

INVESTMENT ANALYSIS USA RENTAL APARTMENT EXAMPLE

INTRODUCTION

This example uses the Invest Rental Units example which doesn't use a rent roll

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: Investment Analysis Rental Units 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): 11.00%

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 \$95,000 per Year paid every 12 months increasing by 4.00% per year compounded

Insurance

Year 1 Jan \$45,000 per Year paid every 12 months increasing by 5.00% per year compounded

Maintenance

Year 1 Jan \$400 per Unit x Total No. of Units per Year paid monthly for 12 months increasing by 4.00% per year compounded

Resident Caretaker

Year 1 Jan \$3,000 per month paid monthly for 12 months monthly then increasing by 4.00% per year compounded

Property Management

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 paid monthly for 12 months then increasing at 3.00% per year compounding

Two Bedroom Units

No. of Units: 15

\$1,100 per unit per month paid monthly for 12 months then increasing at 4.00% per year compounding

Laundry

\$15 per Unit x Total No. of Units per Mo paid monthly for 12 months then increasing at 5.00% per years compounding

Parking

No. of Spaces: 50

\$40 per Space per Mo paid monthly for 12 months then increasing at 5.00% per year compounding

VACANCY Folder

One bedroom Units

2.00% 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

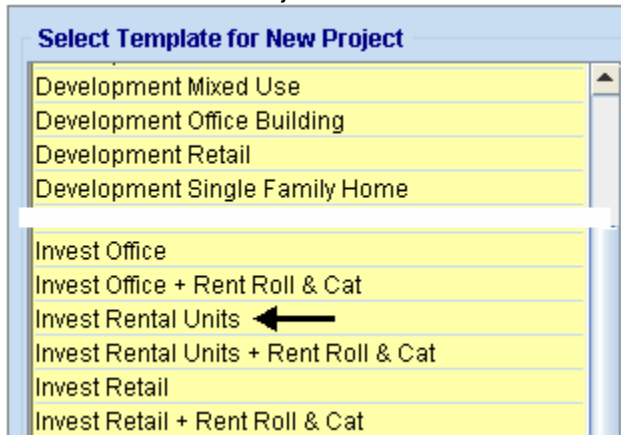
Based on a Cap Rate of 7.00% using the Income for the year following the Sale i.e., based on the Income & Expenses for year 11.

INSTRUCTIONS FOR ENTERING THE PROJECT INTO INVESTOR PRO

Getting started

The first step is to open the Investit Template “Invest Rental Units” as follows:

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



3. Select and open the Investit template “Invest Rental Units” 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: Investment Analysis Rental Units 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;

The screenshot shows the 'Investor Pro USA' software interface. The main window is titled 'Investor Pro USA' and has a menu bar with 'File', 'Edit', 'Reports', 'Tools', 'Utilities', 'Investit', and 'Help'. Below the menu bar are several buttons: 'My Company Info.', 'Property Info.', 'Client Info.', 'Goal Seeking', and 'Notes'. The interface is divided into several sections:

- Project Info.**: Includes 'Property Name' (Parklane Place 40 Unit Apartment Building), 'Description' (Investment Analysis Rental Units Example), 'Total Purchase Price' section with 'Purchase Price' (\$3,500,000), 'Acquisition Costs' (2.00% of Purchase Price), and 'Total Purchase Price' (\$3,570,000). It also has an 'Analysis Time Period' set to 10 Years and 'Entry Information' set to Monthly.
- Building**: Includes 'Building Area' (38,000 Sq. Ft.), 'Rental Units' section with 'Units, Rentable Area' (36,000 Sq. Ft.) and 'Total No. of Units' (40).
- Land**: Includes 'Land Area' (46,000 Sq. Ft.) and 'Frontage' (320 Ft.).
- Calculate Financial Measures based on**: Includes radio buttons for 'Potential Gross Income' (selected) and 'Effective Gross Income', and an 'Edit Unit of Measure' button.

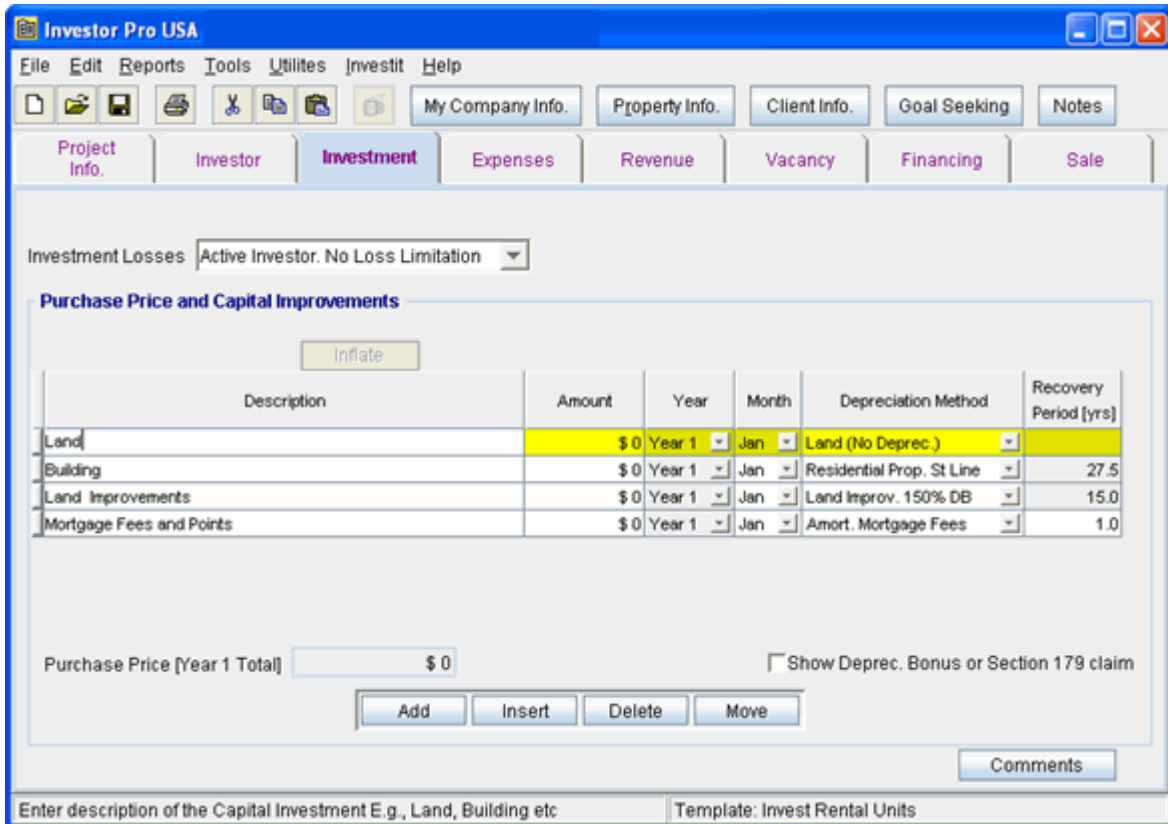
At the bottom right, it says 'Template: Invest Rental Units'.

