

**INVESTMENT ANALYSIS USA
RENTAL APARTMENT BUILDING EXAMPLE**

INTRODUCTION

This example uses the Invest Rental Apartment Building example.

This practice example consists of two Sections;

1. The input information for the project
2. The instructions for entering the project data

PROJECT INFO. Folder

Property Name: Parklane Place 40 Unit Apartment Building
Description: Rental Apartment Building Example
Analysis Period: 10 years
Starting Date: Year 1 Jan
Building Area 38,000 Sq Ft
Rentable Area: 36,000
No. of Units: 40
Land Area: 46,000 Sq Ft
Frontage: 320 Ft

Purchase Price

Purchase Price: \$3,500,000
Acquisition Costs: 2.00% of Purchase Price

INVESTOR Folder

Marginal Tax Rate: 35.00%
Capital Gain Rate: 15.00%
Recaptured Depreciation Tax Rate: 25.00%
Desired Return or Discount Rate (Before Tax): 13.00%
Short Term Rates Before Tax for calculating the Modified Internal Rate of Return (MIRR)
 Financing Rate: 8.000%
 Reinvestment Rate: 3.000%

INVESTMENT Folder

Description: Land
Amount: \$1,000,000
Year 1 Jan
Depreciation Method: Land (No Deprec.)

Description: Building
Amount: \$2,570,000
Year 1 Jan
Depreciation Method: Residential Prop. St Line

Mortgage Fees & Points
Mortgage Fees & Points: \$20,000
Depreciation Method: Amortized Mortgage Fees
Recovery Period: 10 years

EXPENSES Folder

Operating expenses paid for by the investor such as taxes, insurance, maintenance, property management etc

Property Taxes

Year 1 Jan \$90,000 per Year increasing by 4.00% per year compounded for next 2 year then compounded at 3.00% per year

Insurance

Year 1 Jan \$45,000 per Year increasing by 5.00% per year compounded

Maintenance

Year 1 Jan \$400 per Unit x Total No. of Units per Year increasing by 4.00% per year compounded

Resident Caretaker

Year 1 Jan \$3,000 per month for one year then increasing by 4.00% per year compounded

Property Manager

4.00% of Effective Gross Income

Other Expenses

3.00% of Potential Gross Income

REVENUE Folder

One Bedroom Units

No. of Units: 25

\$900 per unit per month then increasing at 3.00% per year compounding

Two Bedroom Units

No. of Units: 15

\$1,100 per unit per month then increasing at 4.00% per year compounding

Laundry

\$15 per Unit x Total No. of Units per Mo then increasing at 5.00% per year compounding

Parking

No. of Spaces: 50

\$40 per Space per Mo then increasing at 5.00% per year compounding

VACANCY Folder

One bedroom Units

3.00% constant for the full period

Two Bedroom Units

3.00% constant over the full period

Laundry

3.00% constant over the full period

Parking

No vacancies

FINANCING Folder

Mortgage

Type: Standard Mortgage
Year 1 January, \$2,000,000
Time Period: 10 years
Amortization Period: 25 years
Interest Rate: 7.50%

SALE Folder

Real Estate Commissions

5.00% of Sale Price

Selling Expenses

Selling Expenses: \$6,000
Legal Fees: \$3,000

Sale Price

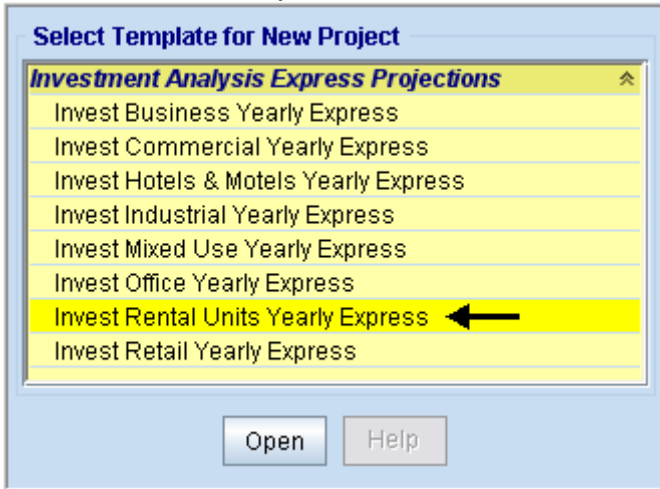
Based on a Cap Rate of 7.00% using the Income for the year following the Sale i.e., based on the Income & Expenses for year 11.

INSTRUCTIONS FOR ENTERING THE PROJECT INTO INVESTOR EXPRESS

Getting started

The first step is to open the Investit Template "Invest Rental Units Yearly Express" as follows:

1. Open investor Express.
2. Select the New Project Folder then select the Investit Templates folder



3. Select and open the Investit template "Invest Rental Units Yearly Express" The analysis period dialog will open at this point.
4. Enter 10 years and click OK

Entering the project data and information

PROJECT INFO Folder

1. Enter the Property Name: Parklane Place 40 Unit Apartment Building
2. Enter Description: Rental Apartment Building Example
3. Enter Purchase Price: \$3,500,000
4. Acquisition Cost: 2% of Purchase Price
5. Enter Building Area: 38,000 Sq. Ft
6. Enter Units. Rentable Area: 36,000 Sq. Ft
7. Enter Total No. of Units: 40
8. Enter Land Area: 46,000 Sq. Ft
9. Enter Frontage: 320 Sq. Ft

The Project Info screen should look like this:

Investor Express USA - Rental Apartment Building Express

File Edit Reports Tools Utilities Investit Activation Help

My Company Info. Property Info. Client Info. Notes

Project Info. Investor Investment Expenses Revenue Vacancy Financing Sale

Report Headers

Property Name: Parklane Place 40 Unit Apartment Building

Description: Rental Apartment Building Example

Total Purchase Price

Purchase Price: \$3,500,000

Acquisition Costs: 2.00% % of Purchase Price

Total Purchase Price: \$3,570,000

Analysis Time Period

10 Years Change Analysis Time Period

Entry Information

Enter Revenue and Expenses: Yearly Change Entry Information

Starting Date: January Year 1

Calculate Financial Measures based on

Potential Gross Income Effective Gross Income

Edit Unit of Measure

Building

Building Area: 38,000 Sq. Ft.

