Investor Express
Instruction Guide

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Investor Express

Introduction

Investor Express
Is used to carry out long term investment analysis using discounted cash flow analysis over the long term for up to 35 years and is used to determine the value of a property based on the Investor's desired return.

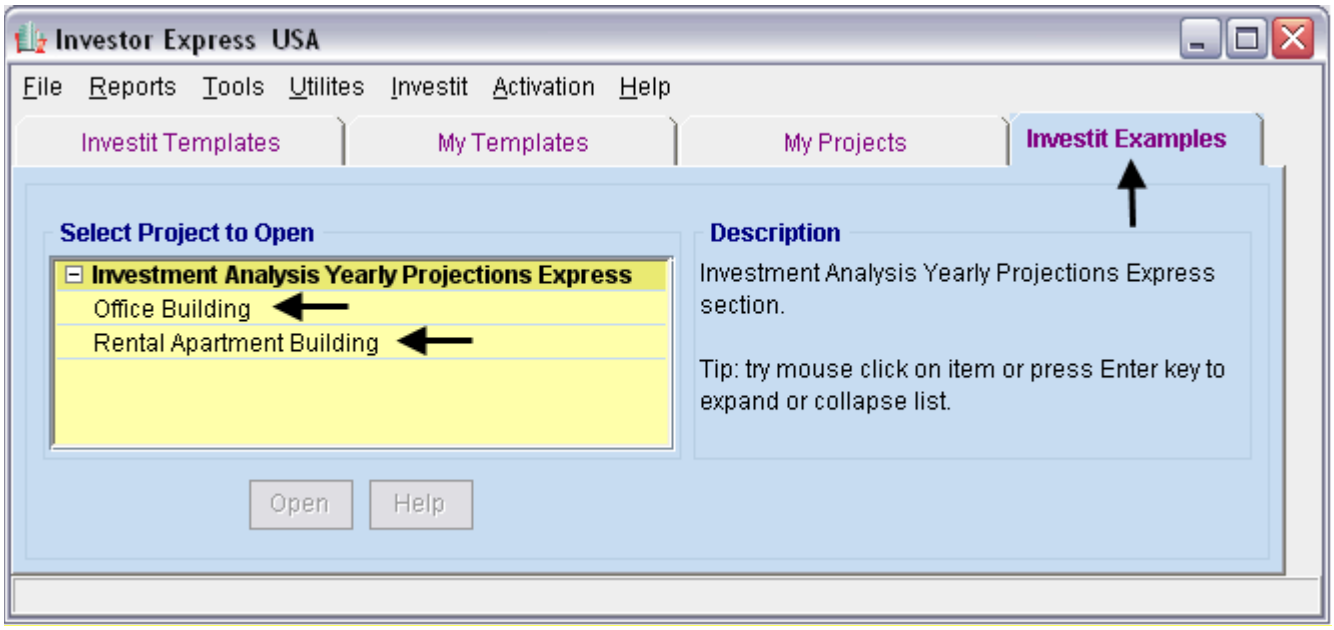
Investor Express allows you to project revenue and expenses yearly. If you need revenue and expenses to change during the year you need to use Investor Pro
.
In contrast **Analyzer Express** carries out an in-depth Income & Expense Statement analysis for one year.

Investor Express templates include:

- Office buildings
- Retail and shopping centers
- Industrial Complexes
- Rental apartment buildings
- Mixed use buildings
- Hotel and Motels

The fastest way to learn Investor Express

Investit Express comes with a wide variety of examples, which are accessed from the Investit Panel by clicking on the Investit Examples folder and then selecting and opening an example.



A really quick way to learn Investit Express is to:

1. Open up an Investit Example such as the "Office Building" example
2. View the folders and view some or all the reports, particularly the Graphs

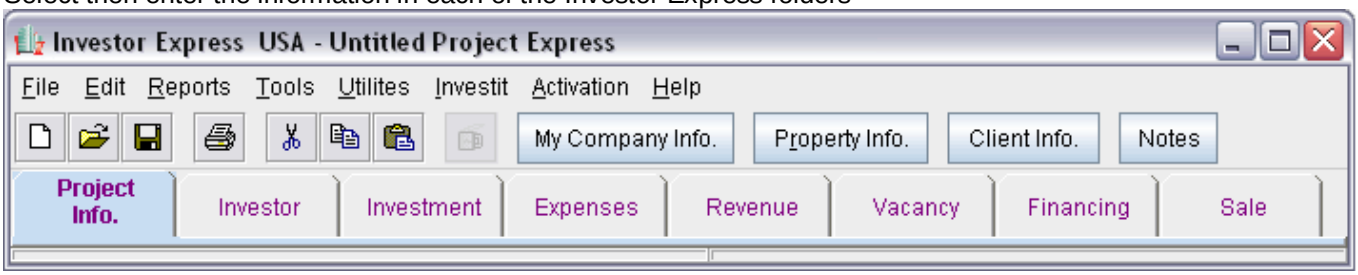
3. Go to the “Online Learning Center” and print out the same example that you have opened. This example includes all the input information; followed by the step-by-step instructions on how to enter the project.

4. Enter all the information by following the steps outlined in the example

If you do this you will quickly master all the features on Investor Express.

The basics of long term investment analysis

Select then enter the information in each of the Investor Express folders



Project Info Folder
Use to enter the following information on the property
Analysis period (Up to 35 years)
Starting Date and Date Format

Investor Folder
Information on the Investor such as the Investor’s marginal tax rate, desired return etc

Investment Folder
Is used to enter the capital investments in land and building

Expense Projections Folder
Used to enter and project the expenses

Revenue Projections Folder
Used to enter and project the revenues

Vacancy Folder
Used to enter the vacancy and credit losses

Finance Folder
Allows you to set up multiple mortgages which can start and finish at any time

Sale Folder
Used to enter selling costs and to establish the value or sale price at the end of the analysis period

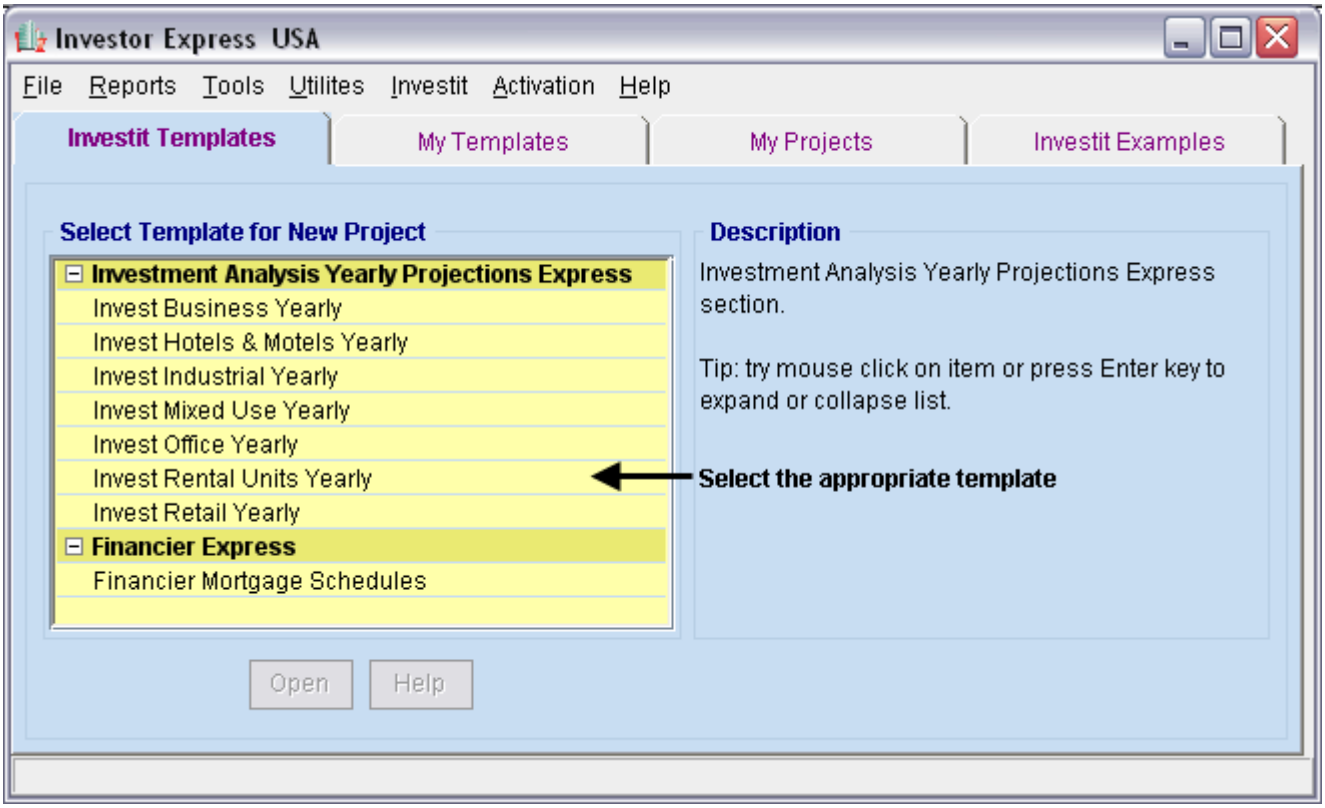
We will now review each of the Investor Express folders

Starting a project

The steps for starting a new project are:

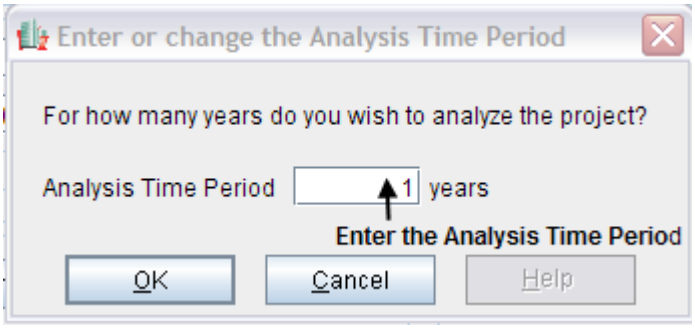
Display the Investit Panel. There are two ways to display the Investit Panel

1. Open Investit Express
2. If you have a project open; select File >New from the menu bar
3. Then select the appropriate template



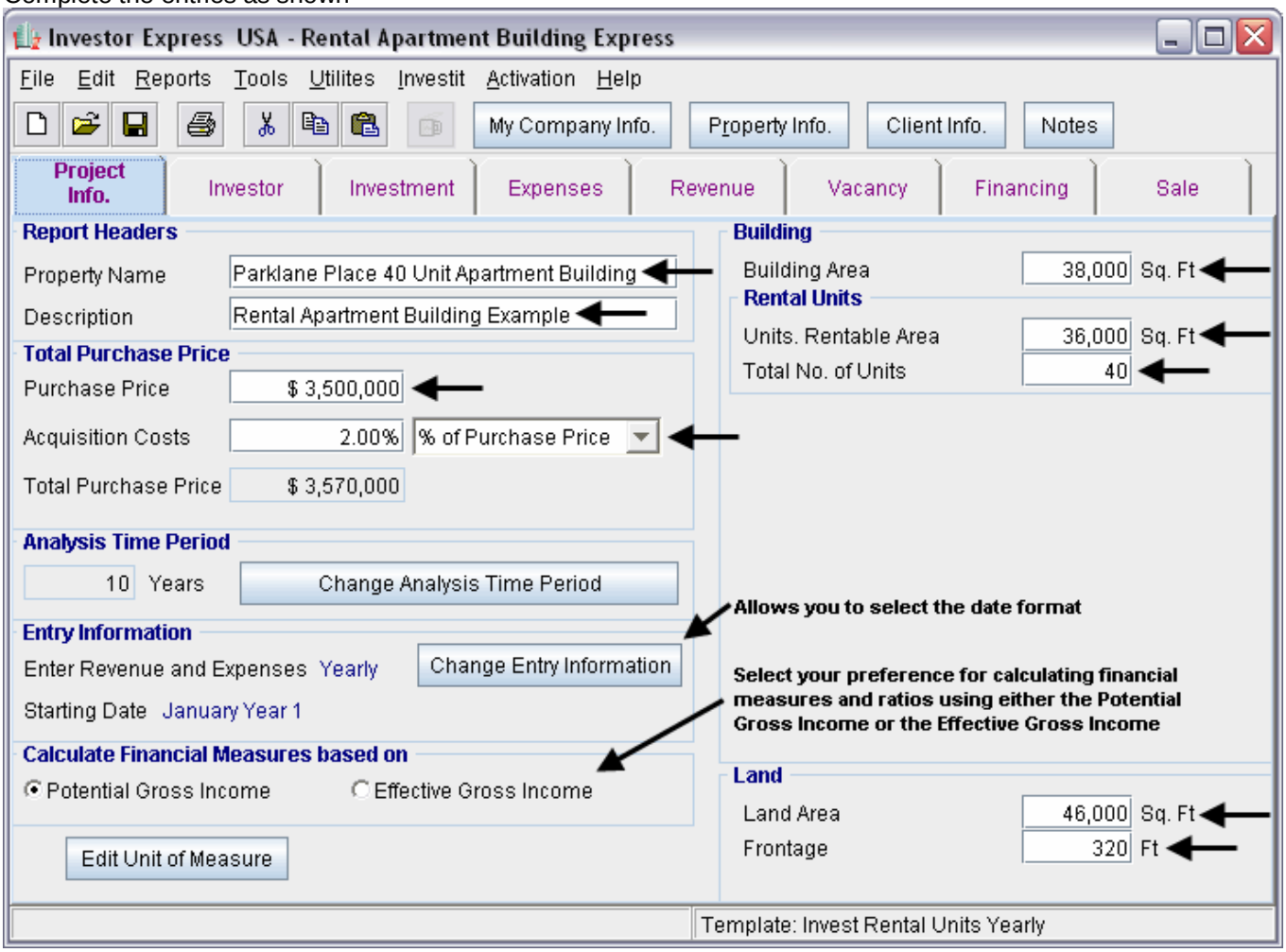
Analysis Time Period

When you select a Template the following screen is displayed. Enter the “Analysis Time Period”. Maximum number of years is 35.



