

**INVESTMENT ANALYSIS CANADA
RENTAL APARTMENT BUILDING EXAMPLE**

INTRODUCTION

This example uses the 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: 37.00%

Percentage of Capital Gain: 50.00%

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

CCA Class: Building

Description: Furniture & Equipment

Mortgage Fees & Points: \$20,000

CCA Class: Furn/Equip

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

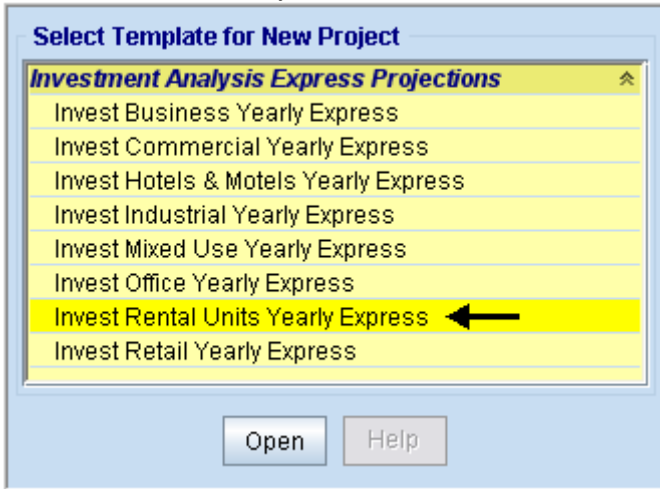
Based on a Cap Rate of 7.00% using the Income for the year following the Sale i.e., based on the Income & Expenses for year 11.

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 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;

The screenshot shows the 'Investor Express - Untitled Project Express' window. The 'Investment' tab is active. Below the menu bar, there are buttons for 'My Company Info.', 'Property Info.', 'Client Info.', and 'Notes'. The 'Investment' tab contains a 'CCA Claim Option' dropdown set to 'Claim CCA up to Taxable Income'. Below this is a section titled 'Purchase Price and Capital Improvements' which contains a table and a 'CCA Claim Setting' panel.

Description	Amount	Year	Month	CCA Class	CCA Rate	First Year	Claim CCA in Last Year
Land	\$ 0	Year 1	Jan	Land			
Building	\$ 0	Year 1	Jan	Building	4.00%	50.00%	<input checked="" type="checkbox"/>
Furniture & Equipment	\$ 0	Year 1	Jan	Furn/Equip	20.00%	50.00%	<input checked="" type="checkbox"/>