Rental Units

Units Rentable Area: 36,000 Sq. Ft.

Total No. of Units: 40

Land

Land Area: 46,000 Sq. Ft.

Frontage: 320 Ft.

Enter property name. E.g., Parklane Towers Template: Invest Rental Units Yearly Express

INVESTOR Folder

1. Enter the Discount Rate Before Tax: 13.00%
Notes:
The Discount Rate is used to calculate the Net Present Value and Net Effective Rent
The program automatically calculates the Discount Rate After Tax
2. Enter Short Term Rates Before Tax
Financing Rate: 8.00%
Reinvestment Rate: 3.00%

INVESTMENT Folder

The Investment folder should appear like this;

Description	Amount	Year	Month	Depreciation Method	Recovery Period [yrs]
Land	\$ 0	Year 1	Jan	Land (No Deprec.)	
Building	\$ 0	Year 1	Jan	Residential Prop. St Line	27.5
Land Improvements	\$ 0	Year 1	Jan	Land Improv. 150% DB	15.0
Mortgage Fees and Points	\$ 0	Year 1	Jan	Amort. Mortgage Fees	1.0

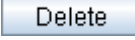
First Row

1. Enter the Amount: \$1,000,000

Second Row

1. Select row 2 'Building'
2. Enter the Amount: \$2,570,000

Third Row

1. Select row 3 'Land Improvements'
2. Click on the  button

Fourth Row

1. Select row with Description 'Mortgage Fees and points'
2. Enter Amount: \$20,000
3. Enter Recovery Period: 10 Years

Your entries for the Leasehold improvements should look like this;

Investor Express USA - Rental Apartment Building Express

File Edit Reports Tools Utilities Investit Activation Help

My Company Info. Property Info. Client Info. Notes

Project Info. Investor **Investment** Expenses Revenue Vacancy Financing Sale

Investment Losses: Active Investor. No Loss Limitation

Purchase Price and Capital Improvements

Description	Amount	Year	Month	Depreciation Method	Recovery Period [yrs]
Land	\$ 1,000,000	Year 1	Jan	Land (No Deprec.)	
Building	\$ 2,570,000	Year 1	Jan	Residential Prop. St Line	27.5
Mortgage Fees and Points	\$ 20,000	Year 1	Jan	Amort. Mortgage Fees	10.0

Purchase Price [Year 1 Total] \$ 3,570,000

Add Insert Delete Move

Comments

Template: Invest Rental Units Yearly Express

EXPENSES Folder

Property Taxes

Year 1 Jan \$95,000 per Year increasing by 4.00% per year compounded

Insurance

Year 1 Jan \$45,000 per Year increasing by 5.00% per year compounded

Maintenance

Year 1 Jan \$400 per Unit x Total No. of Units per Year increasing by 4.00% per year compounded

Resident Caretaker

Year 1 Jan \$3,000 per month for one year then increasing by 4.00% per year compounded