Project Info Folder

Complete the entries as shown



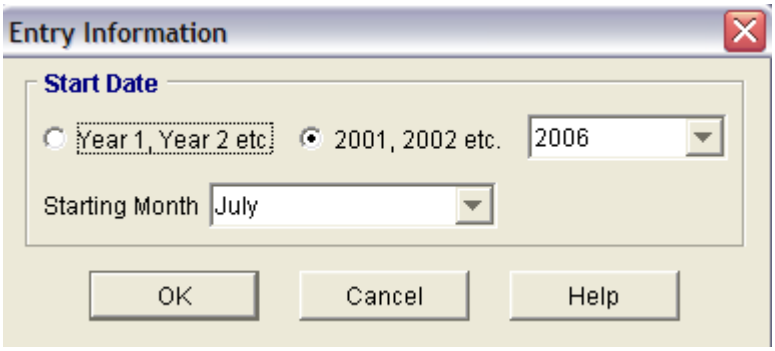
Setting and changing the Starting Date and Date Format

There are two formats for the Starting Date;

1. Year 1 Jan, Year 1 July etc.
2. 2008 Jan, 2008 July etc.

To set the format go to the Project Info Folder and click on the “Change Entry Information” Button to display the Date format options.

3. Set the preferred Starting Date and preferred format. As an example:



4. The “Starting Date” and “Date Format” being used is displayed in the Project Info folder

Notes:

1. The Starting Date and Date format appears on the financial reports. As an example;

	Starting February	2008	2009	2010
REVENUE				
One bedroom Units		270,000	278,100	286,500
Two bedroom Units		198,000	205,920	214,200

2. You can change the Starting Date and Date Format at any time and all the reports will adjust to the new Starting Date and Date Format. In the example below the Date Format has been changed from “2008” to “Year 1”

	Year 1	Year 2	Year 3
REVENUE			
One bedroom Units	270,000	278,100	286,500
Two bedroom Units	198,000	205,920	214,200

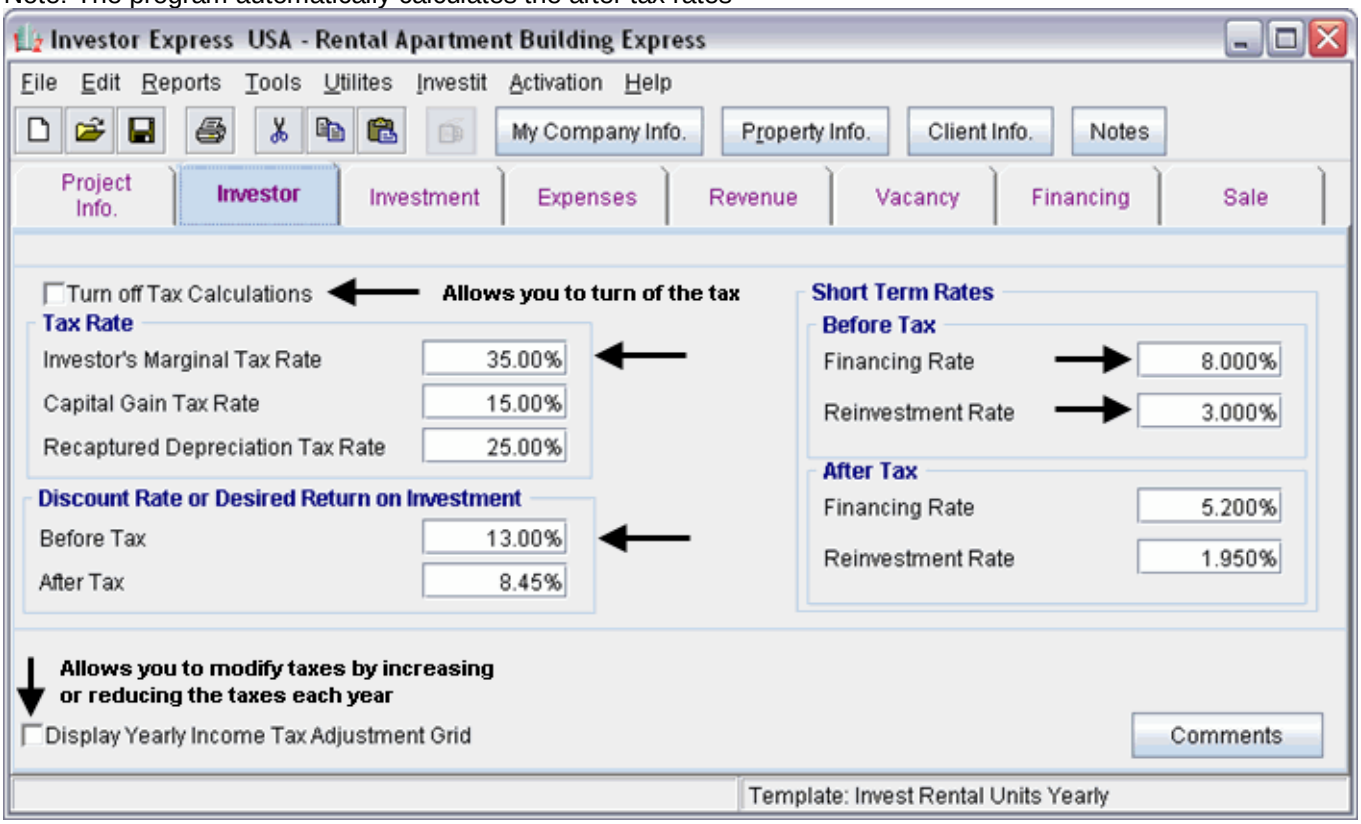
Investor Folder

The Investor Folder is used to enter income tax information, as well as the Investor's desired return on investment. This information is used to calculate the income taxes, capital gain, recaptured depreciation and the Net Present Value (NPV)

The following is entered in the Investor Folder

1. Investor's marginal tax rate
2. The Investor's Desired Return before Tax or Desired Internal Rate of Return (IRR). This is also called the Investor's Discount Rate
3. Short Term Rates which are used to calculate the Modified Rate of Return (MIRR)
    - Before Tax Short Term Financing Rate. This is the interest rate that the investor would have to pay to borrow money to cover any operating losses
    - Before Tax Short Term Reinvestment Rate. If there is a positive cash flow, what is the interest rate that the investor could earn on a short term investment?

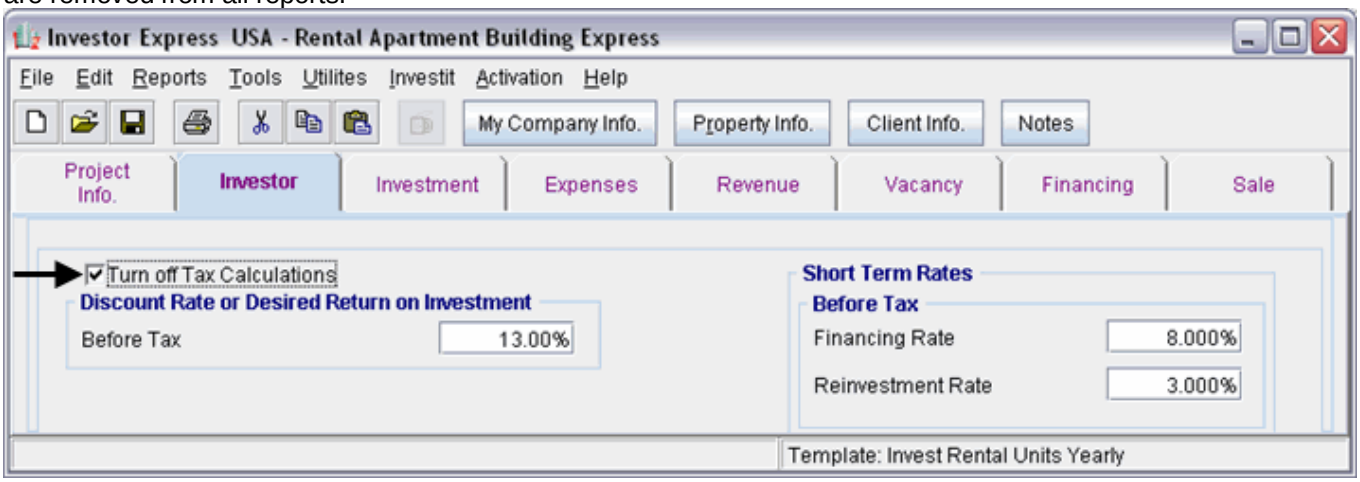
Note: The program automatically calculates the after tax rates



Turn off tax calculations

Allows you to carry out before tax cash flow analysis.

If “Turn Off Tax Calculations” is checked, the tax inputs disappear from the Investor folder and the tax calculations are removed from all reports.

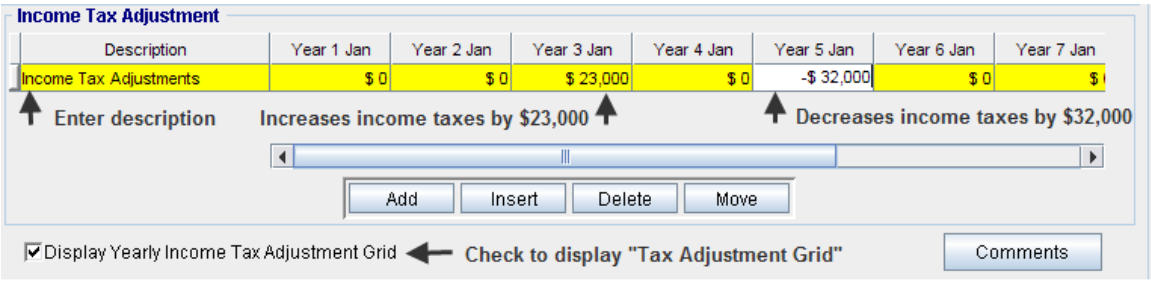


Display Yearly Income Tax Adjustment Grid

Investor Express automatically calculates the annual income taxes. However, there may be rare circumstances specific to the property and the form of legal ownership that makes the automatic annual tax calculations incorrect.

The “Income Tax Adjustment Grid” allows you to manually increase or decrease the annual income taxes.

To increase the annual income taxes: Enter the tax adjustment as a **positive number**
To decrease the annual income taxes: Enter the tax adjustment as **negative number**

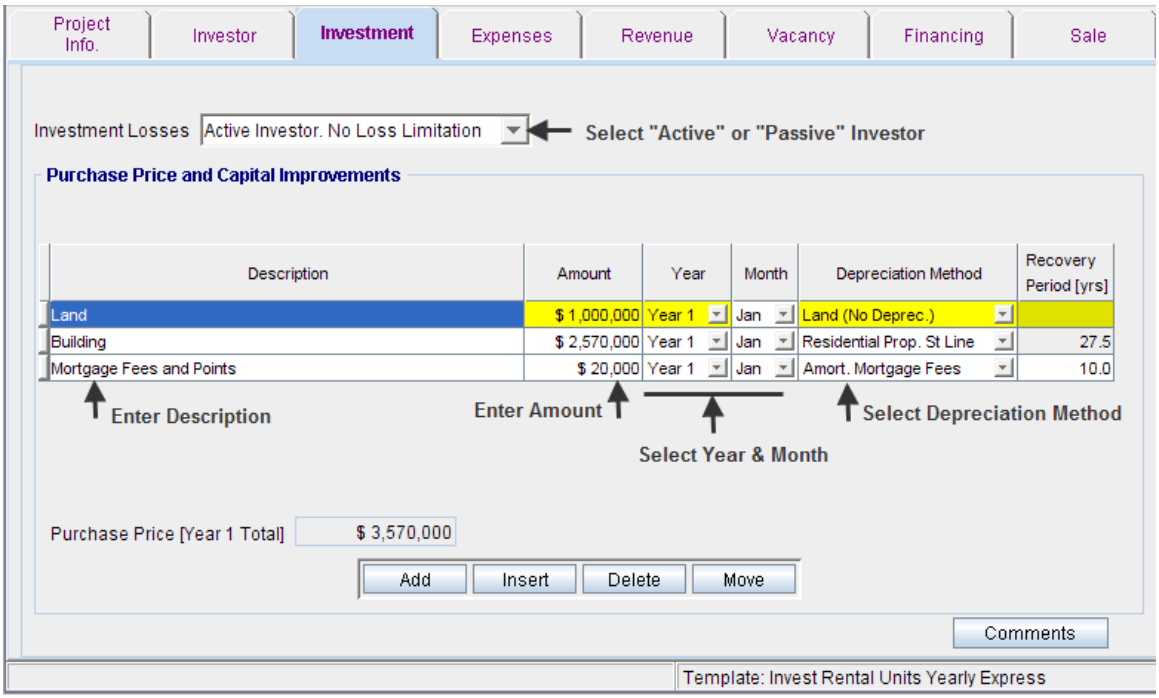


Investment Folder

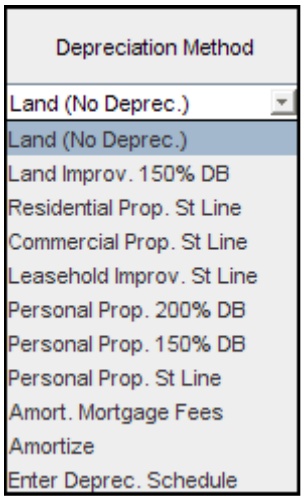
The Investment Folder is used to enter initial and subsequent Capital Investments in land, building, furniture and equipment as well as mortgage fees and points.