INVESTOR Folder

1. Enter the Discount Rate Before Tax: 11.00%
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;




First Row

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

Second Row

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

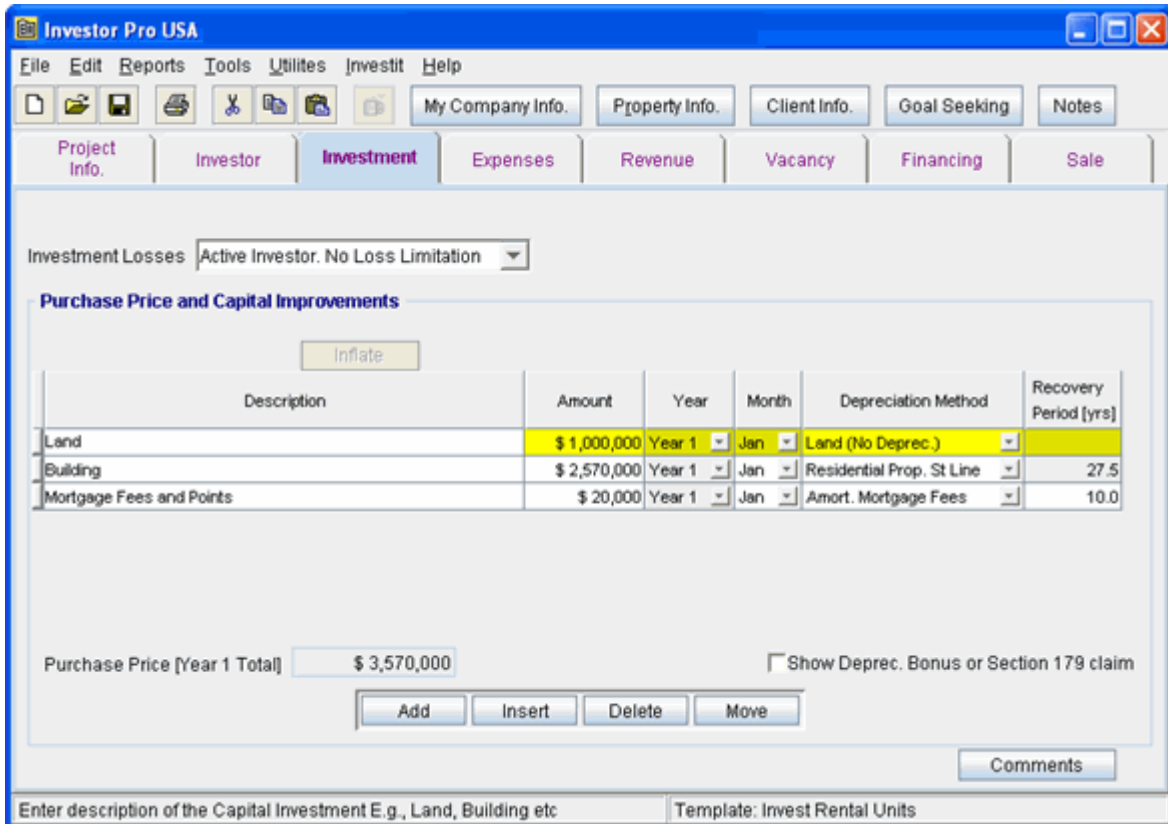
Third Row

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;



EXPENSES Folder

Property Taxes

Year 1 Jan \$95,000 per Year paid every 12 months increasing by 4.00% per year compounded

Insurance

Year 1 Jan \$45,000 per Year paid every 12 months increasing by 5.00% per year compounded

Maintenance

Year 1 Jan \$400 per Unit x Total No. of Units per Year paid monthly for 12 months increasing by 4.00% per year compounded

Resident Caretaker

Year 1 Jan \$3,000 per month paid monthly for 12 months monthly then increasing by 4.00% per year compounded