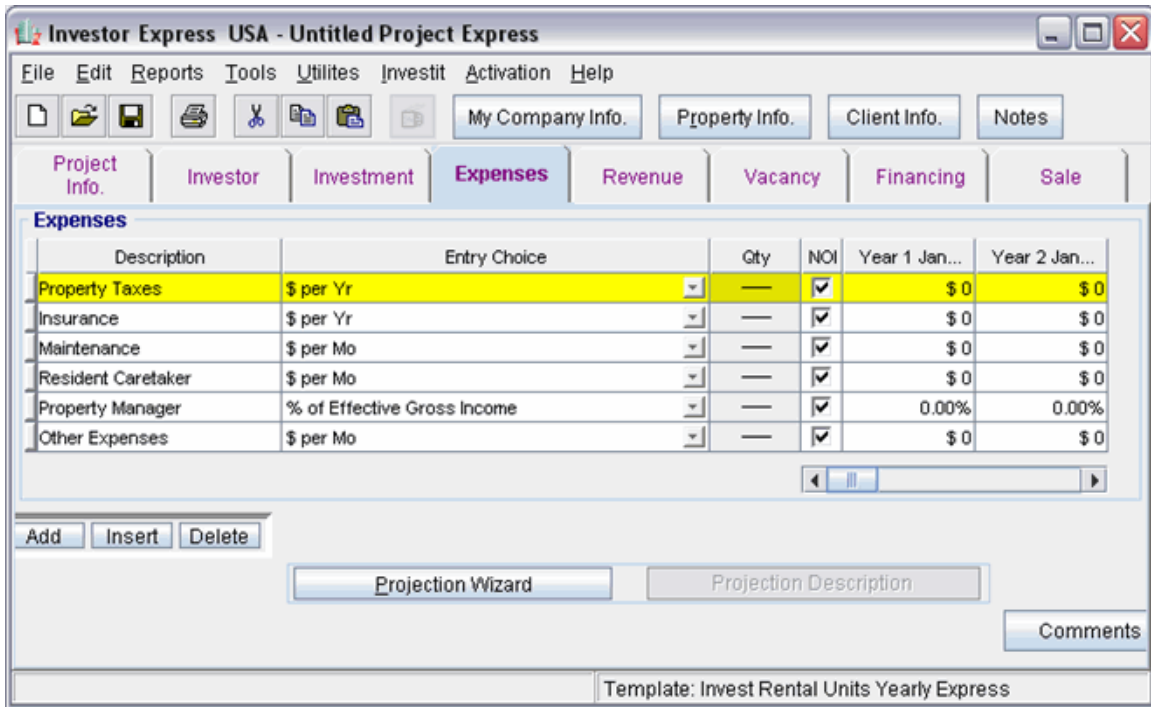
Property Management

4.00% of Effective Gross Income

Other Expenses

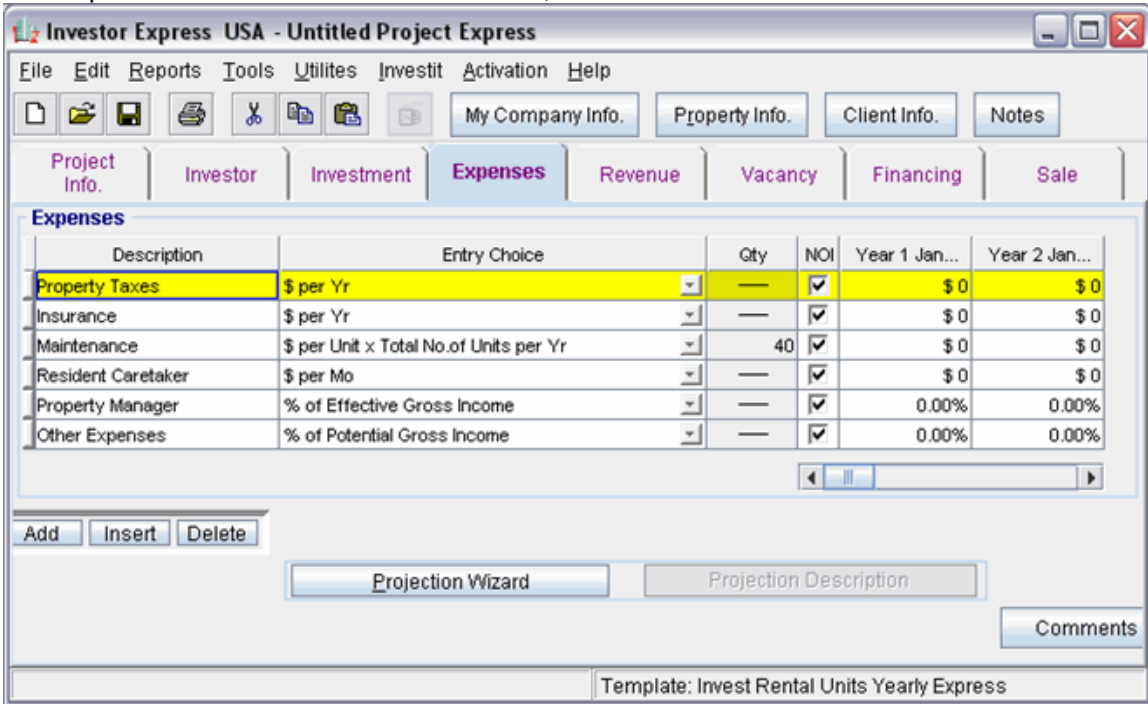
3.00% of Potential Gross Income

The Expenses folder should appear like this;




1. Select row 3 'Maintenance'
2. Select Entry Choice: "\$ per Unit x Total No. of Units per Yr"
3. Select row 6 'Other Expenses'
4. Select Entry Choice: "% of Potential Gross Income"


The Expenses folder should now look like this;

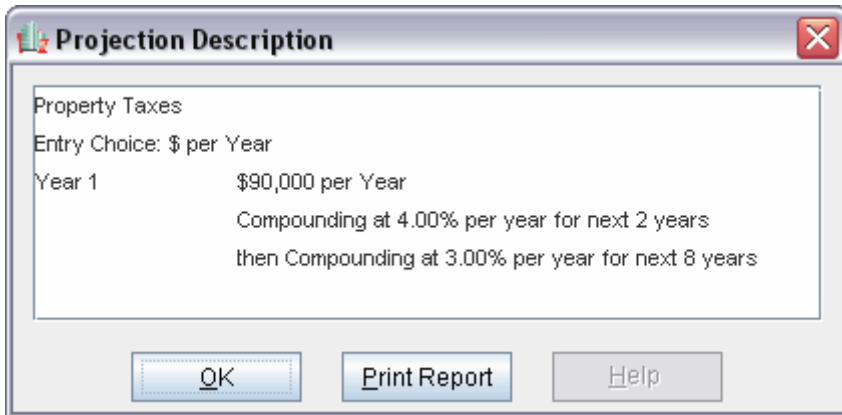


Steps for setting up Property Taxes

1. Select row 1 'Property Taxes'
2. Click on the  button
In the **Projection Wizard**

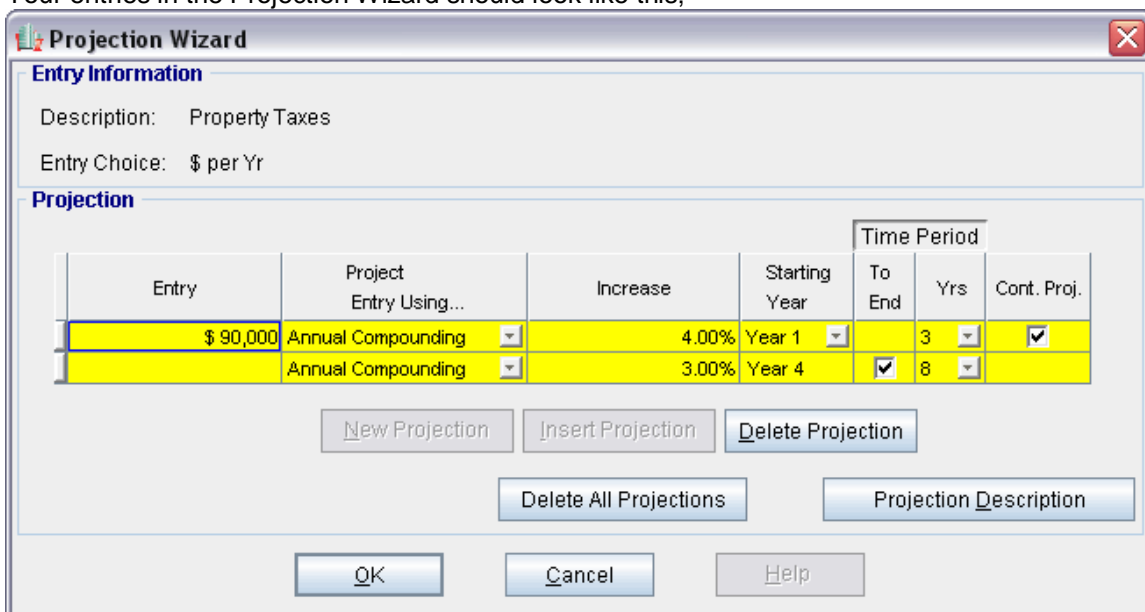
3. **Entry column:** Enter \$90,000
 4. **Project Entry Using column:** Select "Annual Compounding"
 5. **Increase column:** Enter the Compounding Rate of 4.00%
 6. **Time Period column:** Select '3' Years
 7. **Cont. Proj.:** check the Cont. Proj. checkbox
- Row 2
8. **Project Entry Using column:** Select "Annual Compounding"
 9. **Increase column:** Enter the Compounding Rate of 4.00%
 10. **Time Period column:** Select '3' Years or check the "To End" checkbox

To view your entries, click on the  button, which describes the entries and projections.