Steps

1. Select a row or add a new row and enter the description
2. Enter the amount of the capital expenditure
3. Select the year and month that the expenditure is made
4. Select the depreciation method. The Recovery Period is automatically displayed and depends on the selected depreciation method



Depreciation Claims are made by selecting the appropriate depreciation method. The options are;

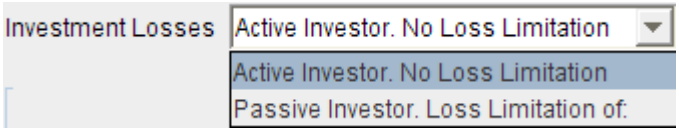


Investment Losses

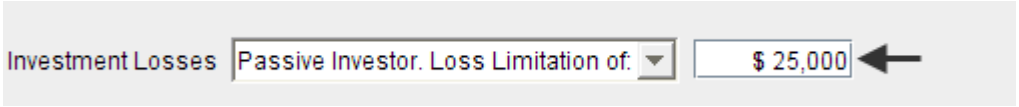
Active investors, who work full time in real estate, are able to claim operating losses against other income and reduce their income taxes depending on the legal form of ownership

Passive investors are investors who are not involved actively in real estate on a full time basis. The IRS limits the operating losses that a passive investor may claim against other income. The default setting for the Investment Loss Limitation for a Passive Investor is $25,000

1. You can claim all the investment losses by choosing “Active Investor. No Loss Limitation”
2. Selecting “Passive Investor” allows you to limit the investment loss



If you select “Passive Investor. Loss Limitation”, then you can enter the loss limitation



Expense and Revenue Folders

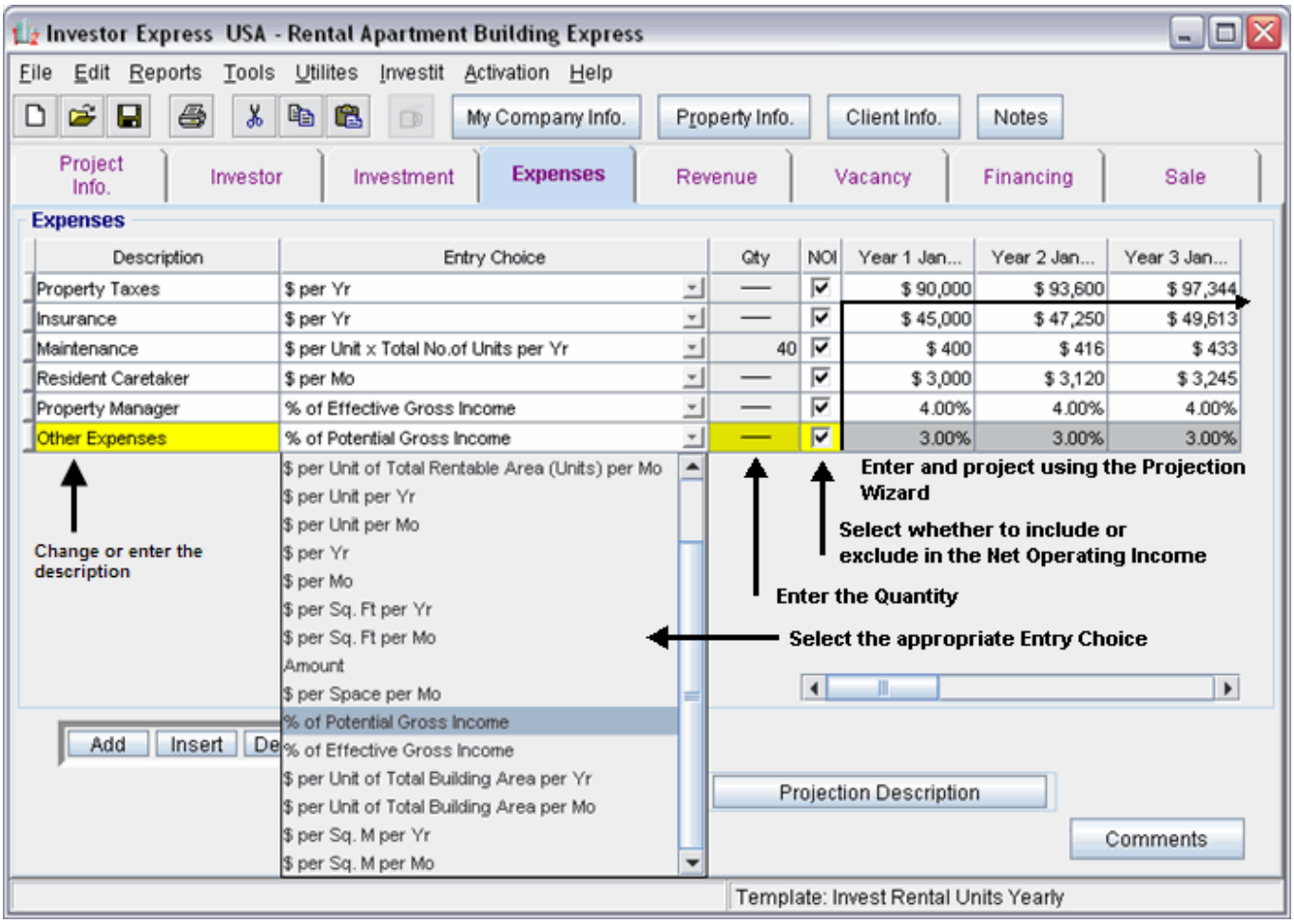
Introduction

Expense and Revenue Folders are used to enter and project the revenues and expenses

Following is an example of the Expense Folder Grid

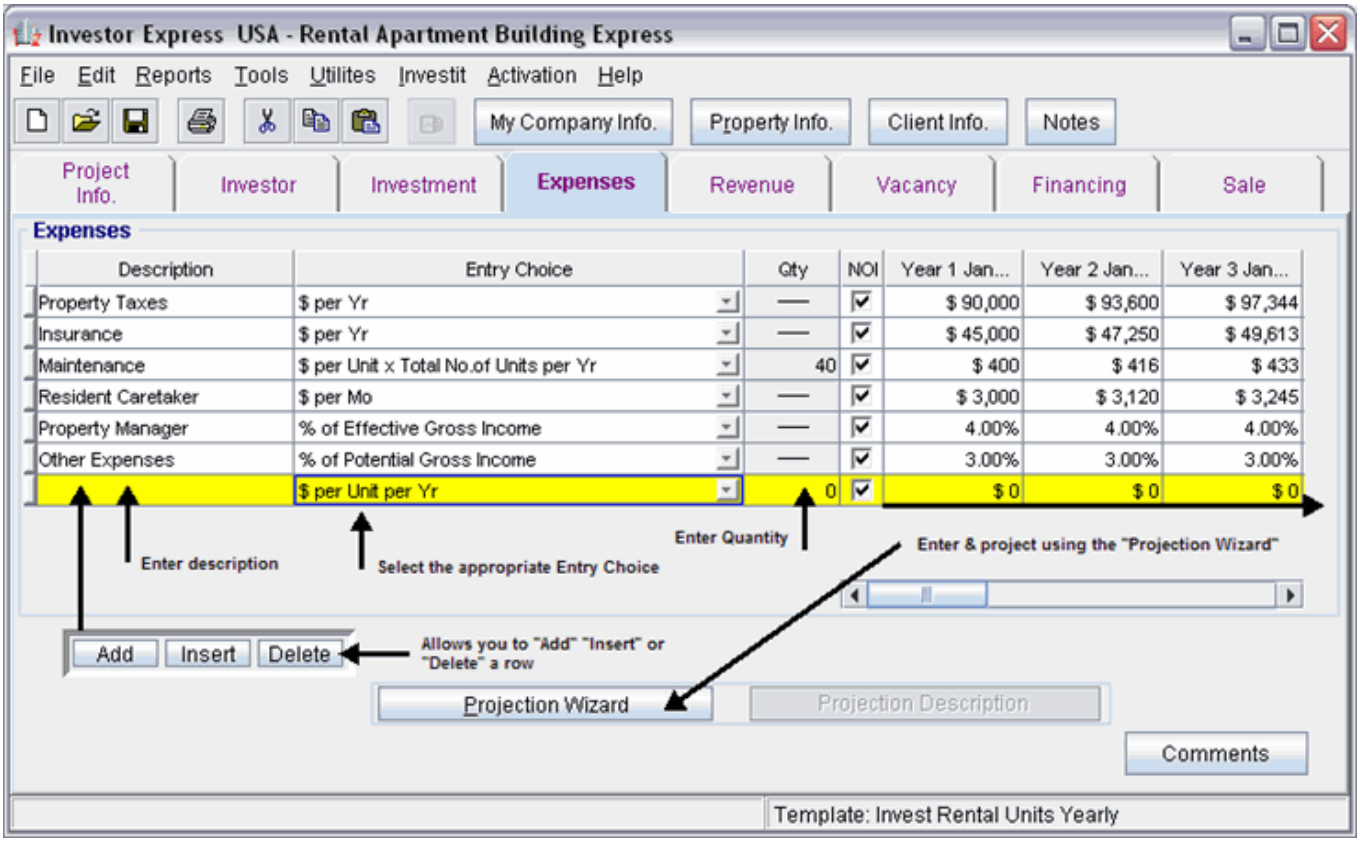
The steps are:

1. Select the row. If necessary change or enter the description
2. Select the Entry Choice
3. Certain Entry Choices such as "$ per Unit per Mo" require the "Quantity" such as the number of units to be entered in the "Quantity" field
4. Select whether to include in the Net Operating Income (NOI) or exclude. Please see the explanation for "NOI" check box below
5. Use **"Projection Wizard"** to quickly enter and project the expenses or revenues



Adding and deleting rows

You can customize the analysis by adding, inserting and deleting rows



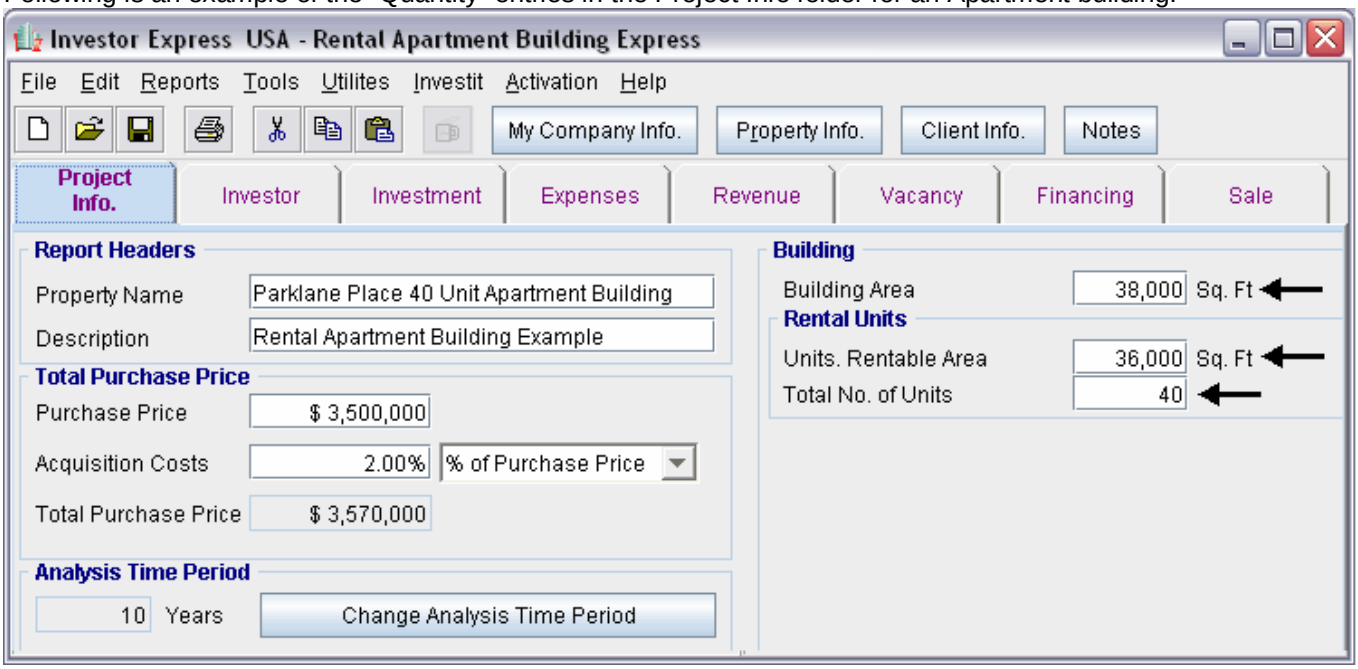
Entry Choices that transfer the "Quantity" from the Property Info. Folder.