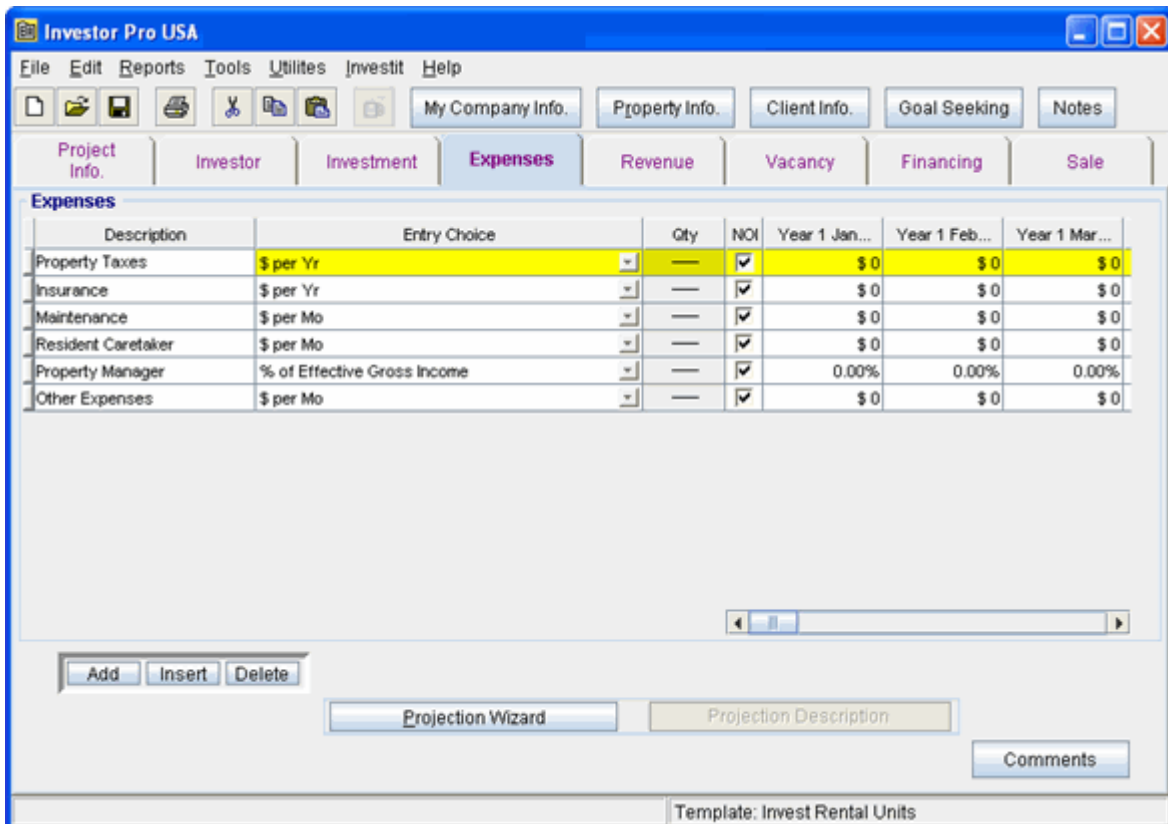
Property Management

4.00% of Effective Gross Income

Other Expenses

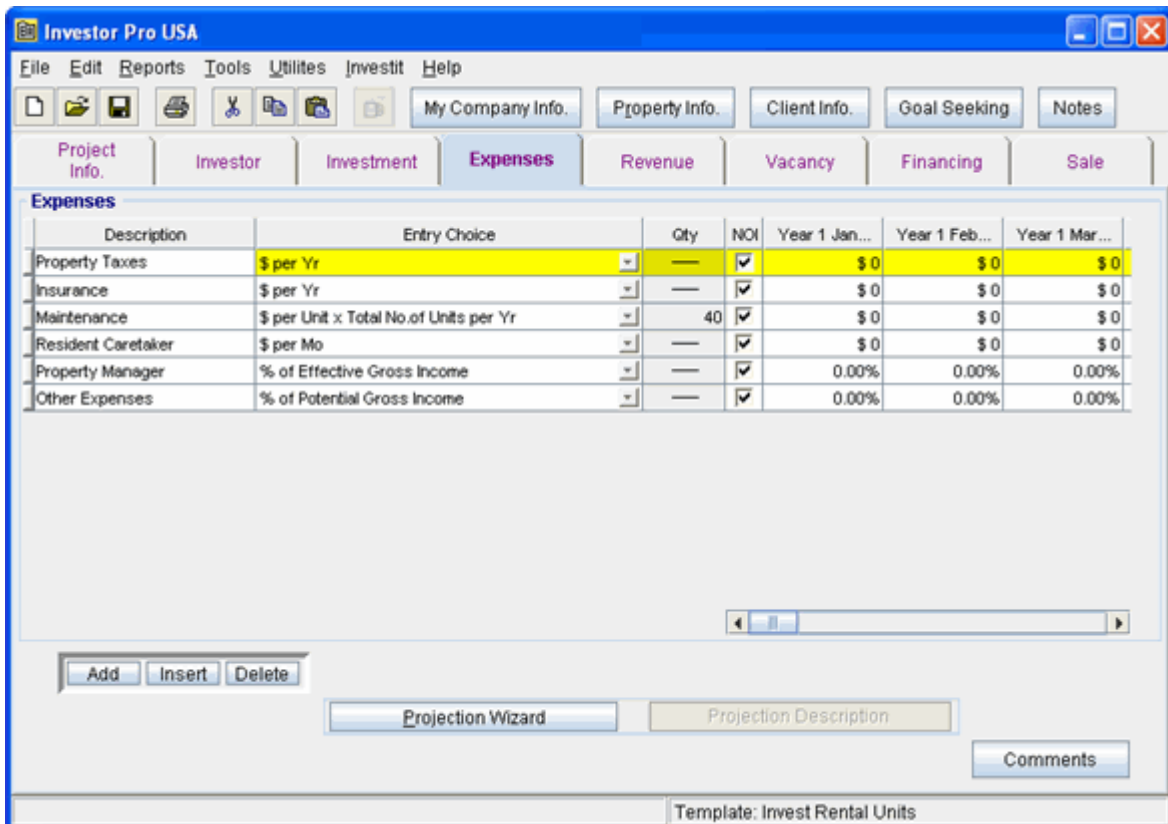
3.00% of Potential Gross Income

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"

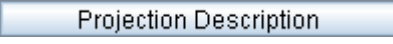
The Expenses folder should now look like this;

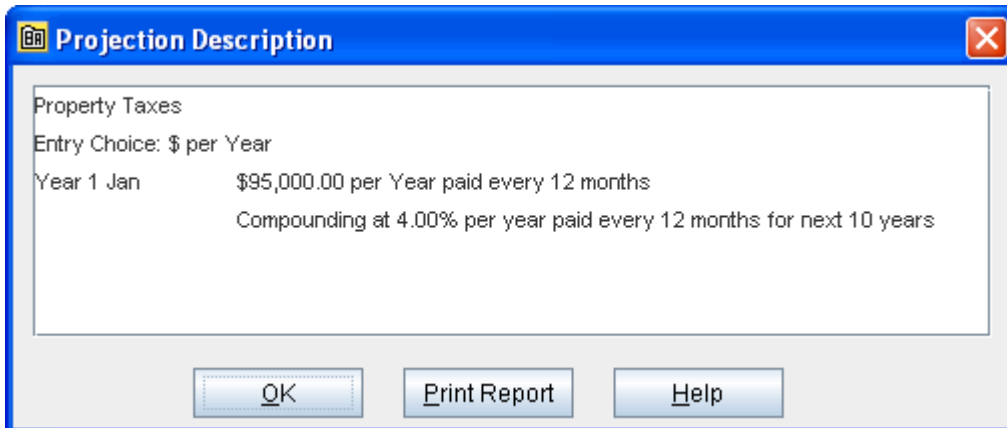


Steps for setting up Property Taxes

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

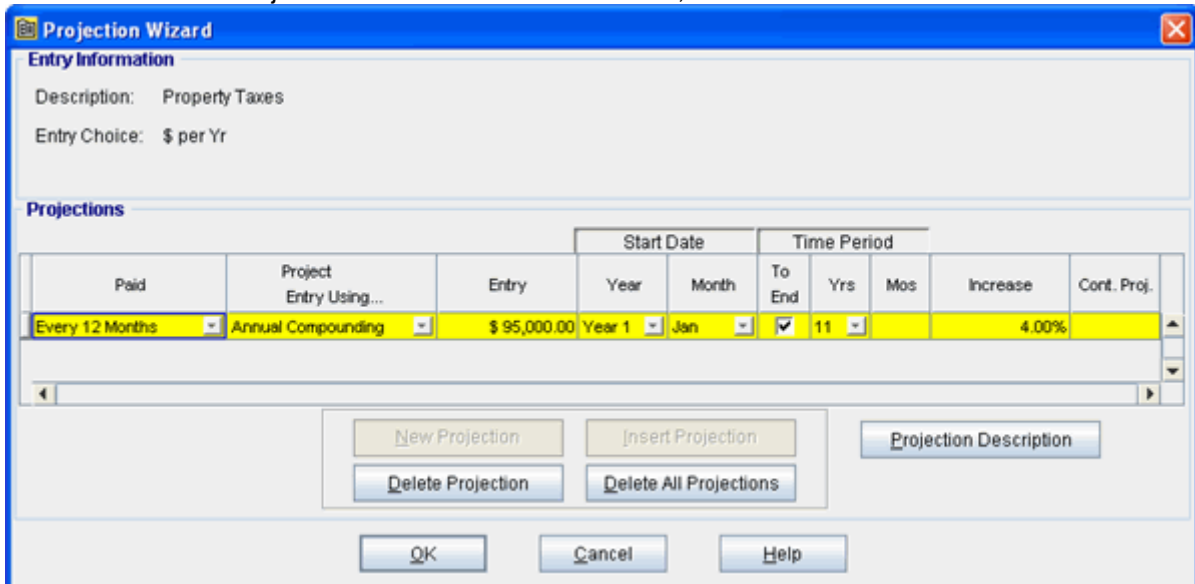
3. **Paid column:** Select "Every 12 Months"
4. **Project Entry Using column:** Select "Annual Compounding"
5. **Entry column:** Enter \$95,000.00
6. **Time Period column:** Check the "To End" box. This allows the projection to continue until the end of the 11 year Period
7. **Increase column:** Enter the Compounding Rate of 4.00%