Press OK to return to the Projection Wizard

Your entries in the Projection Wizard should look like this;



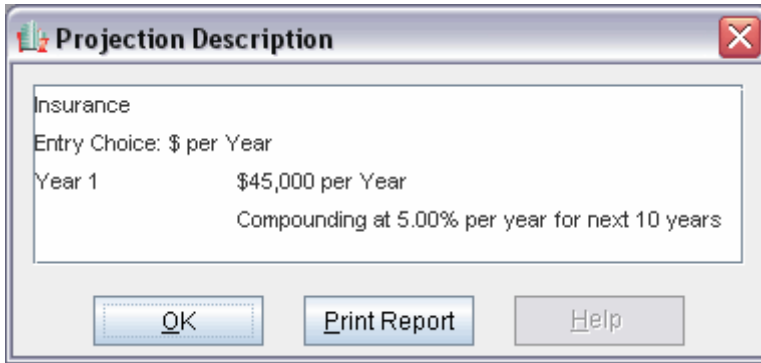
Press OK to return to the Expenses folder

Steps for setting up Insurance

1. Select row 2 'Insurance'
2. Click on the  button
In the **Projection Wizard**

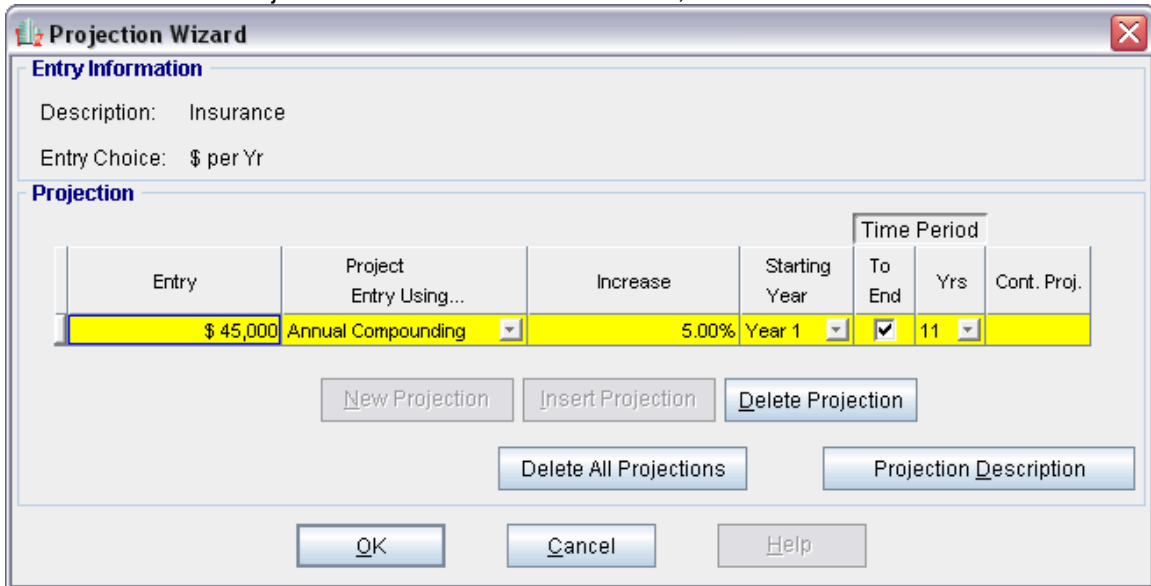
3. **Entry column:** Enter \$45,000.00
4. **Project Entry Using column:** Select "Annual Compounding"
5. **Increase column:** Enter the Compounding Rate of 5.00%
6. **Time Period column:** Check the "To End" box. This allows the projection to continue until the end of the 11 year Period

To view your entries, click on the  button, which describes the entries and projections.




Press OK to return to the Projection Wizard

Your entries in the Projection Wizard should look like this;



Press Ok to return to the Expenses folder

Steps for setting up Maintenance

1. Select row 3 'Maintenance'
2. Click on the  button

In the **Projection Wizard**

3. **Entry column:** Enter \$400
4. **Project Entry Using column:** Select "Annual Compounding"
5. **Increase column:** Enter the Compounding Rate of 4.00%
6. **Time Period column:** Check the "To End" box. This allows the projection to continue until the end of the 11 year Period

Your entries in the Projection Wizard should look like this;


The screenshot shows the 'Projection Wizard' dialog box with the following details:

- Entry Information:** Description: Maintenance; Entry Choice: \$ per Unit x Total No.of Units per Yr.
- Projection Table:**

Entry	Project Entry Using...	Increase	Starting Year	Time Period		
				To End	Yrs	Cont. Proj.
\$ 400	Annual Compounding	4.00%	Year 1	<input checked="" type="checkbox"/>	11	
- Buttons:** New Projection, Insert Projection, Delete Projection, Delete All Projections, Projection Description, OK, Cancel, Help.

Press Ok to return to the Expenses folder

Steps for setting up Resident Caretaker

1. Select row 4 'Resident Caretaker'
2. Click on the  button
In the **Projection Wizard**
3. **Entry column:** Enter \$3,000
4. **Project Entry Using column:** Select "Annual Compounding"
5. **Increase column:** Enter the Compounding Rate of 4.00%
6. **Time Period column:** Check the "To End" box. This allows the projection to continue until the end of the 11 year Period

Your entries in the Projection Wizard should look like this;


The screenshot shows the 'Projection Wizard' dialog box with the following details:

- Entry Information:** Description: Resident Caretaker; Entry Choice: \$ per Mo.
- Projection Table:**

Entry	Project Entry Using...	Increase	Starting Year	Time Period		
				To End	Yrs	Cont. Proj.
\$ 3,000	Annual Compounding	4.00%	Year 1	<input checked="" type="checkbox"/>	11	
- Buttons:** New Projection, Insert Projection, Delete Projection, Delete All Projections, Projection Description, OK, Cancel, Help.