There are Entry choices that are based on the Total Rentable Area, Total Gross Leasable Area, or Total Number of Units etc. such as:

$ per Unit of Total Rentable Area per Yr
$ per Unit of Gross Leasable Area per Mo
$ per Unit of Total No. of Units per Mo

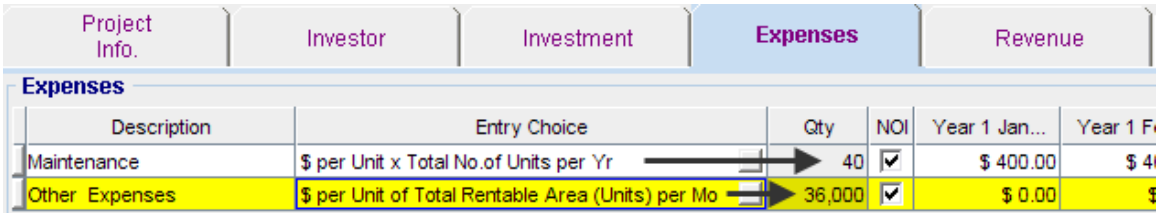
These special Entry Choices use the "Quantity" entered in the Project Info folder.

Following is an example of the "Quantity" entries in the Project Info folder for an Apartment building.



If the Entry Choice "$ per Unit x Total No. of Units per Yr" is selected then the quantity displayed in the Qty column is 40.

If the Entry Choice "$ per Unit of Total Rentable Area Units per Mo" is selected then the quantity displayed in the Qty column is 36,000.



The "Total Number of Units" of 40 entered in the Property Info folder has been transferred to the Revenue Grid by selecting the Entry Choice "$ per Unit x Total No. of Units per Yr"

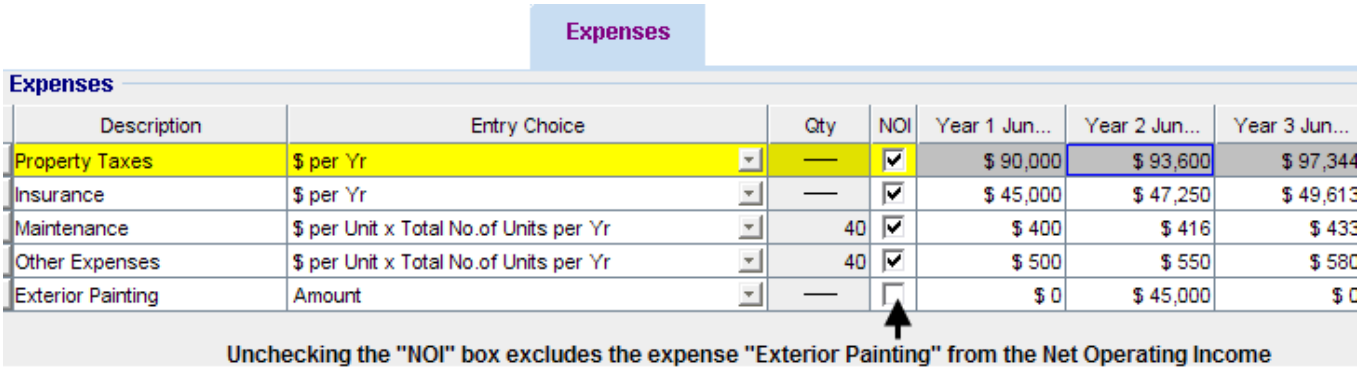
The Total Rentable Area of 36,000 Sq Ft entered in the Property Info folder has been transferred to the Revenue Grid by selecting the Entry Choice "$ per Unit of Total Rentable Area (Units) per Mo"

NOI Column Check Box.

On The Revenue and Expense Grids there is a column labeled “NOI” which means “Net Operating Income”

If the” NOI” is checked for the row, the Expense or Revenue will be included in the Net Operating Income. If unchecked, the item will be shown below the Net Operating Income.

Revenues and Expenses identified as not being in the “NOI” calculation are not used when calculating Cap Rates or when using Cap Rates to determine the Sale Price when the building is sold.



As an example, you may wish to have a non recurring expense such as periodically painting the exterior of the building as an expense item, but not include the expense in the calculation of the Net Operating Income.

In the example below, $45,000 was spent on painting the exterior of the building in Year 2

Income & Expense Statement Yearly
Parklane Place 40 Unit Apartment Building
Rental Apartment Building Example

	Year 1	Year 2	Year 3	Year 4
REVENUE				
One bedroom Units	270,000	278,100	286,500	294,900
Two bedroom Units	198,000	205,920	214,200	222,660
Potential Gross Income	**468,000**	**484,020**	**500,700**	**517,560**
Less: Vacancy & Credit Loss Allowance	14,040	14,521	15,021	15,527
Effective Gross Income	**453,960**	**469,499**	**485,679**	**502,033**
Operating Expenses				
Property Taxes	90,000	93,600	97,344	100,264
Insurance	45,000	47,250	49,613	52,093
Maintenance	16,000	16,640	17,320	18,000
Other Expenses	20,000	22,000	23,200	-
	171,000	179,490	187,477	170,357
Net Operating Income	**282,960**	**290,009**	**298,202**	**331,676**
Less: Expense not included in NOI				
Exterior Painting	-	45,000	-	-
	-	45,000	-	-
Net Income	**282,960**	**245,009**	**298,202**	**331,676**

Projection Wizard

Introduction

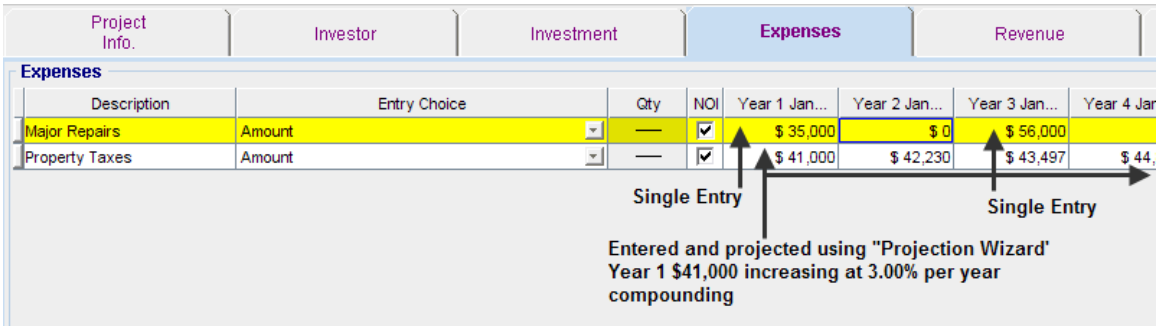
Projection Wizard is used to enter and project revenue and expenses.

IMPORTANT NOTE
The key to using Investor Express is learning to use Projection Wizard. It is the heart and soul of Investor Express

Single Entries versus Projections

There are two types of entries;
Single Entries that do not include a projection E.g., Year 1 $35,000 Year 3 $56,000
Entries that include a projection. Year 1 $41,000 increasing at 3.00% per year compounding for the next five years

Single Entries are made directly in the Grid.
Entries that include a projection are made in “Projection Wizard”

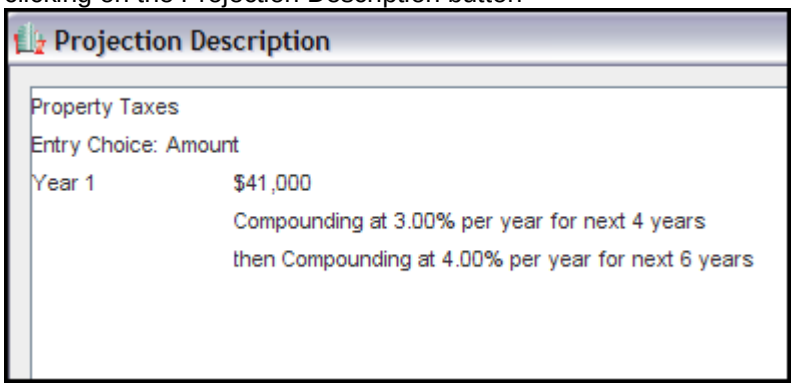


Projection Wizard. The fundamentals

To illustrate how to use Projection Wizard we will use the following example:

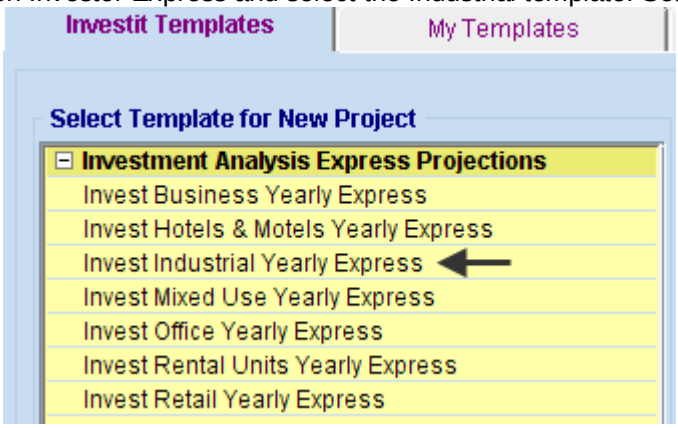
Template: Industrial
Analysis Period: 10 years. Note: The Revenue and Expense grids display 11 years. The Analysis Period of 10 years plus the year following the sale, which is 11 years
Folder: Expenses
Expense: Property Taxes
Year 1: $41,000 increasing at 3.00% per year compounding for a total Time Period of five years
Then compounding at 4.00% per year for the remainder years

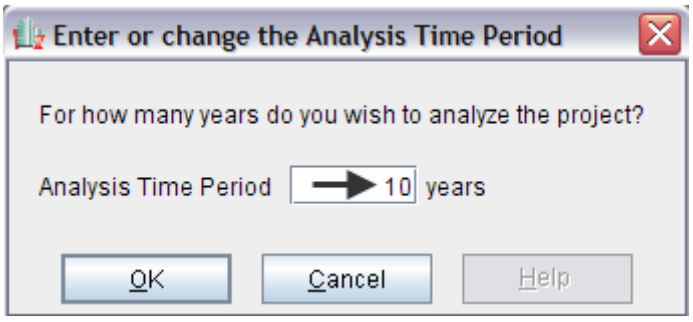
Once you have entered the projections in “Projection Wizard” you can view a description of the projections by clicking on the Projection Description button



Steps:

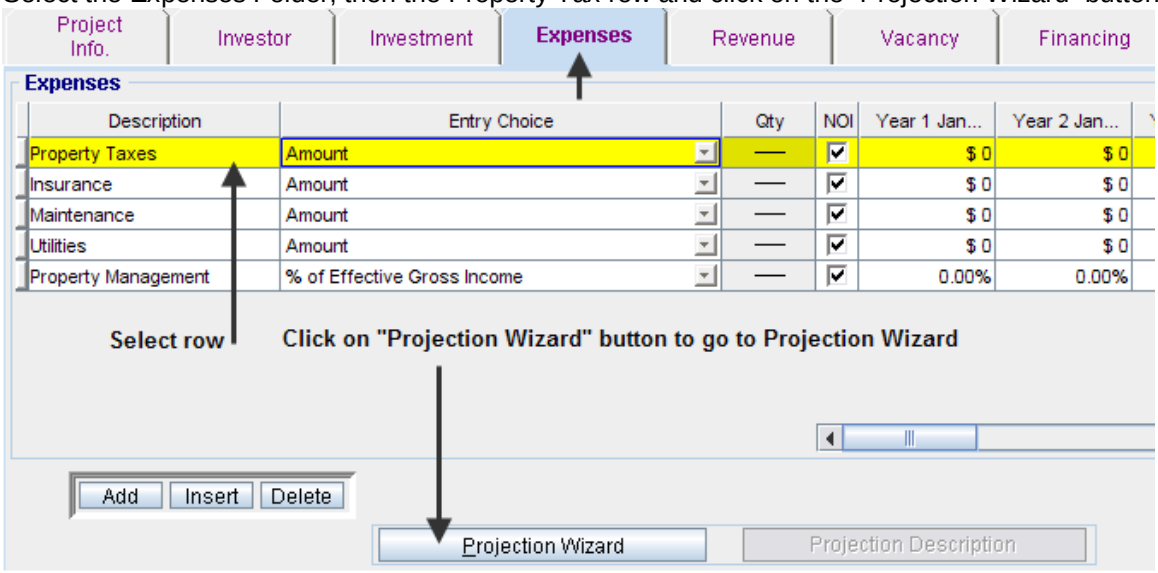
Open Investor Express and select the Industrial template. Set the Analysis Period to 10 years