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

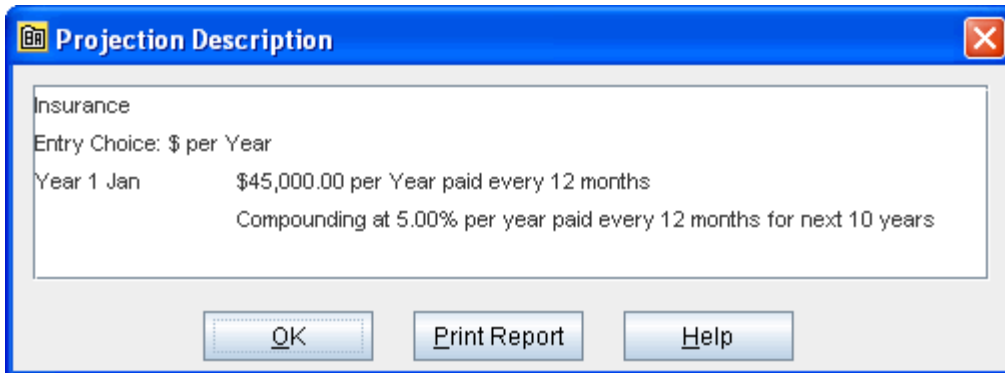
Steps for setting up Insurance

1. Select row 2 'Insurance'
2. Click on the  button

In the **Projection Wizard**

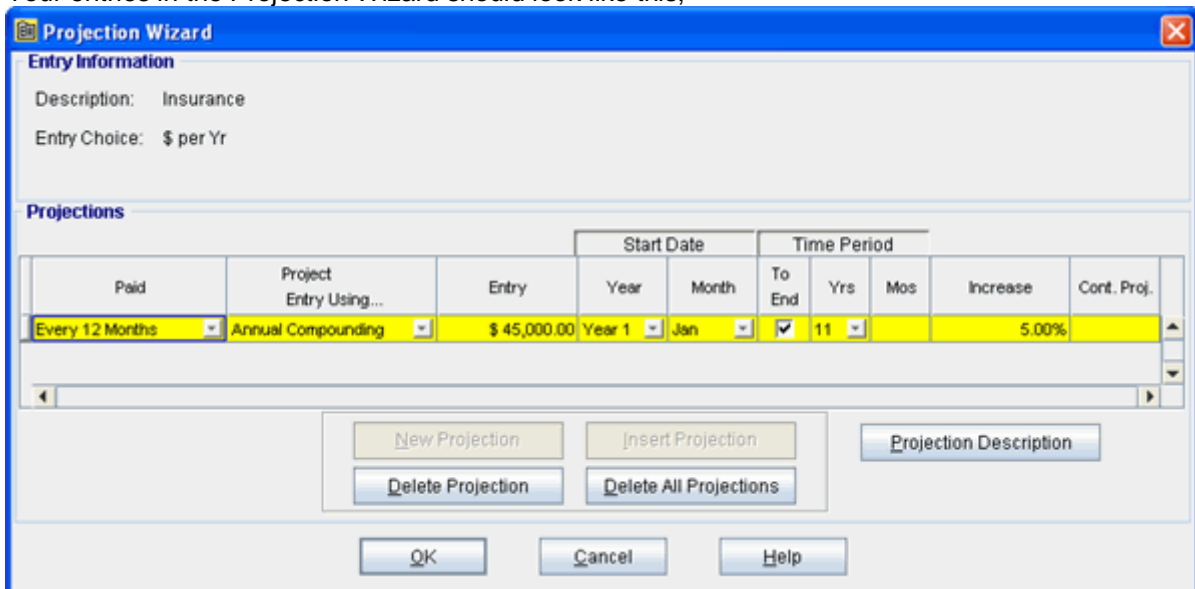
3. **Paid column:** Select "Every 12 Months"
4. **Project Entry Using column:** Select "Annual Compounding"
5. **Entry column:** Enter \$45,000.00
6. **Time Period column:** Check the "To End" box. This allows the projection to continue until the end of the 11 year Period
7. **Increase column:** Enter the Compounding Rate of 5.00%

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

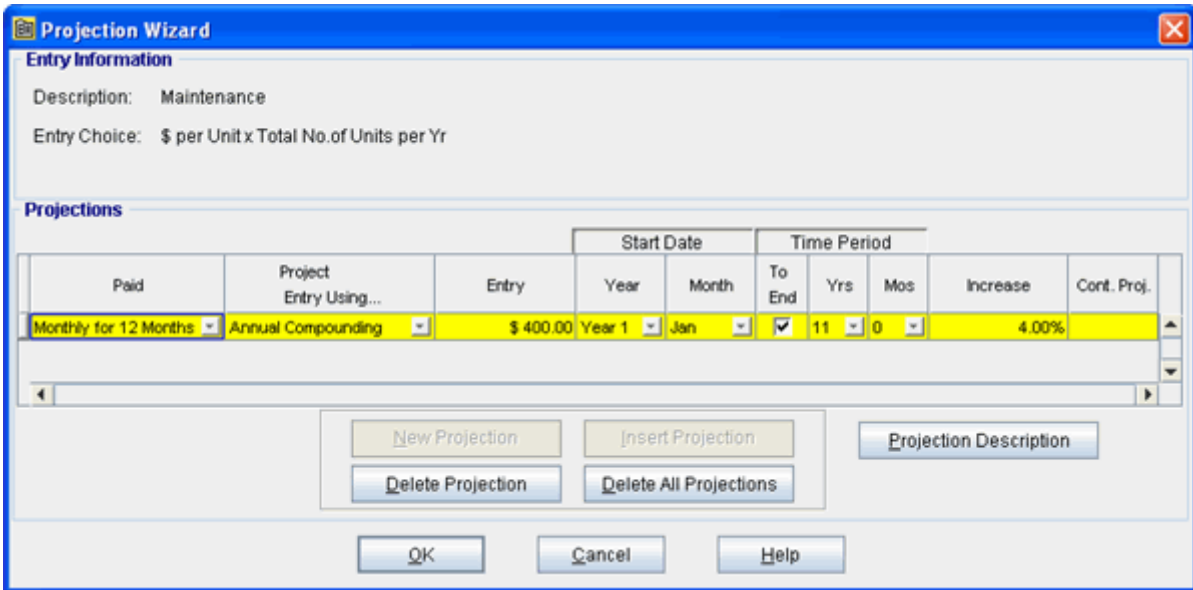
1. Select row 3 'Maintenance'
2. Click on the  button

In the **Projection Wizard**

3. **Paid column:** Select "Monthly for 12 Months"
4. **Project Entry Using column:** Select "Annual Compounding"
5. **Entry column:** Enter \$400.00
6. **Time Period column:** Check the "To End" box. This allows the projection to continue until the end of the 11 year Period