Press OK to return to the Expenses folder

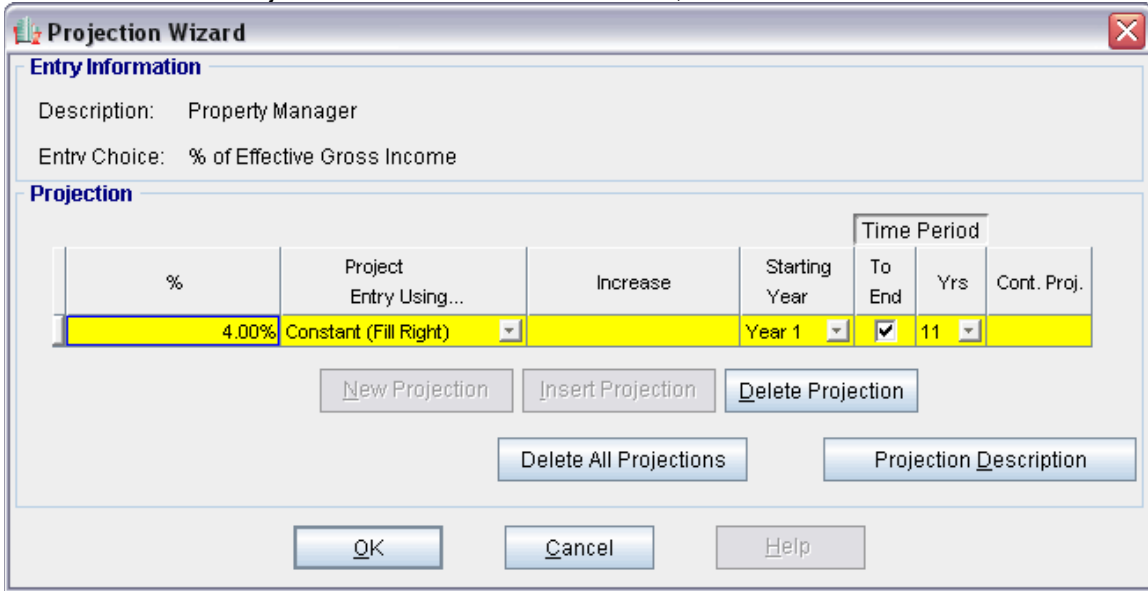
Steps for setting up Property Manager

1. Select row 5 'Property Manager'
2. Click on the  button

In the **Projection Wizard**

3. **% column:** Enter \$4.00%
4. **Time Period column:** Check the "To End" box. This allows the projection to continue until the end of the 11 year Period


Your entries in the Projection Wizard should look like this;



%	Project Entry Using...	Increase	Starting Year	Time Period		Cont. Proj.
				To End	Yrs	
4.00%	Constant (Fill Right)		Year 1	<input checked="" type="checkbox"/>	11	

Press Ok to return to the Expenses folder

Steps for setting up Other Expenses

5. Select row 6 'Other Expenses'
6. Click on the  button

In the **Projection Wizard**

7. **% column:** Enter \$3.00%
8. **Time Period column:** Check the "To End" box. This allows the projection to continue until the end of the 11 year Period

Your entries in the Projection Wizard should look like this;

Projection Wizard

Entry Information

Description: Other Expenses
Entry Choice: % of Potential Gross Income

Projection

%	Project Entry Using...	Increase	Time Period			Cont. Proj.
			Starting Year	To End	Yrs	
3.00%	Constant (Fill Right)		Year 1	<input checked="" type="checkbox"/>	11	<input type="checkbox"/>

Buttons: New Projection, Insert Projection, Delete Projection, Delete All Projections, Projection Description, OK, Cancel, Help

Press Ok to return to the Expenses folder

REVENUE Folder

One Bedroom Units

No. of Units: 25

\$900 per unit per month then increasing at 3.00% per year compounding

Two Bedroom Units

No. of Units: 15

\$1,100 per unit per month then increasing at 4.00% per year compounding

Laundry

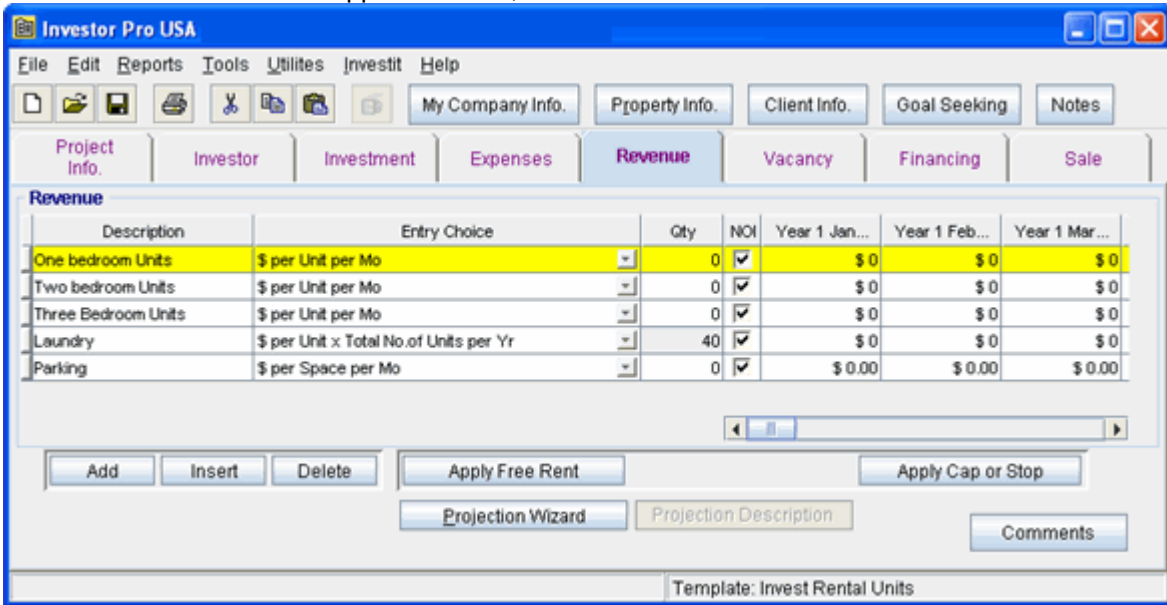
\$15 per Unit x Total No. of Units per Mo then increasing at 5.00% per year compounding