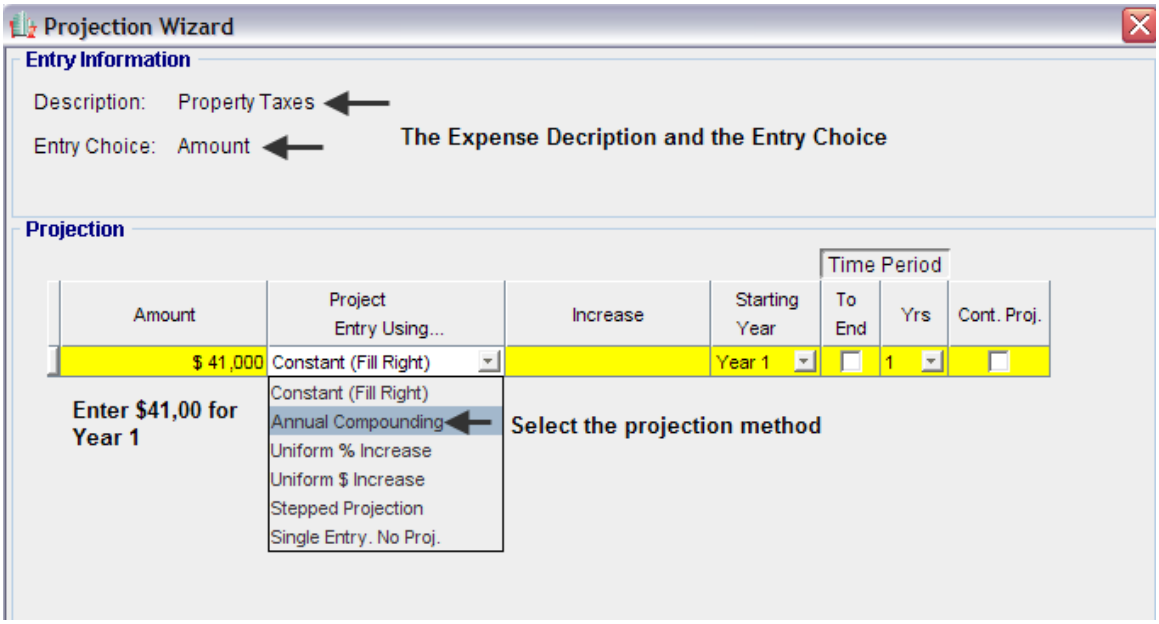
Note: The number of years displayed on the Revenue and Expenses grid is the Analysis Period of 10 years plus one more year, which is 11 years. This allows the Sale Price to be calculated using a Cap Rate applied to the Net Operating Income for the year following the year of the sale; in this case the 11th year.

Select the Expenses Folder, then the Property Tax row and click on the “Projection Wizard” button

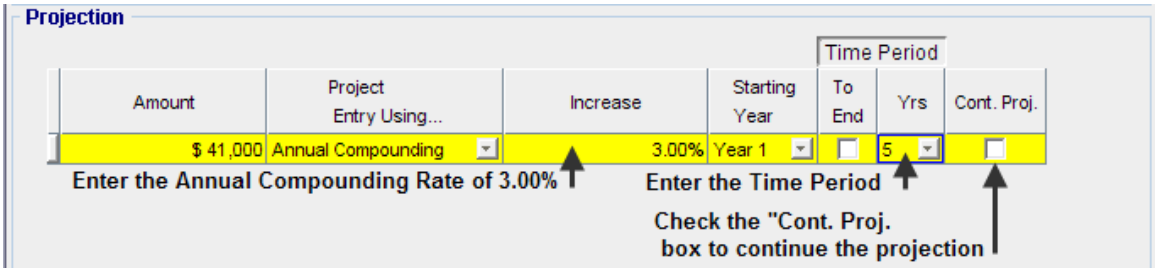


Projection Wizard

Enter $41,000 in the “Amount” column and then select the Projection Method “Annual Compounding”



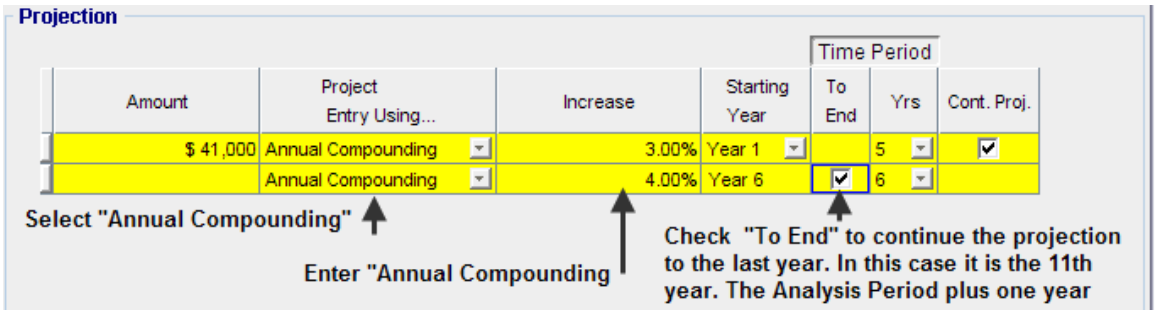
Enter the annual compounding rate 3.00%, set the Time Period to 5 and check the “Cont. Proj.” box to continue the projection



Continue the projection as follows;

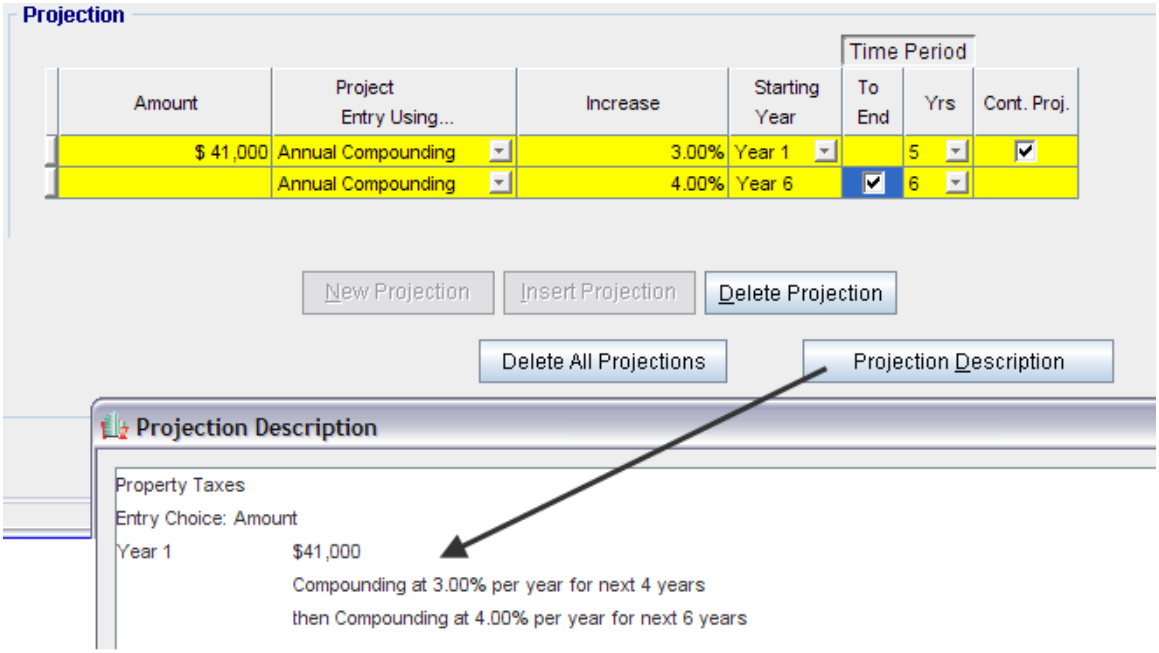
- Select “Annual compounding”
- Enter the Annual Compounding Rate
- Check the Time Period “To End” box to automatically select the last year which is Year 11 which is the Analysis Period of 10 years plus one more year

The entries and projection are complete

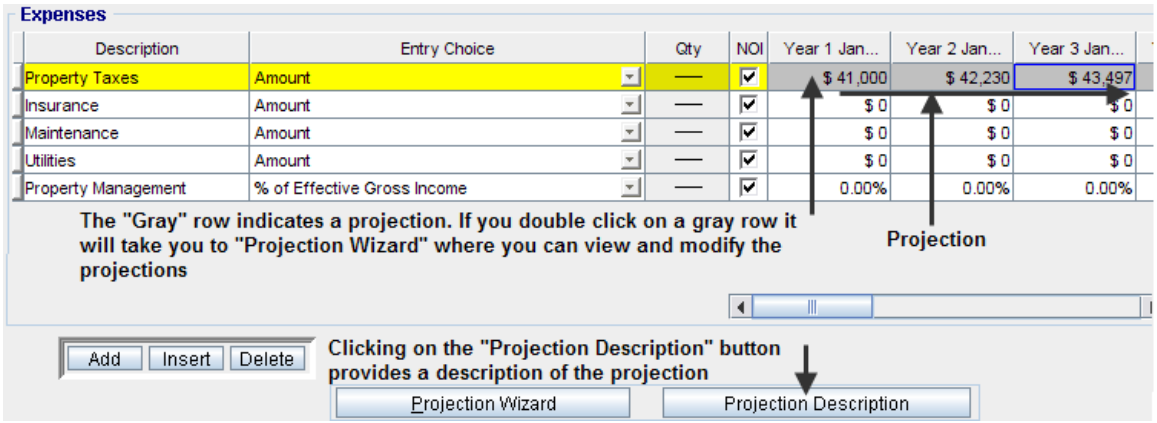


“Projection Description” button

Clicking on the projection description button provides a description of the entries and projections



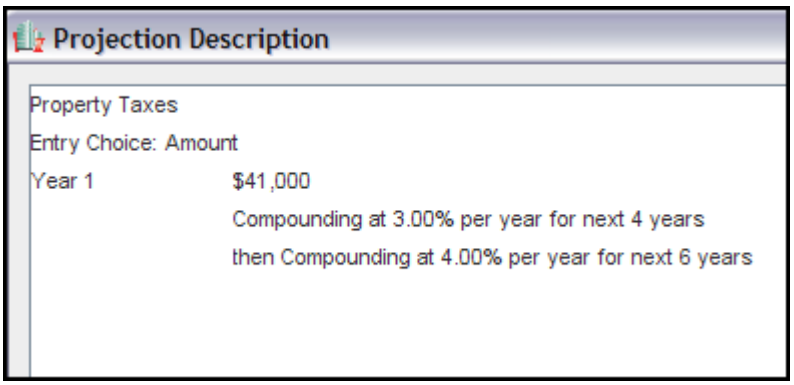
Click on ‘Ok” to return to the Expenses Grid



Revenue and Expenses grids. Gray rows

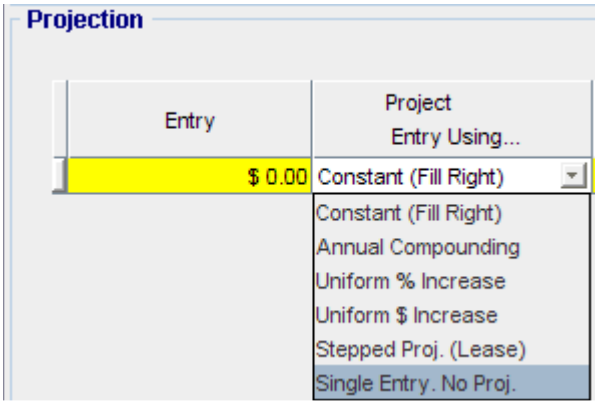
If a row is “gray” this indicates that there is a projection in the row. Double clicking on a gray row will take you to Projection Wizard where you can view and modify the projections.

Clicking on the “Projection Description” button will provide a description of the projections.