Increase column: Enter the Compounding Rate of 4.00%

Your entries in the Projection Wizard should look like this;



Press Ok to return to the Expenses folder

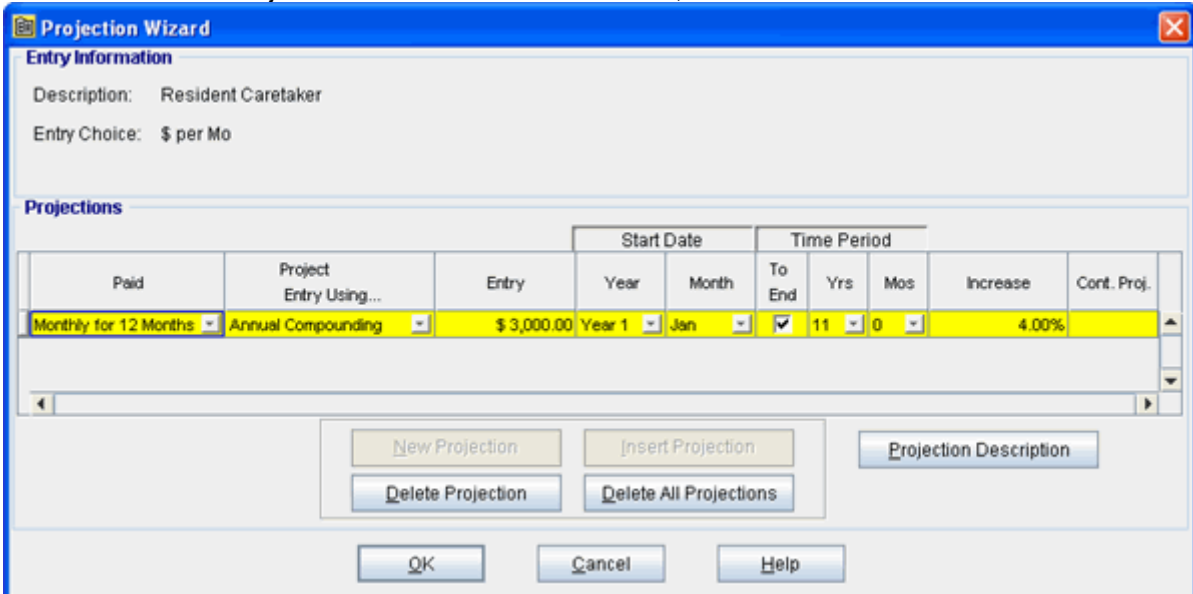
Steps for setting up Resident Caretaker

1. Select row 4 'Resident Caretaker'
2. Click on the  button
In the **Projection Wizard**

3. **Paid column:** Select "Monthly for 12 Months"
4. **Project Entry Using column:** Select "Annual Compounding"
5. **Entry column:** Enter \$3,000.00
6. **Time Period column:** Check the "To End" box. This allows the projection to continue until the end of the 11 year Period

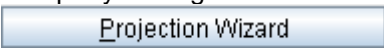
Increase column: Enter the Compounding Rate of 4.00%

Your entries in the Projection Wizard should look like this;



Press OK to return to the Expenses folder

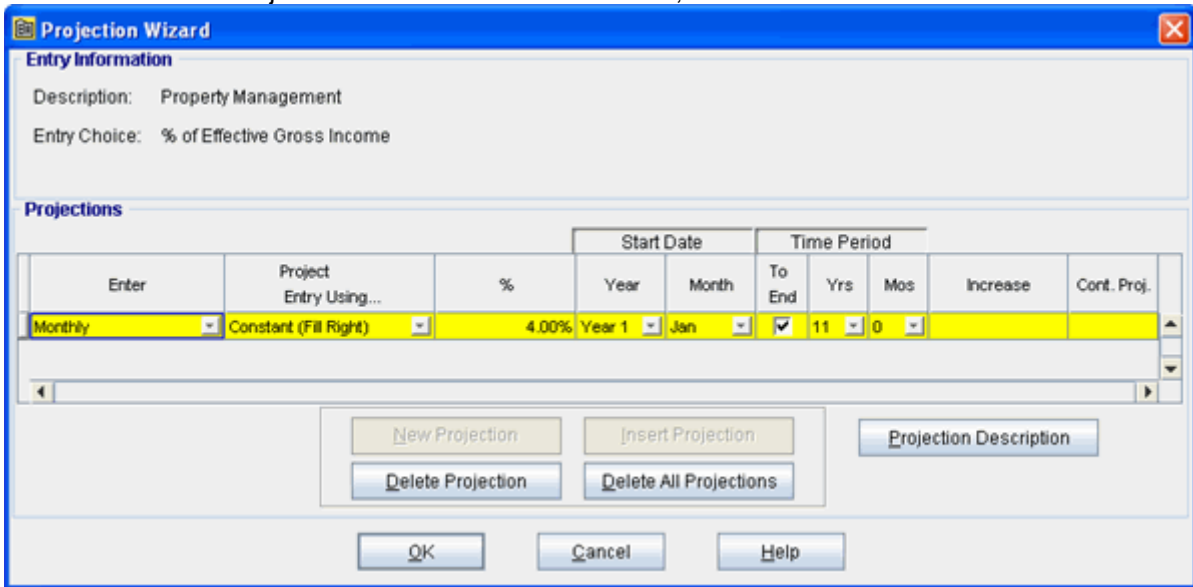
Steps for setting up Property Management

1. Select row 5 'Property Management'
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;



Enter	Project Entry Using...	%	Start Date		Time Period			Increase	Cont. Proj.
			Year	Month	To End	Yrs	Mos		
Monthly	Constant (Fill Right)	4.00%	Year 1	Jan	<input checked="" type="checkbox"/>	11	0		

