

Buyer A pays $2 million for an apartment building (all cash).

Buyer B pays $2 million for an apartment building ($500,000 cash).

Mortgage loan for Buyer B is $1,500,000 based on 30-year amortization, 10-year balloon, interest rate at 4.25%.

Property sold at the end of one year for 5% more than the original purchase price.

		Buyer A	Buyer B
1	Purchase price	$2,000,000	$2,000,000
2	Cash	$2,000,000	$500,000
3	Rental income	$185,000	$185,000
4	Operating expenses	$65,000	$65,000
5	Net operating income (NOI)	$120,000	$120,000
6	Mortgage amount	$0	$1,500,000
7	Mortgage interest*	$0	$63,261
8	Cash flow (Line 5 minus Line 7)	$120,000	$56,739
9	Cash-on-cash return (Line 8 divided by Line 2)	6.0%	11.3%
10	Resale price end of one year	$2,100,000	$2,100,000
11	Profit (Line 10 minus Line 1)	$100,000	$100,000
12	Return on initial cash investment (Line 11 divided by Line 2)	5.0%	20.0%
13	Overall return ([Line 8 plus Line 11] divided by Line 2)	**11.0%**	**31.3%**

*Mortgage payment of $88,549 includes interest of $63,261 and principal of $25,288. Thus, the principal balance of the mortgage at the end of one year has been reduced from $1,500,000 to $1,474,712.

Leverage is the way to go!!

Increased loan	$1,050,000	
Old loan	$ 676,536	
Proceeds before costs	$ 373,464	
Bank costs	$ 3,734	(1% on new money)
Net cash proceeds	$ 369,730	
Recoup of initial cash investment	$ 250,000	
Additional cash in pocket	$ 119,730	

Table 10.1 Nationwide Capitalization Rates

Property Type	Region	Average Cap Rate (%)	Average Price ($)
Multifamily	Mid-Atlantic	6.0	152,190/Unit
	Midwest	6.7	110,014/Unit
	Northeast	5.1	282,455/Unit
	Southeast	6.3	101,699/Unit
	Southwest	6.3	122,939/Unit
	West	4.8	195,981/Unit
Office	Mid-Atlantic	6.6	202/SF
	Midwest	7.3	147/SF
	Northeast	5.8	420/SF
	Southeast	7.0	182/SF
	Southwest	7.0	194/SF
	West	6.0	334/SF
Retail	Mid-Atlantic	6.7	137/SF
	Midwest	7.0	137/SF
	Northeast	5.4	390/SF
	Southeast	6.7	162/SF
	Southwest	6.6	206/SF
	West	5.8	358/SF
Industrial	Mid-Atlantic	7.5	61/SF
	Midwest	7.5	52/SF
	Northeast	5.9	110/SF
	Southeast	7.3	55/SF
	Southwest	7.3	74/SF
	West	6.0	124/SF

(Source: RC Analytics, October 2016)

Table 11.1 Valuation Based on the Johnsons' Income & Expenses

Rental income	$400,000
Operating expenses (25%)	$100,000
Net operating income	$300,000
Value based on 6.0% cap rate	**$5,000,000**

Table 11.2 Valuation Based on M&B's Projected Income & Expenses (First Year)

Rental income	\$400,000
Increase in rents (7%)	\$28,000
Adjusted rental income	\$428,000
Operating expenses (35%)	\$149,800
Net operating income	\$278,200
Value based on 6.0% cap rate	**\$4,636,667**

Table 11.3 Projected Five-Year Cash Flow

Assumptions

Offering price: $4,700,000

Terms: $1,000,000 cash, $3,700,000 mortgage held by seller at 4% interest, payable interest only over a 5-year period

Entire mortgage due in full at the end of 5 years

Previous year's rent: $400,000

Annual rent increases: 7% each year

Operating expenses: 35% of adjusted rental income for the first year and increasing 5% each year thereafter

	Year 1	Year 2	Year 3	Year 4	Year 5
Rental income	$400,000	$428,000	$457,960	$490,017	$524,318
Increase in rents	$28,000	$29,960	$32,057	$34,301	$36,702
Adjusted rental income	$428,000	$457,960	$490,017	$524,318	$561,021
Operating expenses	$149,800	$157,290	$165,155	$173,412	$182,083
Net operating income (NOI)	$278,200	$300,670	$324,863	$350,906	$378,938
Mortgage interest (4%)	$148,000	$148,000	$148,000	$148,000	$148,000
Cash flow	$130,200	$152,670	$176,863	$202,906	$230,938
Cash investment	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000
Cash-on-cash return	13.02%	15.27%	17.69%	20.29%	23.09%