Project Entry Using…

After making the starting entry you select the method for projecting the entry

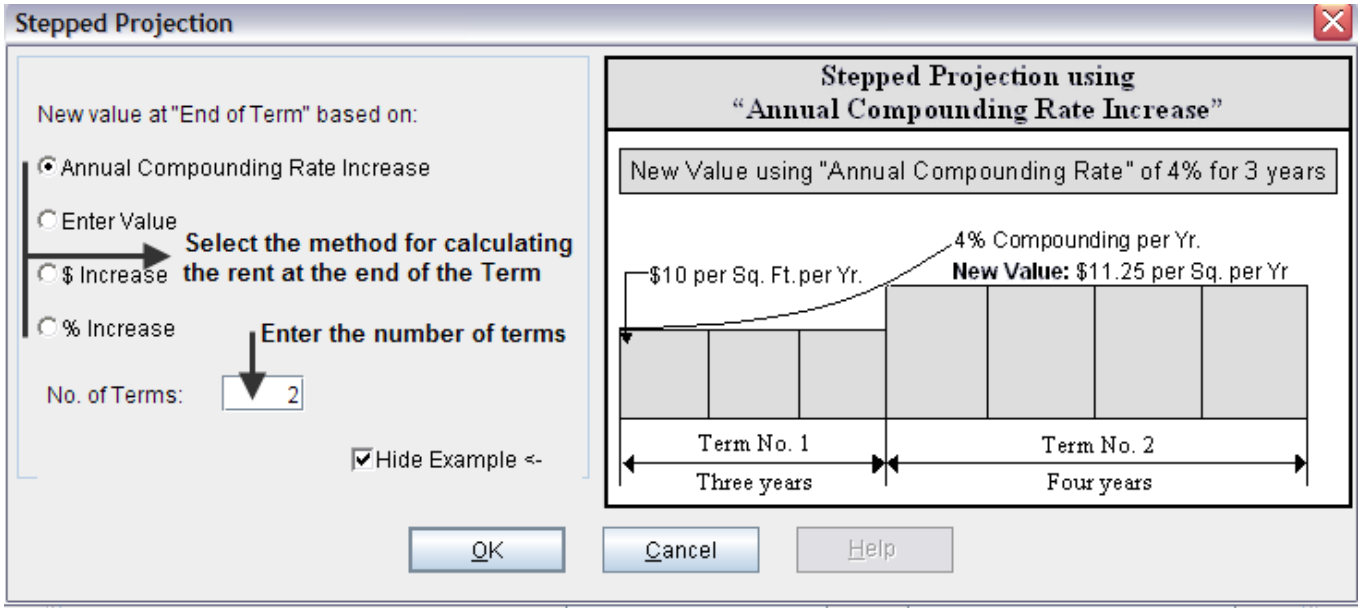


-Constant (Fill Right): Example $12,000 per year, constant for three years
-Annual Compounding: Example $12,000 per year increasing at 3.00% compounding for the next four years
-Uniform Increase: Example $12,000 increasing each year by a uniform % Increase of 5.00% (i.e., $600 per year) for the next four years
-Uniform $ Increase: Example $12,000 increasing each year by $600 for the next four years

-Stepped Projection (Lease) Allows you to enter leases.

Selecting “Stepped Projection (Lease) displays the Stepped Projection entry screen

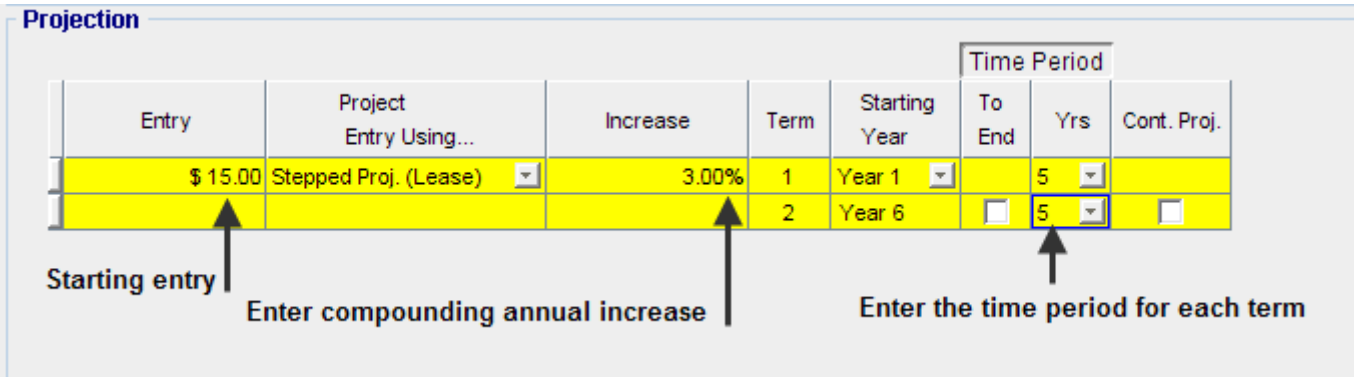
Select the method for calculating the increase at the end of each term
Enter the number of terms
Click on the “OK” button to return to Projection Wizard to complete the entries



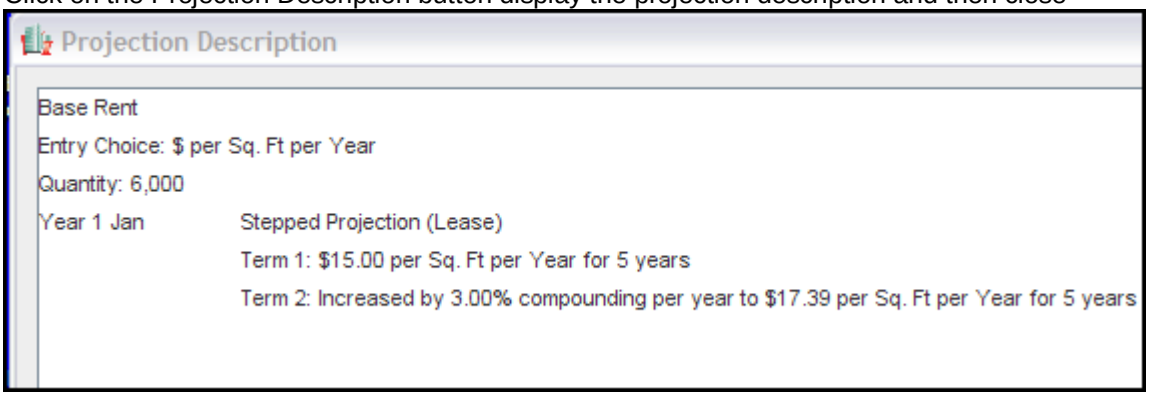
Example

Stepped Projection (Lease)
Entry Choice in the Revenue Grid: $ per Sq. Ft per Yr
Starting Amount: $15 per Sq Ft per year
Number of Terms: 2
First Term: 5 years
Second Term: 5 years
Renewal Rate at end of first term: Based on the 3.00% compounding per year for 5 years

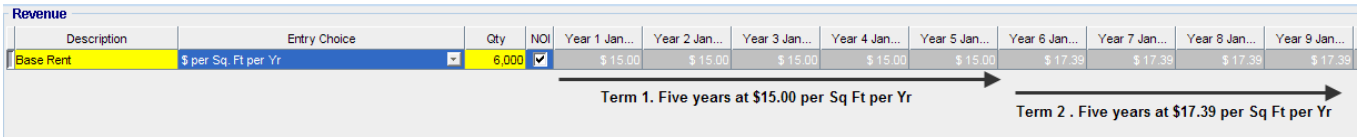
Entries in Projection Wizard are;



Click on the Projection Description button display the projection description and then close

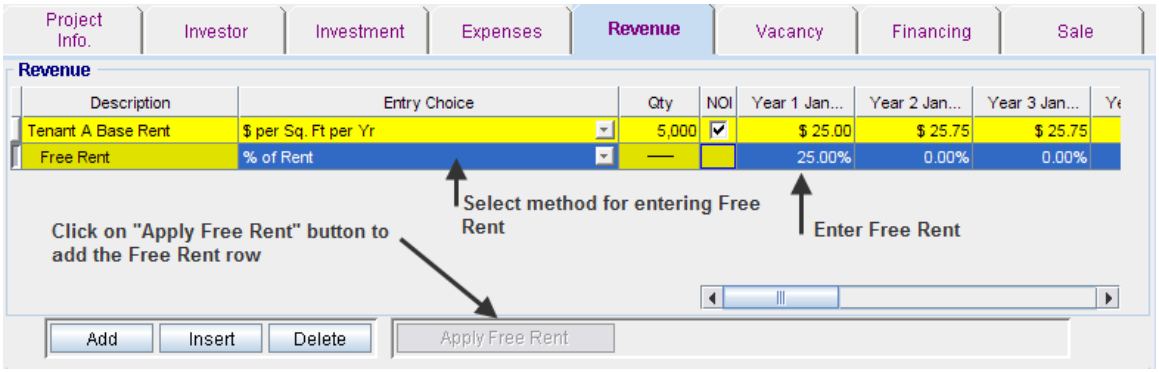


Click on “OK” to return to the Revenue grid



Free Rent

Free rent is entered as follows:



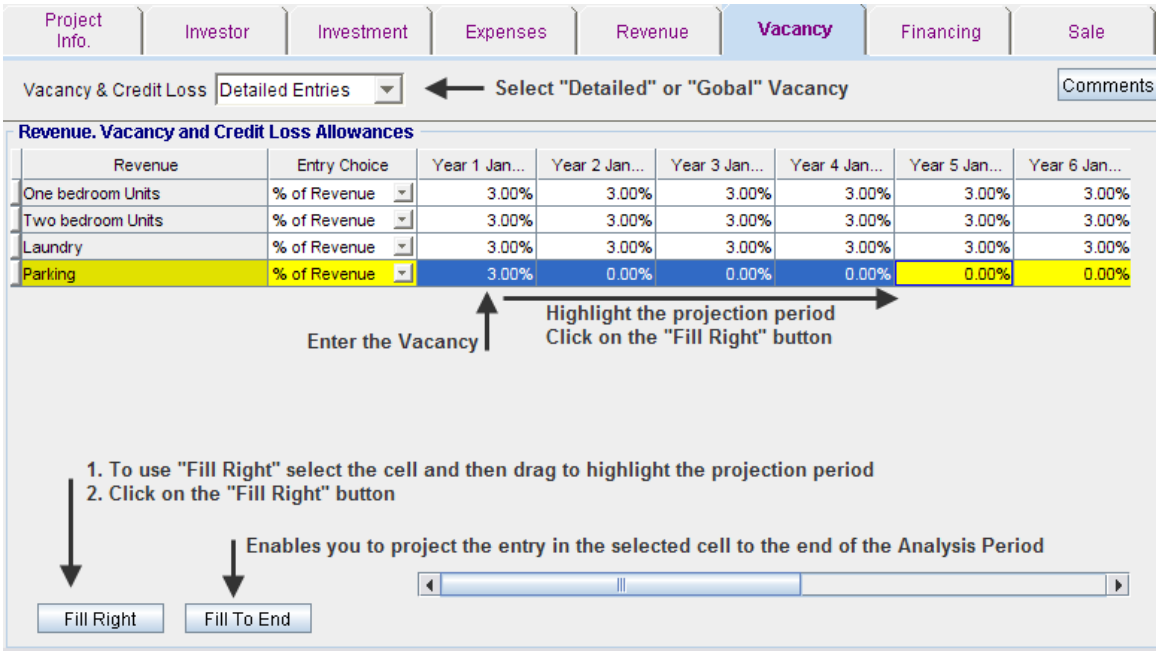
Free Rent can be entered as follows:

Free Rent. As an example, if the free rent for Year 1 is 3 months, enter 25.00%

Vacancy Folder

Is used to enter the vacancy and credit losses.

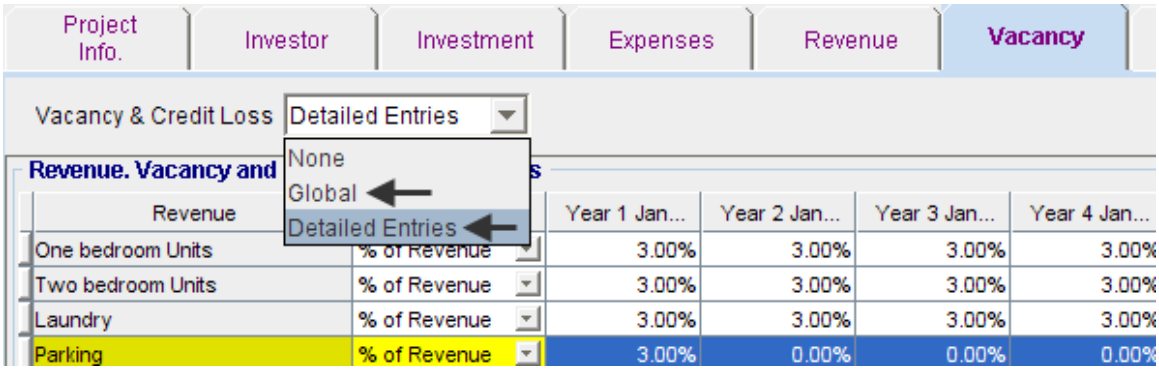
Credit loss. The space or unit was rented but the tenant skipped and the check bounced



Detailed versus Global Vacancy

There are several way to enter the Vacancy & Credit Loss

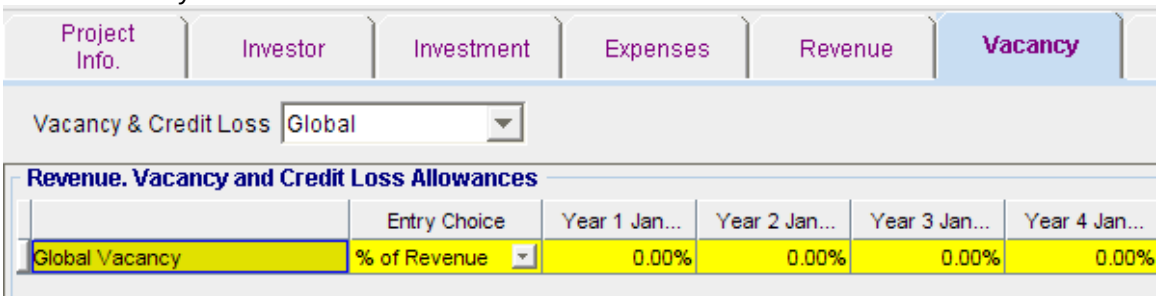
None. The Vacancy and Credit Losses are set to zero
Global. One Vacancy and Credit loss is applied to all the revenues
Detailed. A Vacancy & Credit Loss can be applied to each revenue



Above is an example of “Detailed Entries” for Vacancy & Credit” losses.