Buttons: Add, Insert, Delete, Move, Comments

Template: Invest Rental Units Yearly

First Row

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

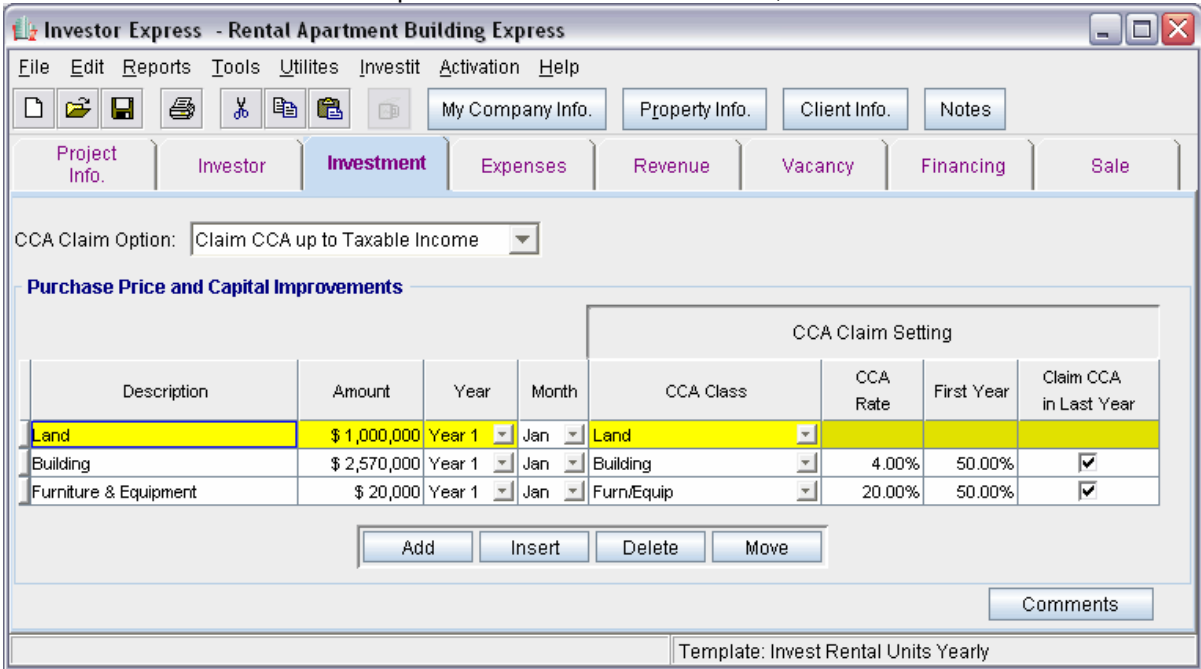
Second Row

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

Third Row

1. Select row with Description 'Furniture & Equipment'
2. Enter Amount: \$20,000

Your entries for the Leasehold improvements should look like this;



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 paid 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