Table 11.4 Value at the End of Year Five

	Year Five
Net operating income	\$378,938
Valuation based on cap rate of 5.5% (rounded)	\$6,900,000

Table 11.5 Projected Five-Year Cash Flow

Assumptions

Offering price: $4,900,000

Terms: $1,000,000 cash, $3,900,000 mortgage held by seller at 4% interest, payable interest only over a 5-year period

Entire mortgage due in full at the end of 5 years

Previous year's rent: $400,000

Annual rent increases: 7% each year

Operating expenses: 35% of adjusted rental income for the first year and increasing 5% each year thereafter

	Year 1	Year 2	Year 3	Year 4	Year 5
Rental income	$400,000	$428,000	$457,960	$490,017	$524,318
Increase in rents	$28,000	$29,960	$32,057	$34,301	$36,702
Adjusted rental income	$428,000	$457,960	$490,017	$524,318	$561,021
Operating expenses	$149,800	$157,290	$165,155	$173,412	$182,083
Net operating income (NOI)	$278,200	$300,670	$324,863	$350,906	$378,938
Mortgage interest (4%)	$156,000	$156,000	$156,000	$156,000	$156,000
Cash flow	$122,200	$144,670	$168,863	$194,906	$222,938
Cash investment	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000
Cash-on-cash return	12.22%	14.47%	16.89%	19.49%	22.29%

Table 11.6 Cash Proceeds after Refinancing at the End of Five Years

	Year 5
Valuation based on cap rate of 5.5%	$6,900,000
New bank loan 75%	$5,200,000
Closing costs	$20,000
Payment of Johnson mortgage	$3,900,000
Net proceeds of loan	$1,280,000
Return of initial cash investment	$1,000,000
Total cash proceeds	**$280,000**

Note: Equity at the beginning of Year 6 is $1,722,445.

Table 11.7 Mark Miller's Cash-on-Cash Return for the First Five Years

Assumptions

Initial cash investment: $200,000

	Year 1	Year 2	Year 3	Year 4	Year 5
Mark's split of cash flow from Adam's Manor (50%)	$61,100	$72,335	$84,431	$97,453	$111,469
Initial cash investment	$200,000	$200,000	$200,000	$200,000	$200,000
Cash-on-cash return	30.55%	36.17%	42.22%	48.73%	55.73%

Table 11.8 Mark Miller's Position after Refinancing

		Year 5
1	Market value of Adam's Manor at end of year 5	$6,900,000
2	New bank loan (75% of Line 1)	$5,200,000
3	Closing costs	$20,000
4	Payment of Johnson mortgage	$3,900,000
5	Cash proceeds to M&B Oak Street LLC (Line 2 minus Line 3 minus Line 4)	$1,280,000
6	Cash proceeds to Mark (Line 5 divided in half)	$640,000
7	Repayment by Mark of Ben's loan plus accrued 6% interest	$390,000
8	Recouping of Mark's initial cash investment	$200,000
9	Mark's net cash proceeds (Line 6 minus Line 7 minus Line 8)	$50,000
10	Mark's total 5-year rental cash flow	$426,788
11	Mark's total cash received (Line 9 plus Line 10)	$476,788
12	Mark's 50% equity in Adam's Manor (Line 1 minus Line 2 divided in half)	$850,000
13	Mark's total cash received + Mark's equity (Line 11 plus Line 12)	$1,326,788
14	**Mark's cash invested in Adam's Manor**	**$0**

Table 11.9 Projected Five-Year Cash Flow (Years 6–10)

Assumptions

New bank mortgage: $5.2 million; 30-year amortization period, 10-year term; 5% interest fixed for the first five years and the second five years based on an index

Year 6–10 rent increase by 5% per year

Operating expenses increase by 5% per year

	Year 6	Year 7	Year 8	Year 9	Year 10
Rental income	$561,021	$589,072	$618,525	$649,452	$681,924
Annual rent increase (5%)	$28,051	$29,454	$30,926	$32,473	$34,096
Adjusted rental income	$589,072	$618,525	$649,452	$681,924	$716,020
Operating expenses	$191,187	$200,746	$210,784	$221,323	$232,389
Net operating income	$397,885	$417,779	$438,668	$460,601	$483,631
Debt service	$305,042	$305,042	$305,042	$305,042	$305,042
Cash flow	$92,843	$112,737	$133,626	$155,559	$178,589
Cash investment	**$0**	**$0**	**$0**	**$0**	**$0**
Cash-on-cash return	**Infinite**	**Infinite**	**Infinite**	**Infinite**	**Infinite**

Note: The above cash flows are split 50/50.