Parking

No. of Spaces: 50

\$40 per Space per Mo then increasing at 5.00% per year compounding

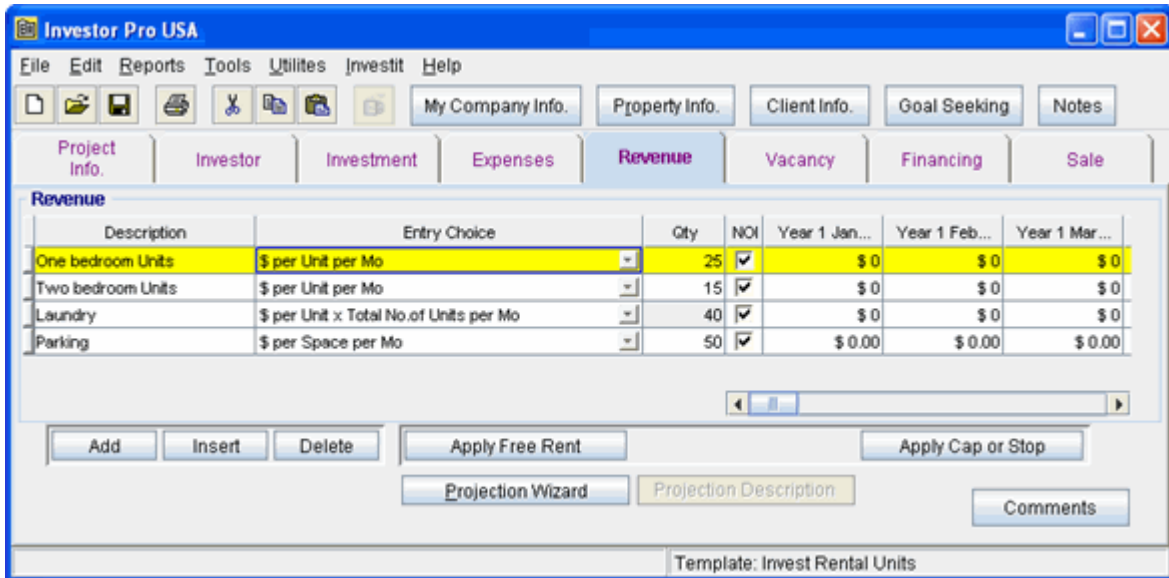
The Revenue folder should appear like this;




Steps for setting up the Revenue folder

1. Select row 1 'One Bedroom Units'
2. Enter QTY: 25
3. Select row 2 'Two Bedroom Units'
4. Enter QTY: 15
5. Select row 3 'Three Bedroom Units'
6. Click on the button
7. Select row 4 'Laundry'
8. Select Entry Choice: "\$ per Unit x Total No. of Units per Mo"
9. Select row 5 'Parking'
10. Enter QTY: 50

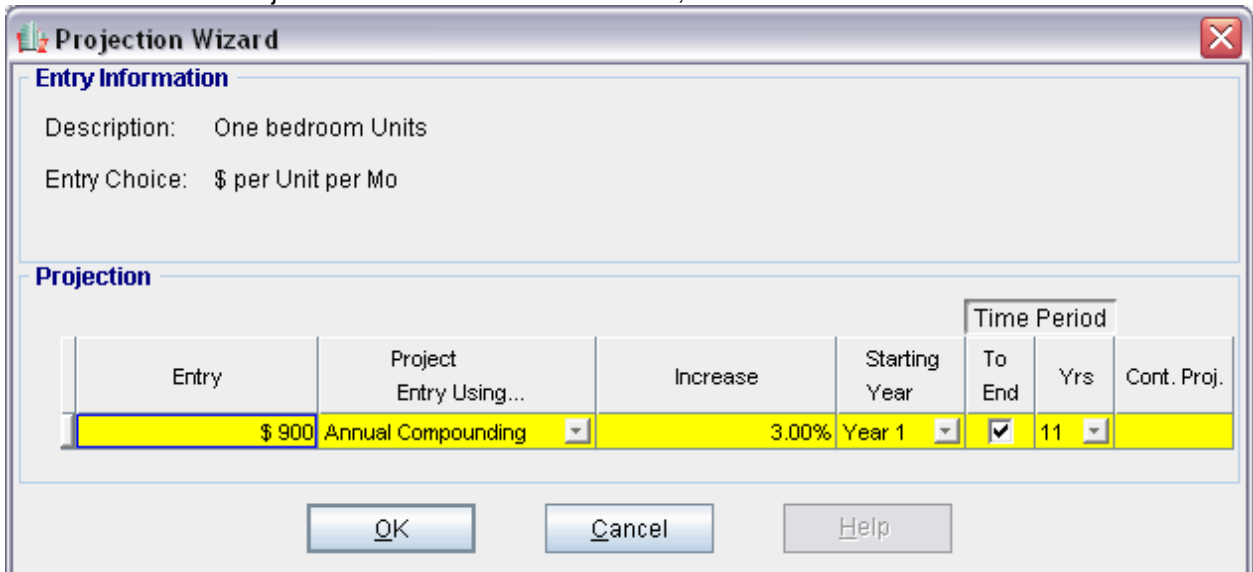
The Revenue folder should now look like this;



Steps for setting up One bedroom units

1. Select row 1 'One Bedroom Units'
2. Click on the  button
In the **Projection Wizard**
3. **Paid column:** Select "Monthly for 12 Months"
4. **Project Entry Using column:** Select "Annual Compounding"
5. **Entry column:** Enter \$900
6. **Time Period column:** Check the "To End" box. This allows the projection to continue until the end of the 11 year Period
7. **Increase column:** Enter the Compounding Rate of 3.00%


Your entries in the Projection Wizard should look like this;