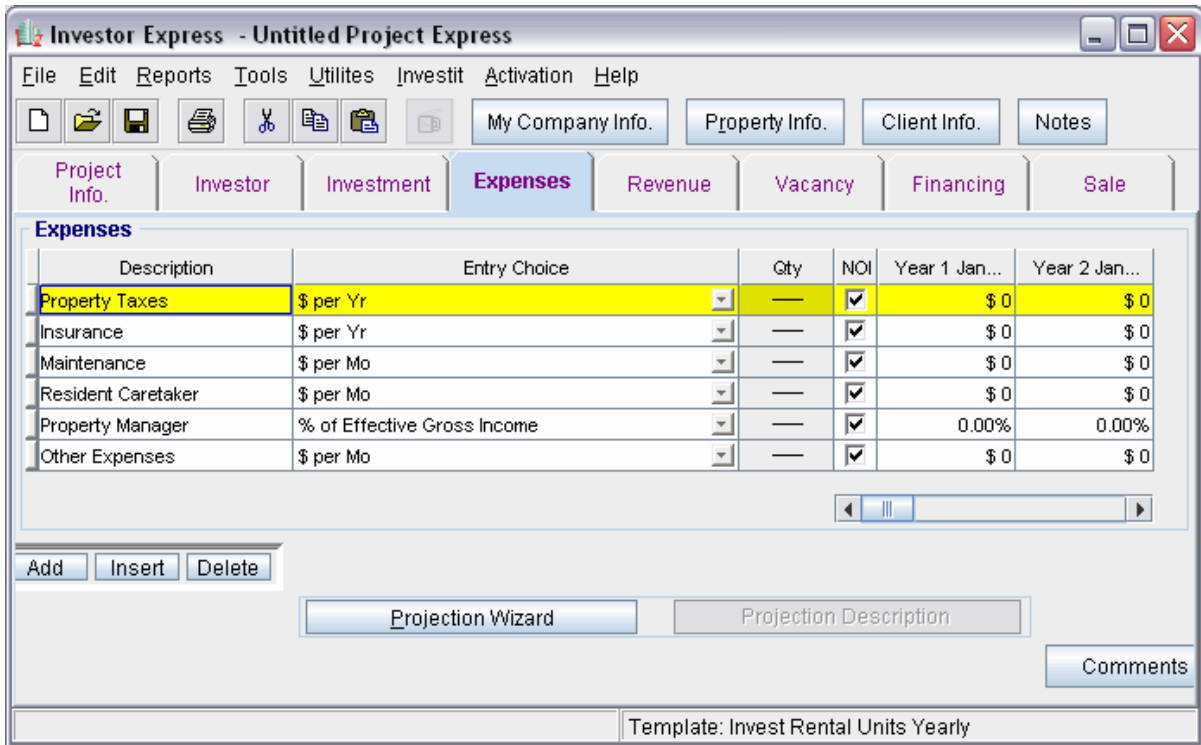
Property Management

4.00% of Effective Gross Income

Other Expenses

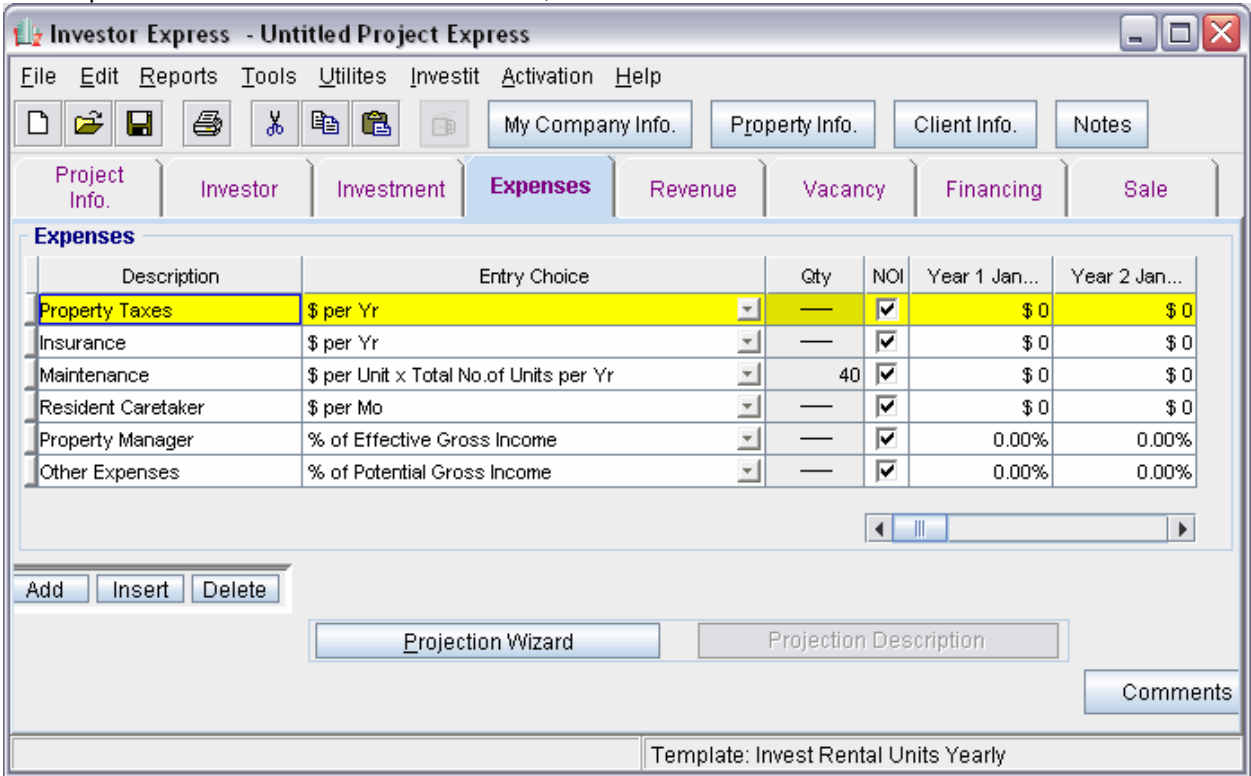
3.00% of Potential Gross Income

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

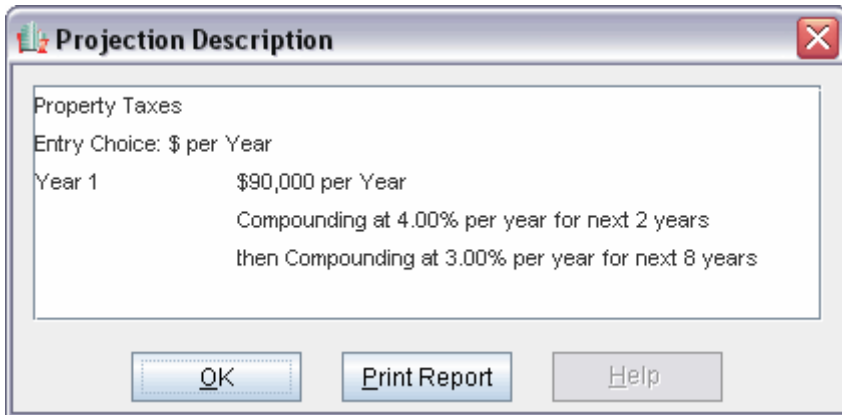
1. Select row 1 'Property Taxes'
2. Click on the  button
In the **Projection Wizard**