Press Ok to return to the Expenses folder

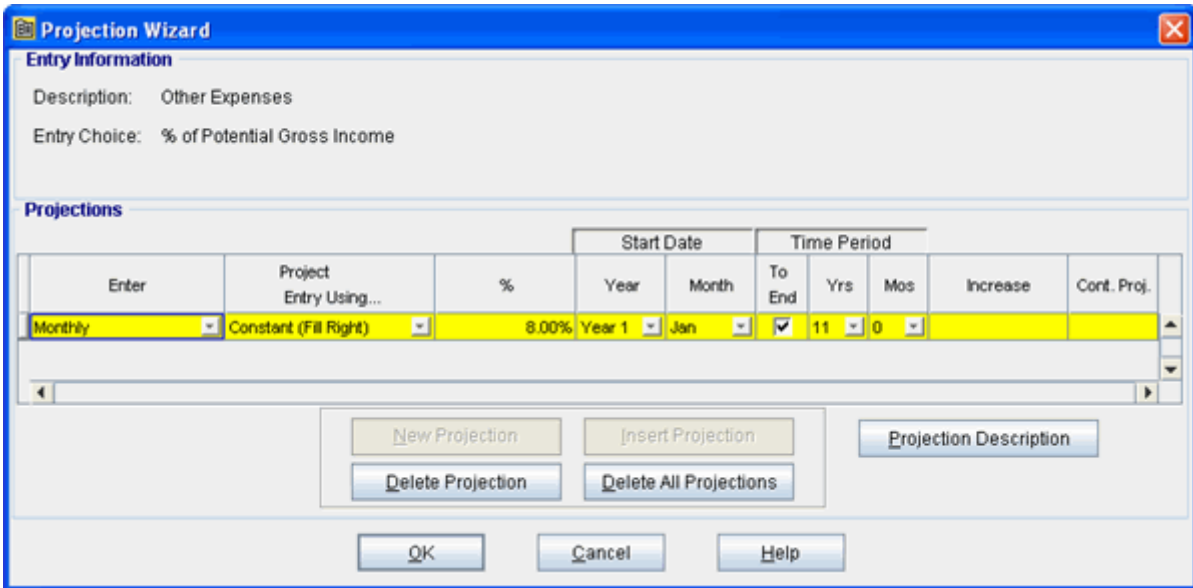
Steps for setting up Other Expenses

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;



Press Ok to return to the Expenses folder

REVENUE Folder

One Bedroom Units

No. of Units: 25

\$900 per unit per month paid monthly for 12 months then increasing at 3.00% per year compounding

Two Bedroom Units

No. of Units: 15

\$1,100 per unit per month paid monthly for 12 months then increasing at 4.00% per year compounding

Laundry

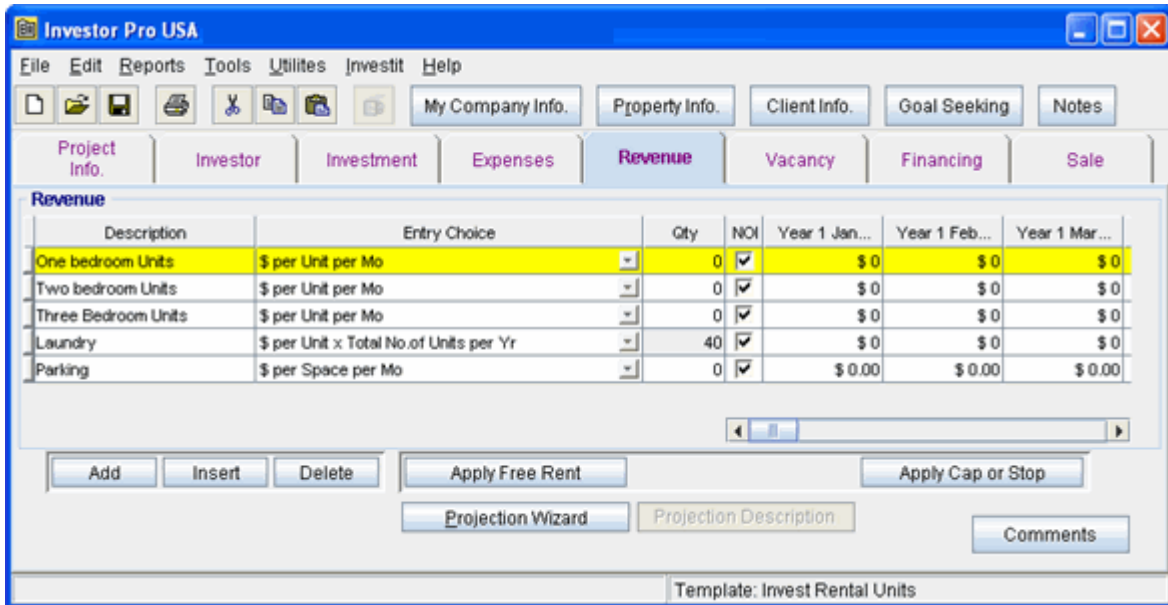
\$15 per Unit of Total No. of Units per Mo paid monthly for 12 months then increasing at 5.00% per years compounding

Parking

No. of Spaces: 50

\$40 per Space per Mo paid monthly for 12 months then increasing at 5.00% per year compounding

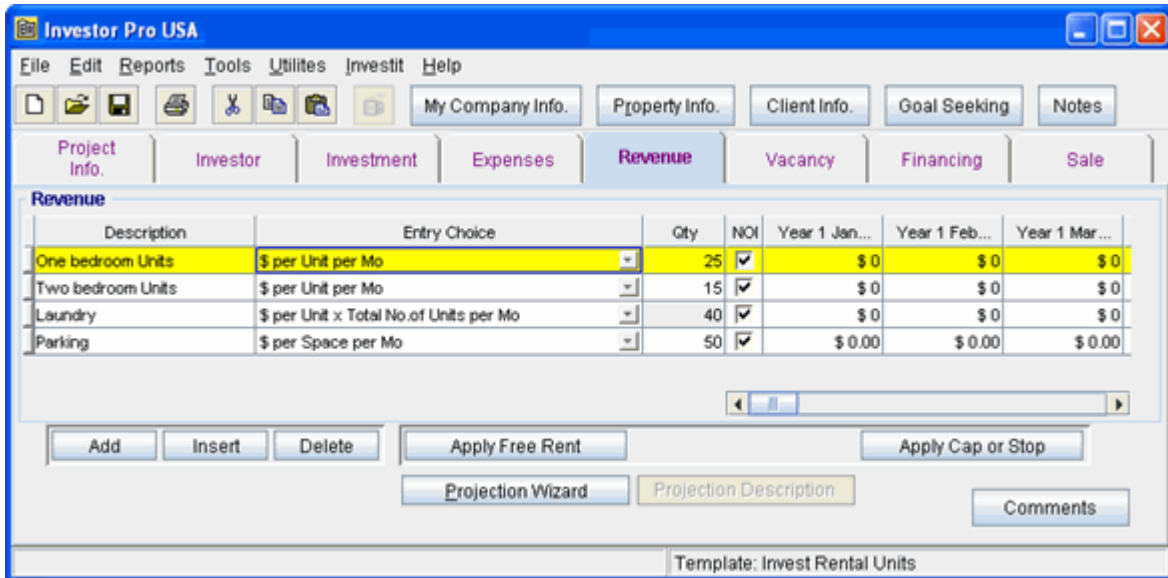
The Revenue folder should appear like this;




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;