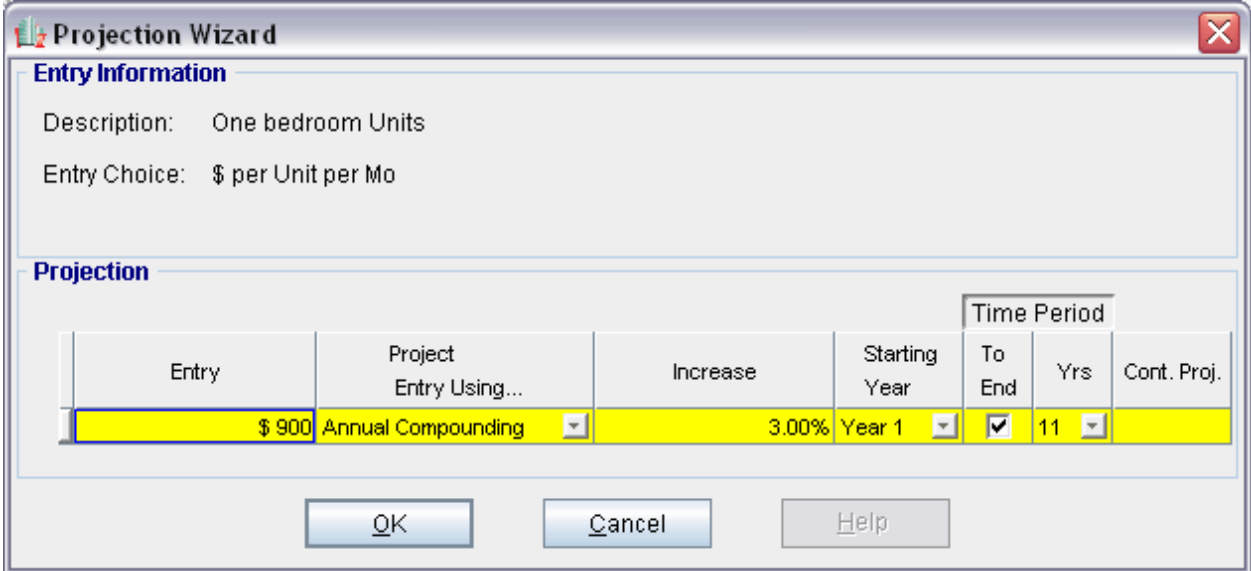
Press OK to return to the Revenue folder

Steps for setting up Two Bedroom Units

1. Select row 2 'Two Bedroom Units'

2. Click on the  button
In the **Projection Wizard**
3. **Paid column:** Select “Monthly for 12 Months”
4. **Project Entry Using column:** Select “Annual Compounding”
5. **Entry column:** Enter \$1,100
6. **Time Period column:** Check the “To End” box. This allows the projection to continue until the end of the 11 year Period
7. **Increase column:** Enter the Compounding Rate of 4.00%


Your entries in the Projection Wizard should look like this;



Entry	Project Entry Using...	Increase	Starting Year	Time Period		Cont. Proj.
				To End	Yrs	
\$ 900	Annual Compounding	3.00%	Year 1	<input checked="" type="checkbox"/>	11	<input type="checkbox"/>

Press OK to return to the Revenue folder

Steps for setting up Laundry

1. Select row 3 ‘Laundry’
2. Click on the  button
In the **Projection Wizard**
3. **Paid column:** Select “Monthly for 12 Months”
4. **Project Entry Using column:** Select “Annual Compounding”
5. **Entry column:** Enter \$15
6. **Time Period column:** Check the “To End” box. This allows the projection to continue until the end of the 11 year Period
7. **Increase column:** Enter the Compounding Rate of 5.00%

Your entries in the Projection Wizard should look like this;

Projection Wizard

Entry Information

Description: Laundry
 Entry Choice: \$ per Unit x Total No.of Units per Mo


Projection

Entry	Project Entry Using...	Increase	Starting Year	Time Period		Cont. Proj.
				To End	Yrs	
\$ 15	Annual Compounding	5.00%	Year 1	<input checked="" type="checkbox"/>	11	

Buttons: OK, Cancel, Help

Press OK to return to the Revenue folder

Steps for setting up Parking

1. Select row 4 'Parking'
2. Click on the  button
 In the **Projection Wizard**
3. **Paid column:** Select "Monthly for 12 Months"
4. **Project Entry Using column:** Select "Annual Compounding"
5. **Entry column:** Enter \$40
6. **Time Period column:** Check the "To End" box. This allows the projection to continue until the end of the 11 year Period
7. **Increase column:** Enter the Compounding Rate of 5.00%

Your entries in the Projection Wizard should look like this;

Projection Wizard

Entry Information

Description: Parking
 Entry Choice: \$ per Space per Mo

Projection

Entry	Project Entry Using...	Increase	Starting Year	Time Period		Cont. Proj.
				To End	Yrs	
\$ 40.00	Annual Compounding	5.00%	Year 1	<input checked="" type="checkbox"/>	11	

Buttons: OK, Cancel, Help

Press OK to return to the Revenue folder

VACANCY Folder

One bedroom Units

2.00% constant over the full period

Two Bedroom Units

3.00% constant over the full period

Laundry

3.00% constant over the full period

Parking

0.00% constant over the full period

Steps for entering the Vacancy


Note: Detailed Entries should be the default selection

This project uses Detailed Entries vacancies so leave as default

Entering the One Bedroom Units

1. Select row 1 'One Bedroom Units'
2. Year 1 Jan...: Enter 2.00%
3. Press the  button

Entering the Two Bedroom Units

4. Select row 2 'Two Bedroom Units'
5. Year 1 Jan...: Enter 3.00%
6. Press the  button

Entering the Laundry

7. Select row 3 'Laundry'
8. Year 1 Jan...: Enter 3.00%
9. Press the  button

Entering the Parking

10. Parking is at 0.00% so leave as is

Select the Financing tab

FINANCING Folder

Mortgage (Borrowing)

Type: Standard Mortgage

Year 1 January, \$2,000,000

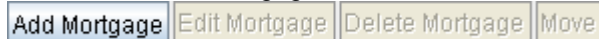
Time Period 10 years

Amortization Period: 25 years

Interest Rate 7.50%

Setting up a mortgage

1. Click on the Financing folder tab
2. Click on the Add Mortgage button



3. Amount box: \$2,000,000
4. Description box: "First Mortgage"
5. Time Period box: 10 Years

6. Amortization box: 25 Years
7. Nominal Interest Rate box: 7.50%

The mortgage dialog should look like this;