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

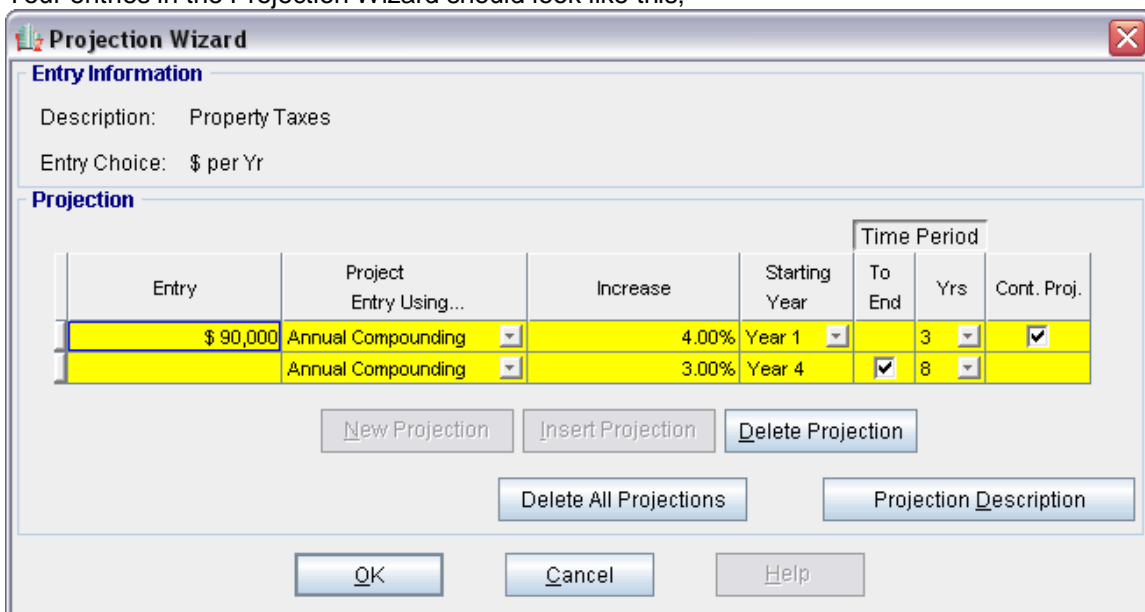
8. **Project Entry Using column:** Select "Annual Compounding"
9. **Increase column:** Enter the Compounding Rate of 4.00%
10. **Time Period column:** Select '3' Years or check the "To End" checkbox

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;




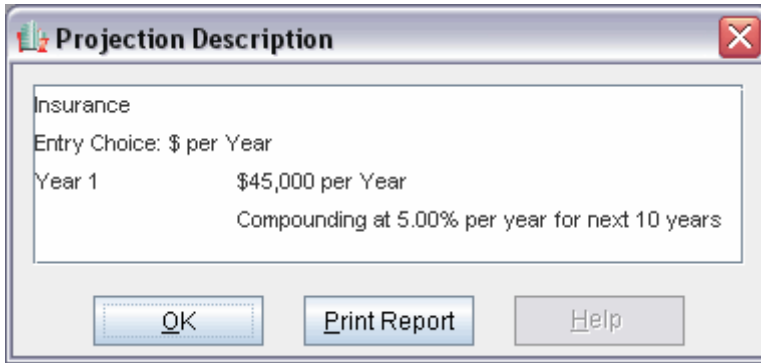
Press OK to return to the Expenses folder