Below is an example for “Global” Vacancy & Credit losses

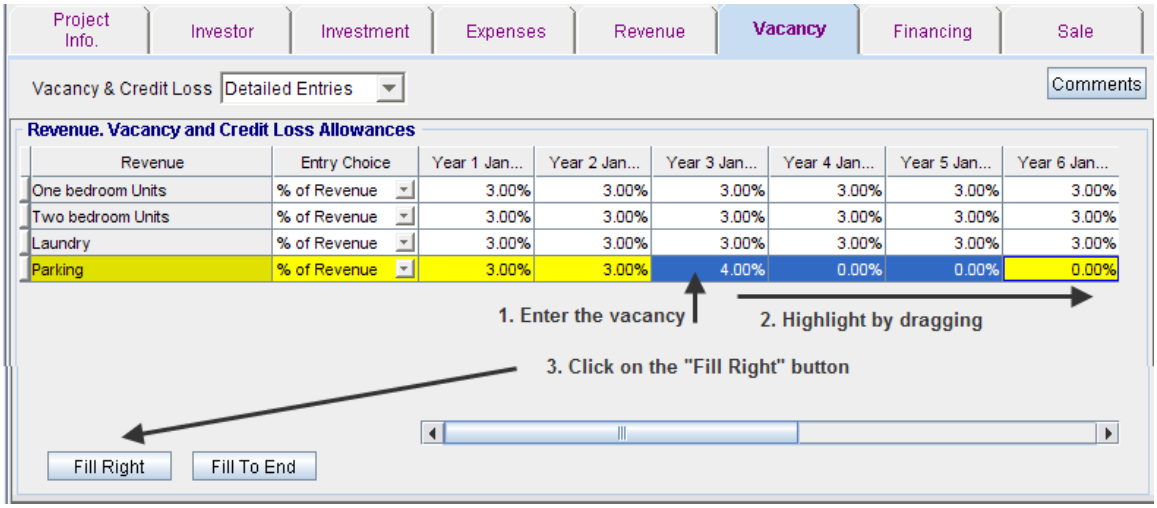
Global Vacancy & Credit Losses



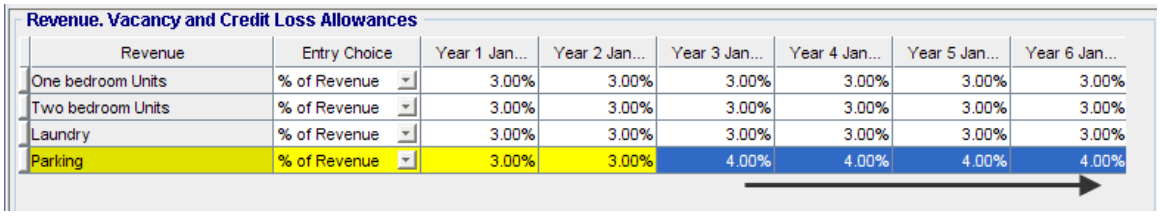
Projecting Vacancy & Credit Losses

Vacancy & Credit Losses can be quickly projected using “Fill Right” or “To End” buttons

Fill Right
Allows you to project the entry over the highlighted projection period enabling you to change the vacancy rates over the analysis period

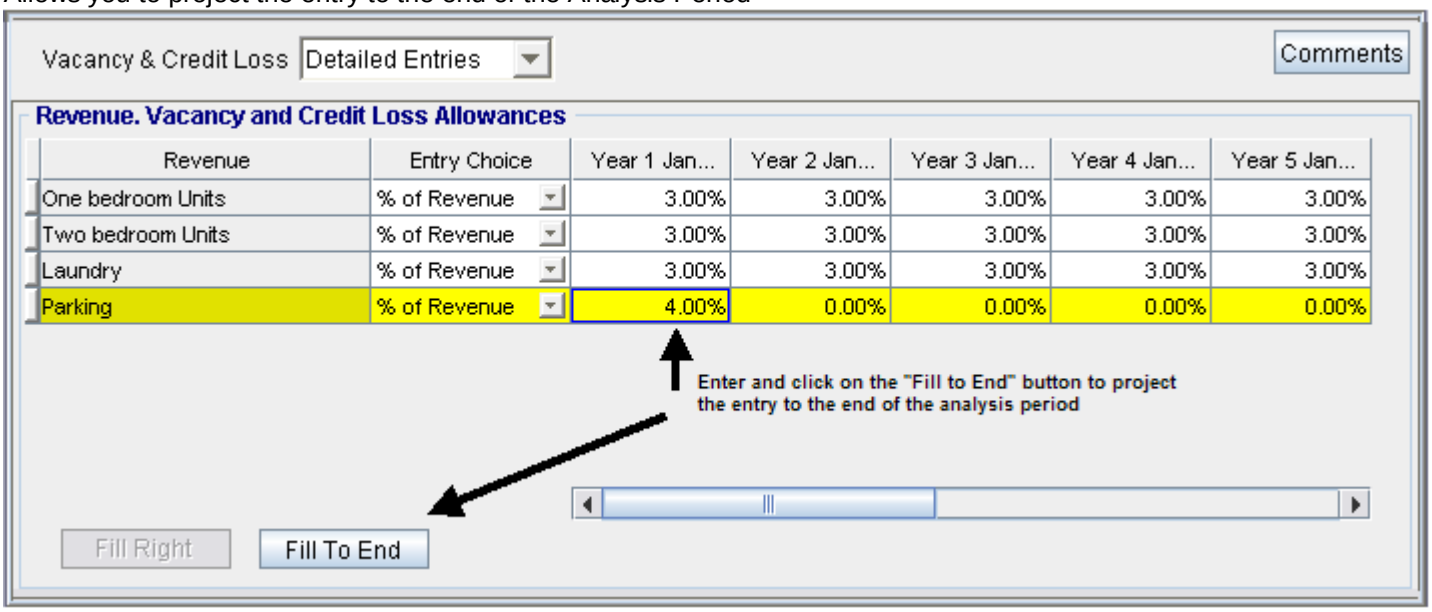


The “Parking” vacancy in Year 3 of 4.00% has been projected to Year 6 Jan

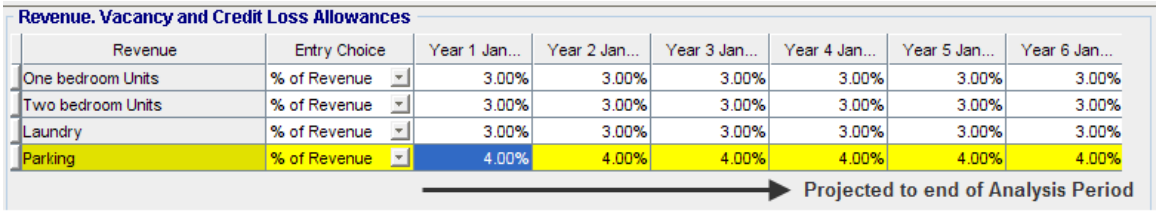


To End

Allows you to project the entry to the end of the Analysis Period



The Parking vacancy of 4.00% in Year 1 Jan has been projected to the end of the Analysis Period using the “To End” button



Finance Folder

The Finance Folder is used to set up the mortgage schedules. The number of mortgages is unlimited and mortgages can start and finish at any time.

Note: If you wish to only develop mortgage schedules, select the “Financier“ template rather than an investment analysis template

The features of the Finance folder are:

The number of mortgage are unlimited
The mortgage can start and end in any year and month
Nine mortgage payment options

- Standard Mortgage (Blended Principal & Interest Payments)
- Interest Only
- Fixed Payment
- Fixed Principal payment
- Fixed Principal Payment plus Interest
- Variable Principal Payment plus Interest
- Construction Draw Mortgage
- No Payment of Principal or Interest
- Your own Principle and Interest Schedule

Additional Payments and Borrowing can be made in any period
Multiple Terms where the interest rate can vary from one term to another and multiple Amortization Periods

The flexible financing features allow you to create absolutely any kind of mortgage you can dream up allowing you to quickly explore creative financing options.

Mortgage Payment Types
Following is a description of the different types of mortgage

Standard Mortgage
A Standard Mortgage consists of constant blended mortgage payments of principal and interest. They can be partially amortized as well as fully amortized, where the balance at the end of the amortization is zero

Interest Only Mortgage
With an interest only mortgage the periodic payment is interest only. The principal is repaid at the end of the term

Fixed Payment Mortgage
The periodic payment is fixed for the term. The payment is first applied to the interest owed, and any remaining amount is applied to reducing the outstanding Principal.

Note: If the periodic payment is less than the Interest Due for the period, the unpaid interest is added to the Principal Remaining

Variable Payment Mortgage
The Variable Payment Mortgage allows you to vary the payment, period by period. The payment is first applied to the interest owing, and any remaining amount is applied to reducing the Principal Remaining

Fixed Principal Payment plus Interest Mortgage

The Periodic Payment consists of:

- The interest due for the period
- The fixed principal payment, which reduces the Principal Remaining

Variable Principal Payment plus Interest Mortgage

The Periodic Payment consists of:

- The interest due for the period
- A variable principal payment which can varied period by period. The variable principle payment reduces the Principal Remaining

Construction Draw Mortgage

Allows the mortgage to be drawn down in stages, based on the construction loan advances. The mortgage is paid back in stages from the sales of the units or the property

No Payment of Principle or Interest Mortgage

Also called an “Interest Accruing Loan”

There are no payments of principal or interest during the life of the mortgage. The unpaid interest is added to the Principal Remaining, which is paid of at the end of the term.

Your Own Principal and Interest Schedule

This option allows you to enter the principal and interest schedule, period by period, and is used for unique circumstances where the mortgage contract cannot be calculated using the options available in the Finance Folder

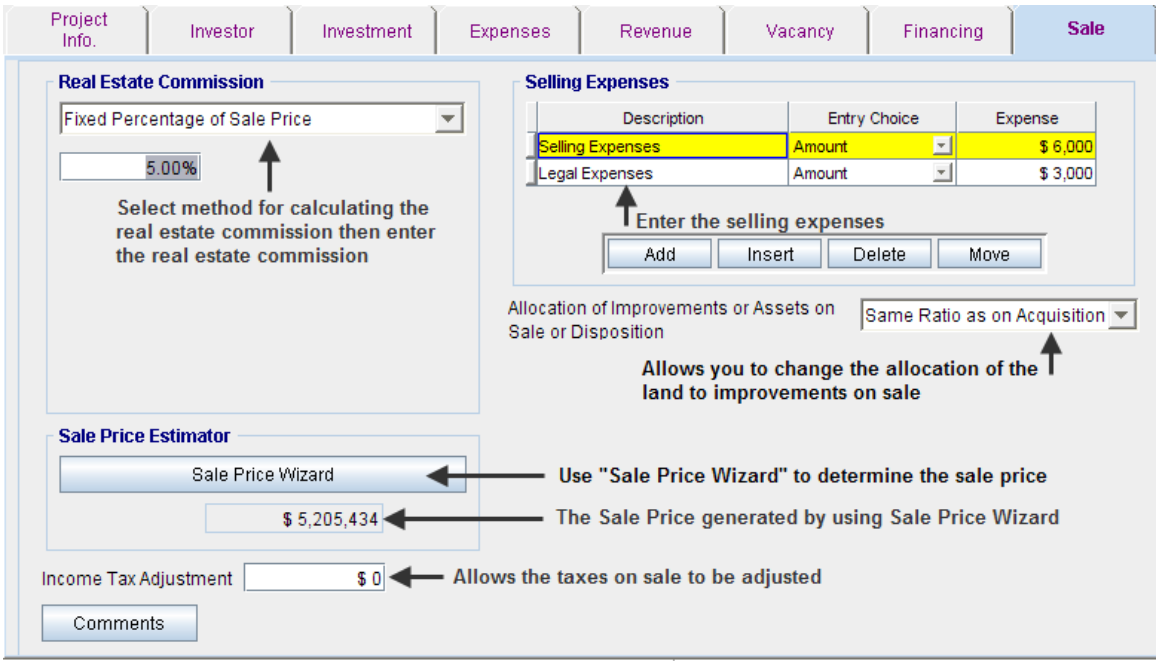
This allows you to enter unconventional mortgage arrangements between the buyer and seller