Table 13.1 Bradford Terrace: A 12-unit Apartment Complex

Analysis of Value as a Rental Complex

Assumptions

Eight 2/2 apts @ $1,300 per month;

Four 1/1 apts @ $800 per month.

Annual rent from 2/2s	$124,800
Annual rent from 1/1s	$38,400
Gross annual income	$163,200
Rent increase (15%)	$24,480
Gross annual income after rent increase	$187,680
Vacancy factor (5%)	$9,384
Adjusted gross income (AGI)	$178,296
Operating expenses (42% of AGI)	$74,884
Net operating income (NOI)	$103,412

NOI	**Cap Rate**	**Value**
$103,412	6%	$1,723,528

Table 13.2 Bradford Terrace: A 12-unit Apartment Complex

Analysis of Net Profit as a Condominium Conversion

Assumptions

Price per unit: $265 per sq. ft.

Six tenants buy their 2/2 apts within 15 days based on the TIP.

Two tenants buy their 1/1 apts within 15 days based on the TIP.

Four outside buyers purchase the remaining units at the retail price.

Project sold out in 3 months.

Gross Sales		**$2,915,000**
Conversion Costs		
Legal in & out	$5,000	
Closing costs (in)	$5,000	
Engineering	$5,000	
Improvements	$20,000	
Discounts to tenants	$198,750	
Rent credits to tenants	$21,150	
Flat allowance to tenants	$40,000	
Marketing & sales commissions	$20,000	
First mortgage interest	$18,750	
Second mortgage interest	$5,250	
Closing costs (out)	$10,000	
Contingency factor/Cushion	$25,000	
Total costs		**$373,900**
Proceeds		**$2,541,100**
Purchase Price		**$2,000,000**
Net Profit		**$541,100**

Table 13.3 Bradford Terrace Condominium: Comparison of Monthly Payment (Renting versus Owning)

Bradford Terrace Condominium

Comparison of Monthly Payment
Owning versus Renting

Unit No. 10	**Purchase Price:** $265,000 less 10% discount = $238,500
Unit Type: 2/2 (1,000 sq. ft.)	**80% Mortgage @4.25% interest (30 year fixed):** $190,800

Current monthly rent:	$1,300	20% Cash down:	$47,700
Market monthly rent:	$1,500	Plus closing costs:	$6,300
Buyer's tax bracket:	25%	Cash investment:	$54,000

A) ESTIMATED MONTHLY PAYMENT

Before Income Tax Savings and Amortization
(First Year Projection)

Mortgage payment (principal and 4.25% interest)	$939	
Real estate taxes	$250	
Condo maintenance fee	$250	
TOTAL MONTHLY PAYMENT		$1,439

B) ESTIMATED MONTHLY PAYMENT

After Income Tax Savings and Amortization
(First Year Projection)

Total monthly payment as per item A		$1,439
Less: Income tax savings Mortgage amount $190,800 @ 4.25% interest equals $8,046.82 interest per year ÷ 12 equals $671 monthly mortgage interest of $671 X 25% tax bracket equals tax savings of..	$168	
Monthly real estate taxes of $250 X 25% tax bracket equals tax savings of...	$63	
Total monthly income tax savings		$231
Total payment after income tax savings		$1,208
Less: Average monthly mortgage amortization		$267
NET EFFECTIVE MONTHLY PAYMENT		$941
Market rent		$1,500
Net monthly savings as a condo unit owner		$559

Prepared by: Saul Stone

Table 13.4 Bradford Terrace Condominium: Analysis of Cash on Cash Return

Initial cash investment	\$200,000
Closing costs	\$15,000
Total cash investment	\$215,000
Net profit	\$541,100
Rate of return (3 months)	251.7%
Rate of return (annualized)	1,006.7%