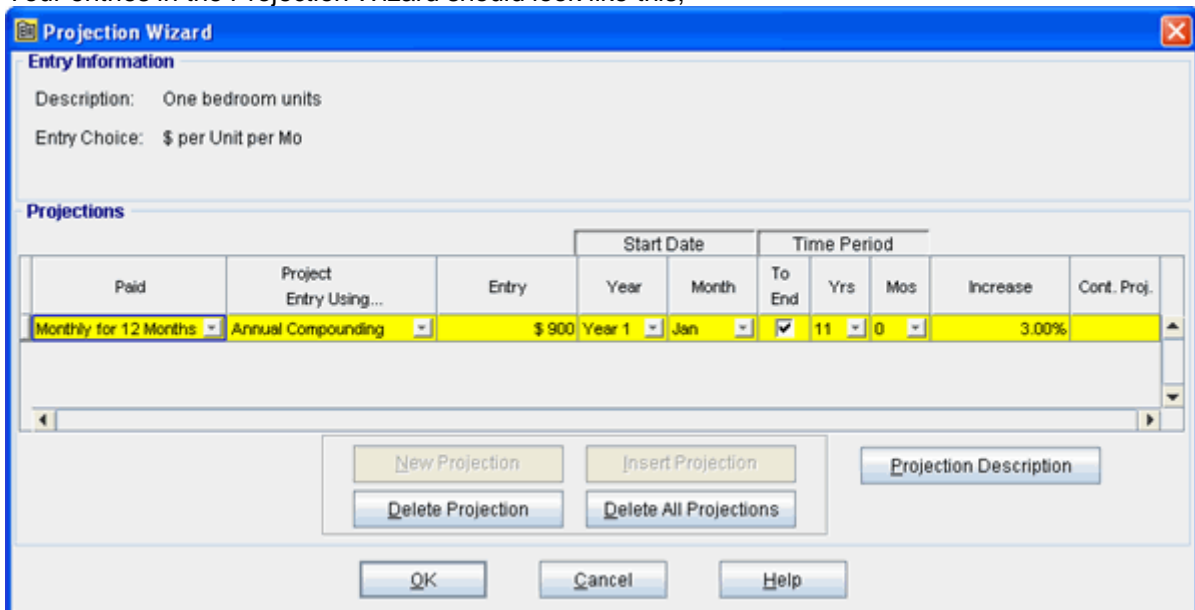


Steps for setting up One bedroom units

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;

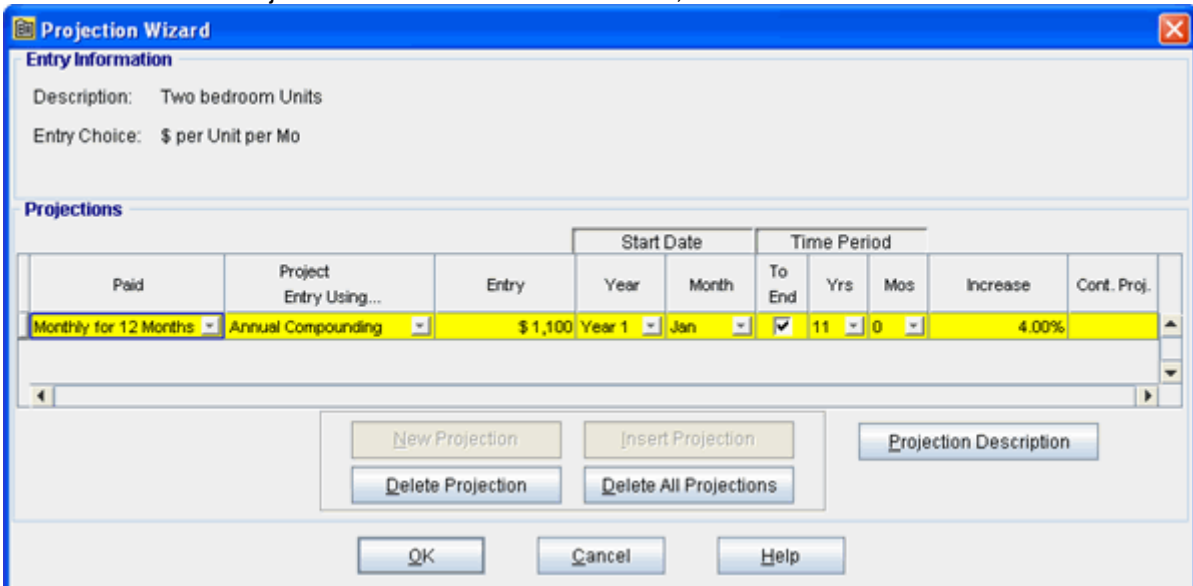


Press OK to return to the Revenue folder

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;

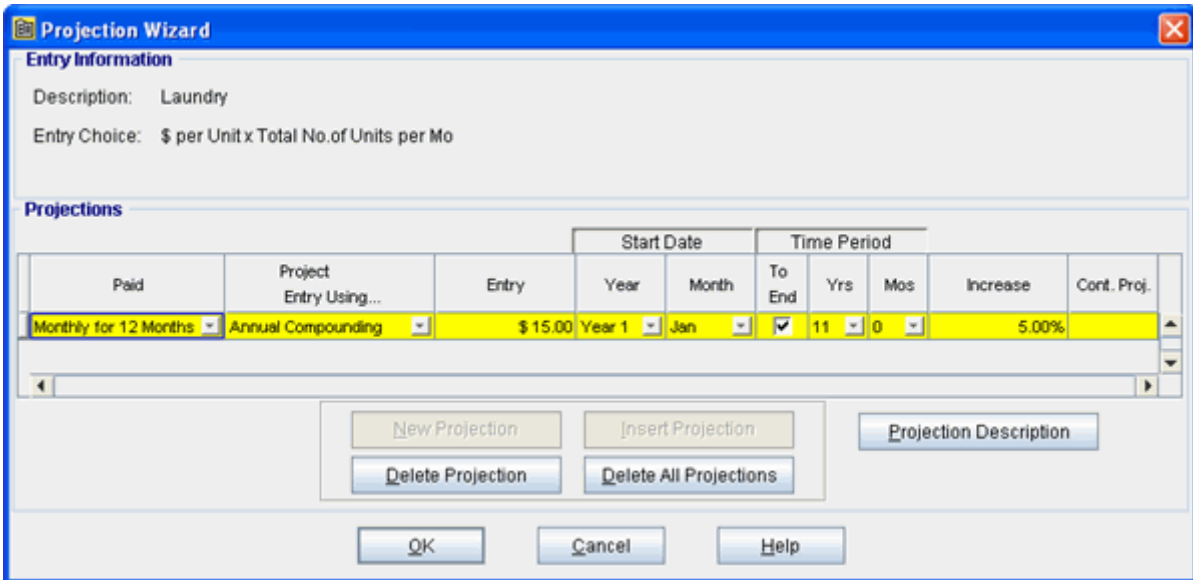


Press OK to return to the Revenue folder

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;