Sale Folder

At the end of the Analysis Period the property is sold

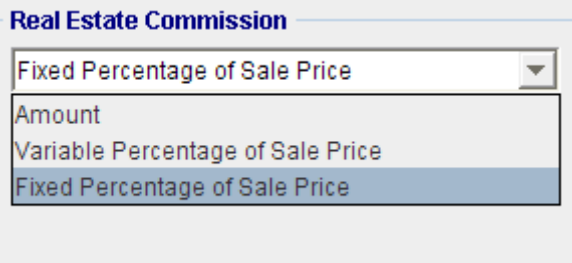
The Sale Folder is use to:

Enter the real estate sale commission
Enter selling expenses associated with the sale such legal fee, marketing expenses etc.
Estimate the likely Sale Price using the “Sale Price Wizard
If required, adjust the income taxes paid on sale
Change the allocation of the sale price between “Land” and “Improvements” if the allocation is different from the allocation on purchase



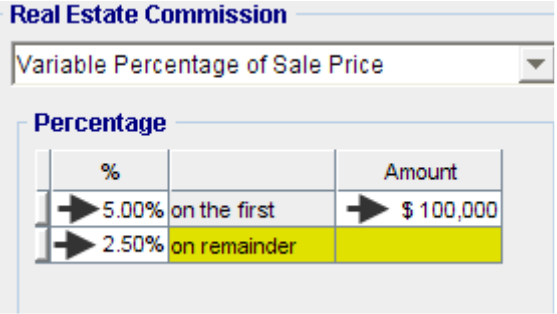
Real Estate Commissions

Real estate commissions can be entered as;
Amount e.g., $125,000
Variable Percentage of Sale Price. e.g., 5% on the first $100,000 then 2.50% on the remainder
Fixed Percentage of Sale Price e.g., 6.50%



Following is an example of entering the real estate commission as a “Variable % of the Sale Price”

The real estate commission is 5.00% on the first $100,000 and then 2.50% on the remainder.

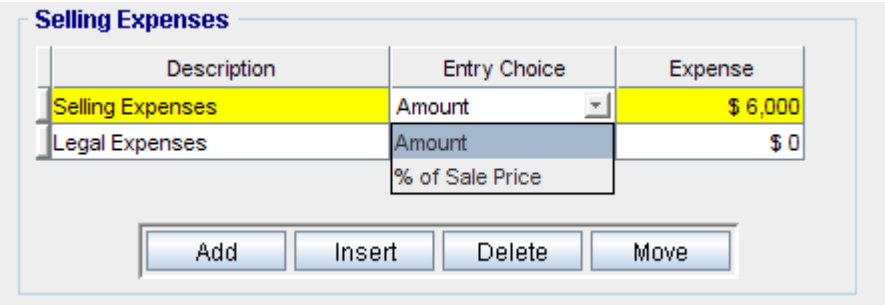


Selling Expenses

The Selling Expenses Grid is used to enter expenses related to the sale of the property, such as legal fees, marketing expenses etc.

Selling expenses can be entered as an “Amount” or “% of Sale Price”

The grid can be modified using “Add” “Insert” “Delete” or “Move” a row



Sale Price Wizard

Sale Price Wizard is used to estimate the Sale Price based on the following financial measures;

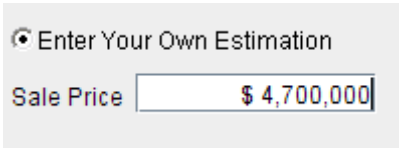
- Potential Gross Income Multiplier (PGIM)
- Effective Gross Income (EGIM)
- Cap Rate
- Net Income Multiplier (NIM)

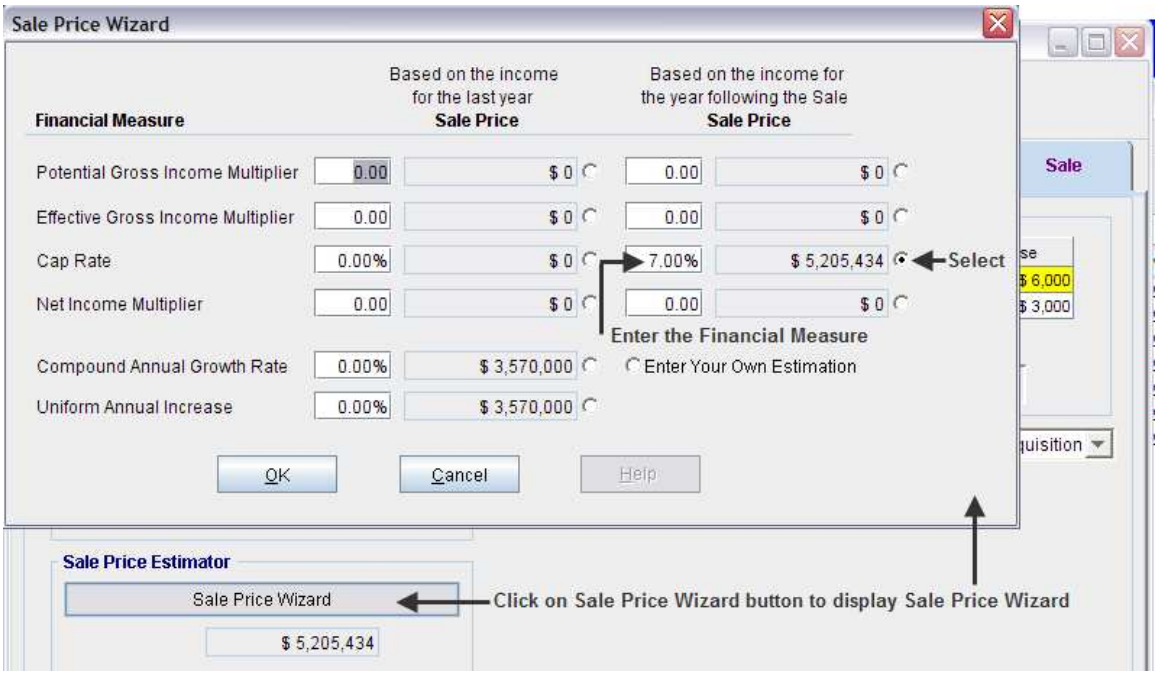
In addition the sales price can be calculated using;

- Compounding Annual Growth Rate. e.g. the Sales Price is based on the purchase price compounding at 2.50% per year for ten years

- Uniform Annual Growth Rate. e.g. the Sales Price is based on the purchase price increasing at a constant rate of 3.00% per year for the ten years

You can also enter your own sale price by selecting “Enter Your Own Estimation”





There are two way to calculate the Sale Price using a financial measure like the Cap Rate;

- Based on the Income & Expenses for the last year of the Analysis Period
- Based on the Income & Expenses for the year following sale.

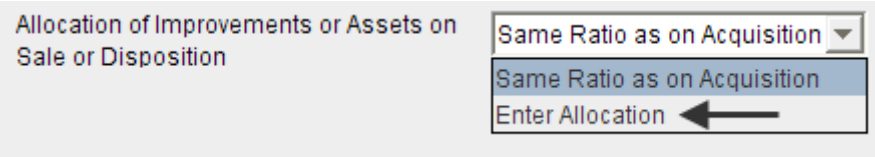
The most common method for estimating the Sale Price is to use the Cap Rate and the Net Operating Income for the year following the sale of the property. The reason is that a buyer, the lender and appraiser are most likely to use the Net Operating Income for the year following the sale to establish the value rather than the Net Operating Income in the last year of the analysis.

Allocating the Sale Price to the Land and Improvements

To calculate the "Recaptured Depreciation" the sale price is broken down between the land and the improvements.

The normal assumption is that allocation of the sale price between land and building will be the same as on acquisition.

If this is not the case, select "Enter Allocation" to display the "Allocation" grid



Allocation of Improvements or Assets on Sale or Disposition

Description	Capital Investment	Allocation On Sale
Land	$ 1,000,000	$ 2,205,434
Building	$ 2,570,000	$ 3,000,000
Mortgage Fees and Points	$ 20,000	$ 0

The "Capital Investment" column shows the investments in land and building. In this example the value of the building on acquisition is $2,570,000 and the allocation of the sale price to the building is $3,000,000.

This means that the value of the building has appreciated and the seller will pay recaptured depreciation tax for the total depreciation claimed over the ownership period at a tax rate of 25%

Note. Mortgage Fees and Points are not subject to recaptured depreciation

Income Tax Adjustment

Investor Express automatically calculates the Capital Gains Tax and the Recaptured Depreciation tax based on the information entered. However, there may be circumstances specific to the property or legal form of ownership that make the automatic tax calculations incorrect.

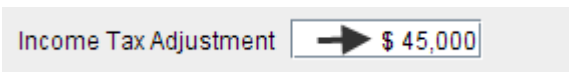
The "Tax Adjustment Grid" can be used to adjust the taxes paid on sale.

To reduce taxes paid on sale: Enter as a positive number
To increase taxes on sale: Enter as a negative number

As an example, if the taxes calculated by Investor Express were;

Capital Gain	$220,000
Recaptured Depreciation	125,000
	$345,000

Due to unique circumstances, the total taxes should have been $300,000, then the tax adjustment is +$45,000 and entered as follows;

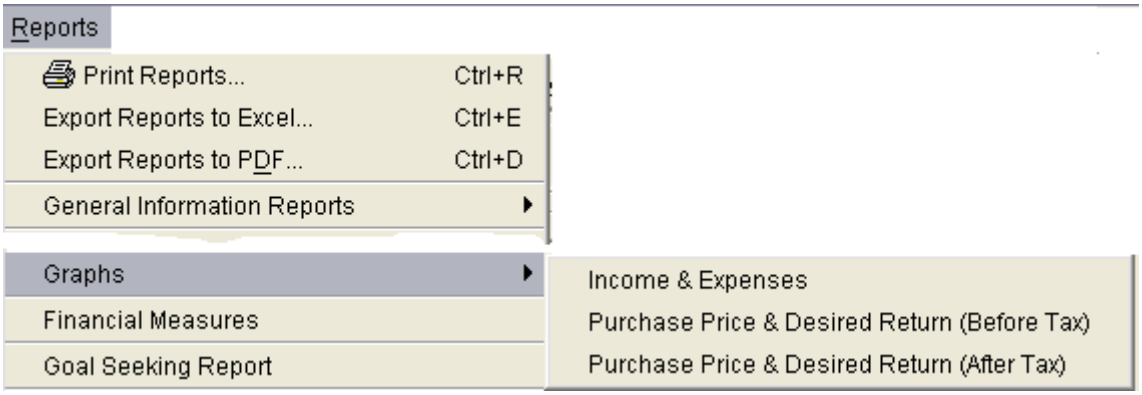


Reports
Graphs

There are a number of graphs that displays the financial results visually

To view these graph open up an Investit Example such as “Rental Apartment Building” or “Office Building”

1. From the Report Menu select the Graph to view



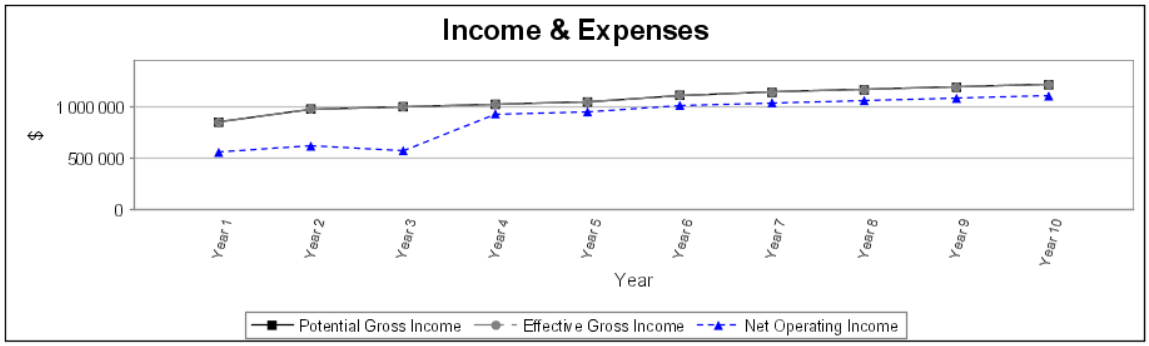
Income & Expense Graph

This graph not only shows how the Income and Expenses change over time but is very useful in spotting errors in your entries.

TIP: After entering a Project view the Income & Expense graph to see if the entries and projections appear to be correct.

Example showing an input error

The graph below illustrates a mistake was made in year 4 in the Expense entries and projections which need to be corrected



Graph: Purchase Price v Desired Return

This graph allows you to determine the Purchaser Price the will provide the desired Internal Rate of Return (IRR).