Mortgage

Mortgage Details

Analysis Period: Year 1 Jan to Year 10 Dec

Commencing Year 1 Month January

Type Standard Mortgage

Amount \$ 2,000,000 Interest Rate Fixed

Description First Mortgage

Mortgage Settings

Payment Frequency Monthly

Additional Payments/Borrowing

Payment Rounded Up to Nearest Cent

Compounding Frequency Monthly

Terms and Amortization Details

No of (Balloon) Terms 1

Term No	Time Period		Amortization		Nominal Interest Rate
	Years	Months	Years	Months	
1	10	0	25	0	7.500%

OK Compute Fill Down Cancel Help Comments

8. Press the **Compute** button
9. Press the OK button to return to the Financing folder

The financing folder should now look like this;

Investor Express - Rental Apartment Building Express

File Edit Reports Tools Utilites Investit Activation Help

My Company Info. Property Info. Client Info. Notes

Project Info. Investor Investment Expenses Revenue Vacancy **Financing** Sale

Mortgage (Borrowing)

Description	Type	Amount	Start Date
First Mortgage	Standard Mortgage	\$ 2,000,000	Year 1 Jan

Add Mortgage Edit Mortgage Delete Mortgage Move

Tenant Loans

Description	Type	Amount	Start Date
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Add Loan Edit Loan Delete Loan Move

Template: Invest Rental Units Yearly

Select the Sale folder

SALE Folder

Real Estate Commissions

5.00% of Sale Price

The Real Estate Commission should appear like this;



The screenshot shows a dialog box titled "Real Estate Commission". It contains a dropdown menu set to "Fixed Percentage of Sale Price" and a text input field containing "0.00%".

Entering the Real Estate Commission

1. Enter 5.00% in the appropriate box

The Real Estate Commission should now look like this;



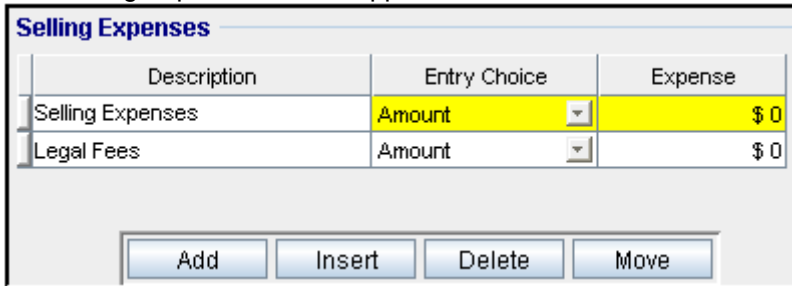
The screenshot shows the same dialog box as before, but the text input field now contains "5.00%".

Selling Expenses

Selling Expenses: \$6,000

Legal Fees: \$3,000

The Selling Expenses should appear like this;



The screenshot shows a table titled "Selling Expenses" with three columns: Description, Entry Choice, and Expense. The first row is highlighted in yellow.

Description	Entry Choice	Expense
Selling Expenses	Amount	\$ 0
Legal Fees	Amount	\$ 0

Below the table are four buttons: Add, Insert, Delete, and Move.

Entering the Selling Expenses

1. Select row 1 'Selling Expenses'
2. Expense: \$6,000
3. Select row 2: 'Legal Fees'
4. Enter Expense: \$3,000

The Selling Expenses should now look like this;

Selling Expenses		
Description	Entry Choice	Expense
Selling Expenses	Amount	\$ 6,000
Legal Expenses	Amount	\$ 3,000

Sale Price

Based on a Cap Rate of 7.00% using the Income for the year following the Sale i.e., based on the Income & Expenses for year 11.

The Sale Price Estimator should appear like this;

Sale Price Estimator	
<input type="button" value="Sale Price Wizard"/>	
\$ 0	

1. Press the button

The Sale Price Wizard dialog will pop up;

Financial Measure	Based on the income for the last year		Based on the income for the year following the Sale	
	Sale Price		Sale Price	
Potential Gross Income Multiplier	<input type="text" value="0.00"/>	<input type="text" value="\$ 0"/>	<input type="text" value="0.00"/>	<input type="text" value="\$ 0"/>
Effective Gross Income Multiplier	<input type="text" value="0.00"/>	<input type="text" value="\$ 0"/>	<input type="text" value="0.00"/>	<input type="text" value="\$ 0"/>
Cap Rate	<input type="text" value="0.00%"/>	<input type="text" value="\$ 0"/>	<input type="text" value="0.00%"/>	<input type="text" value="\$ 0"/>
Net Income Multiplier	<input type="text" value="0.00"/>	<input type="text" value="\$ 0"/>	<input type="text" value="0.00"/>	<input type="text" value="\$ 0"/>
Compound Annual Growth Rate	<input type="text" value="0.00%"/>	<input type="text" value="\$ 0"/>	<input type="radio"/> Enter Your Own Estimation	
Uniform Annual Increase	<input type="text" value="0.00%"/>	<input type="text" value="\$ 0"/>		

For this example we are using a Cap Rate

Row 1

1. In the second entry field to the right of Cap Rate: enter 7.00%
Note: the field with the red box around it is the correct field on the above screenshot
The Sale Price should now automatically appear in the field to the right

2. Click on the selection box next to the Sale Price
Note: the correct field is circled in red on the above screenshot

The Sale Price Wizard should now look like this;

Financial Measure	Based on the income for the last year		Based on the income for the year following the Sale	
		Sale Price		Sale Price
Potential Gross Income Multiplier	0.00	\$ 0	0.00	\$ 0
Effective Gross Income Multiplier	0.00	\$ 0	0.00	\$ 0
Cap Rate	0.00%	\$ 0	7.00%	\$ 5,205,434
Net Income Multiplier	0.00	\$ 0	0.00	\$ 0
Compound Annual Growth Rate	0.00%	\$ 3,590,000	Enter Your Own Estimation	
Uniform Annual Increase	0.00%	\$ 3,590,000		

Buttons: OK, Cancel, Help

Press OK to return to the Sale Price folder

The Sale Price Estimator should now look like this;

Sale Price Estimator

Sale Price Wizard

\$ 5,205,434

SAVE YOUR PROJECT