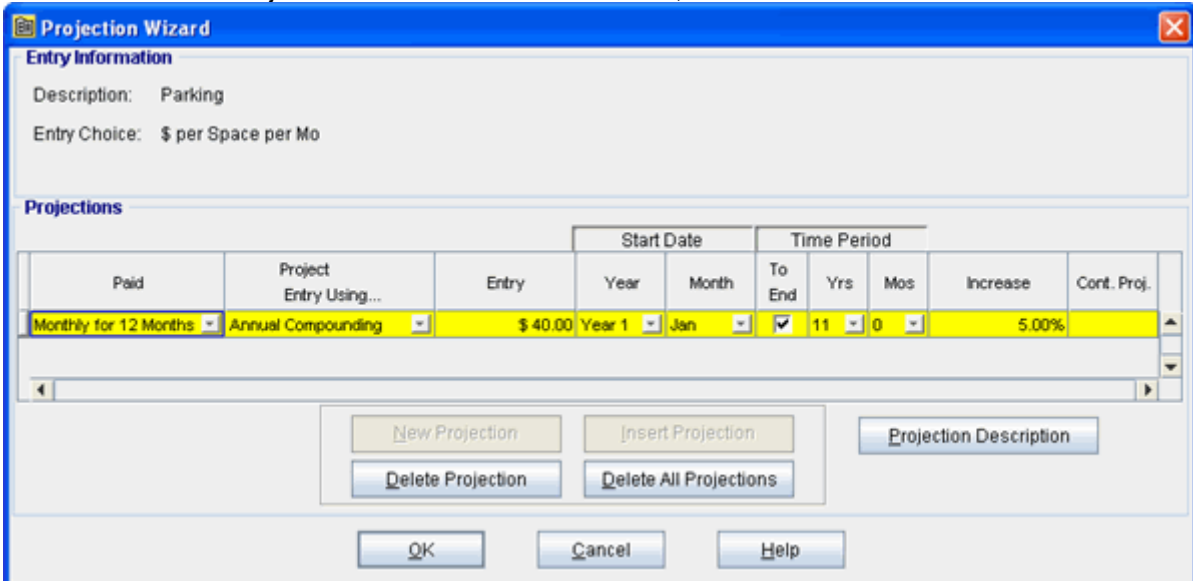


Press OK to return to the Revenue folder

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;



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

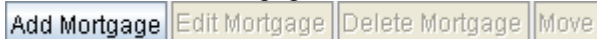
Time Period 10 years

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;

The screenshot shows a 'Mortgage' dialog box with the following sections:

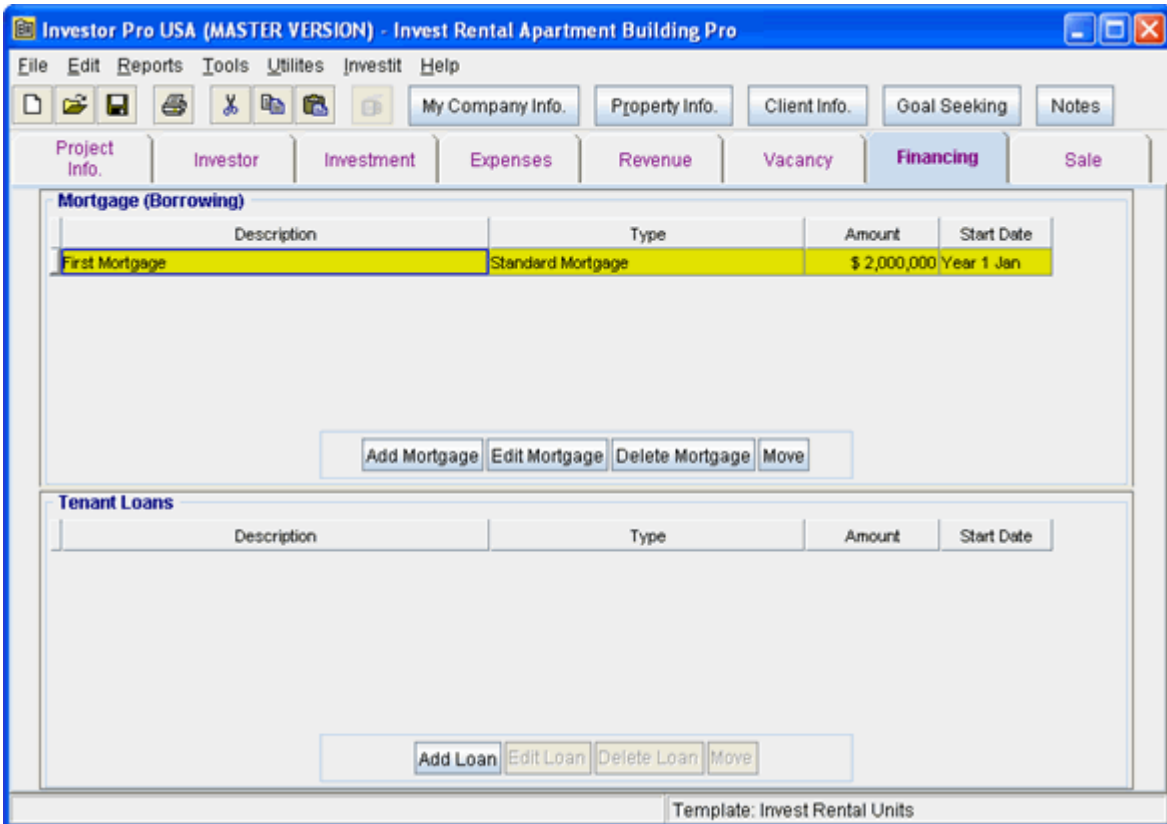
- Mortgage Details:**
 - Analysis Period: Year 1 Jan to Year 10 Dec
 - Commencing: Year 1, Month: January
 - Type: Standard Mortgage
 - Amount: \$ 2,000,000, Interest Rate: Fixed
 - Description: First Mortgage
- Mortgage Settings:**
 - Payment Frequency: Monthly
 - Additional Payments/Borrowing:
 - Payment Rounded: Up to Nearest Cent
 - Compounding Frequency: Monthly
- Terms and Amortization Details:**
 - No of (Balloon) Terms: 1
 - Table with columns: Term No, Time Period (Years, Months), Amortization (Years, Months), and Nominal Interest Rate.

Buttons at the bottom: OK, Compute, Fill Down, Cancel, Help, Comments.

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

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

The financing folder should now look like this;



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 features a dropdown menu with 'Fixed Percentage of Sale Price' selected. Below the dropdown is 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 'Real Estate Commission' dialog box, but now the text input field contains '5.00%'.

Selling Expenses

Selling Expenses: \$6,000

Legal Fees: \$3,000

The Selling Expenses should appear like this;

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

Buttons: Add, Insert, Delete, 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;

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

Buttons: Add, Insert, Delete, Move

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;

Buttons: Sale Price Wizard

Text field: \$ 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	0.00	\$ 0	0.00	\$ 0
Effective Gross Income Multiplier	0.00	\$ 0	0.00	\$ 0
Cap Rate	0.00%	\$ 0	0.00%	\$ 0
Net Income Multiplier	0.00	\$ 0	0.00	\$ 0
Compound Annual Growth Rate	0.00%	\$ 0	<input type="radio"/> Enter Your Own Estimation	
Uniform Annual Increase	0.00%	\$ 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%	\$ 5,010,556
Net Income Multiplier	0.00	\$ 0	0.00	\$ 0
Compound Annual Growth Rate	0.00%	\$ 3,570,000	<input type="radio"/> Enter Your Own Estimation	
Uniform Annual Increase	0.00%	\$ 3,570,000		

Press OK to return to the Sale Price folder

The Sale Price Estimator should now look like this;

Sale Price Estimator

Sale Price Wizard

\$ 5,010,556