Steps for setting up Insurance

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

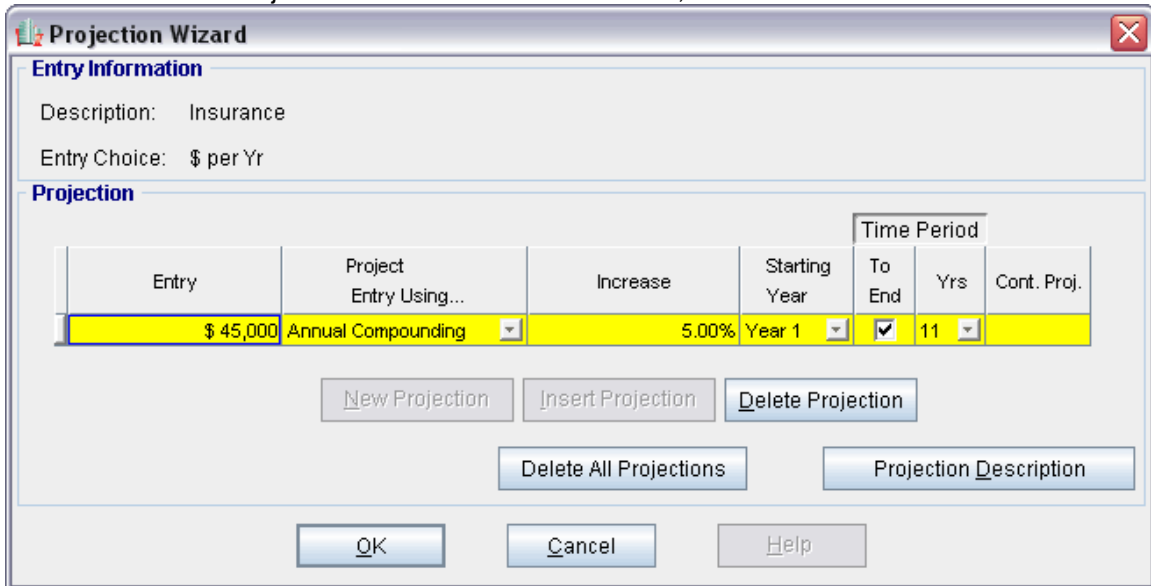
3. **Entry column:** Enter \$45,000.00
4. **Project Entry Using column:** Select "Annual Compounding"
5. **Increase column:** Enter the Compounding Rate of 5.00%
6. **Time Period column:** Check the "To End" box. This allows the projection to continue until the end of the 11 year Period

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

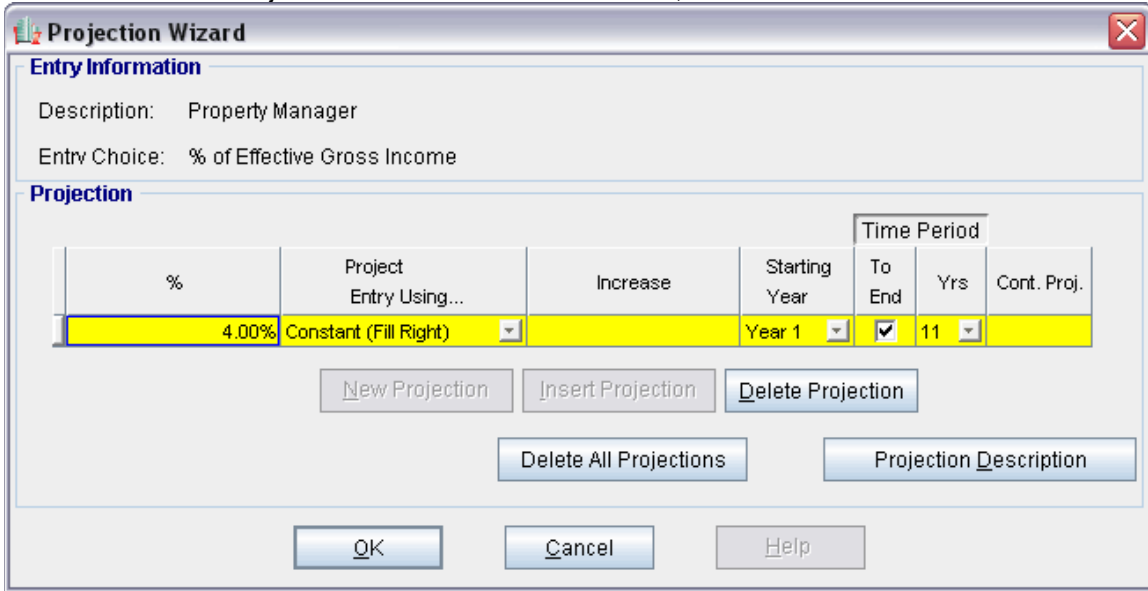
Steps for setting up Property Manager

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	

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

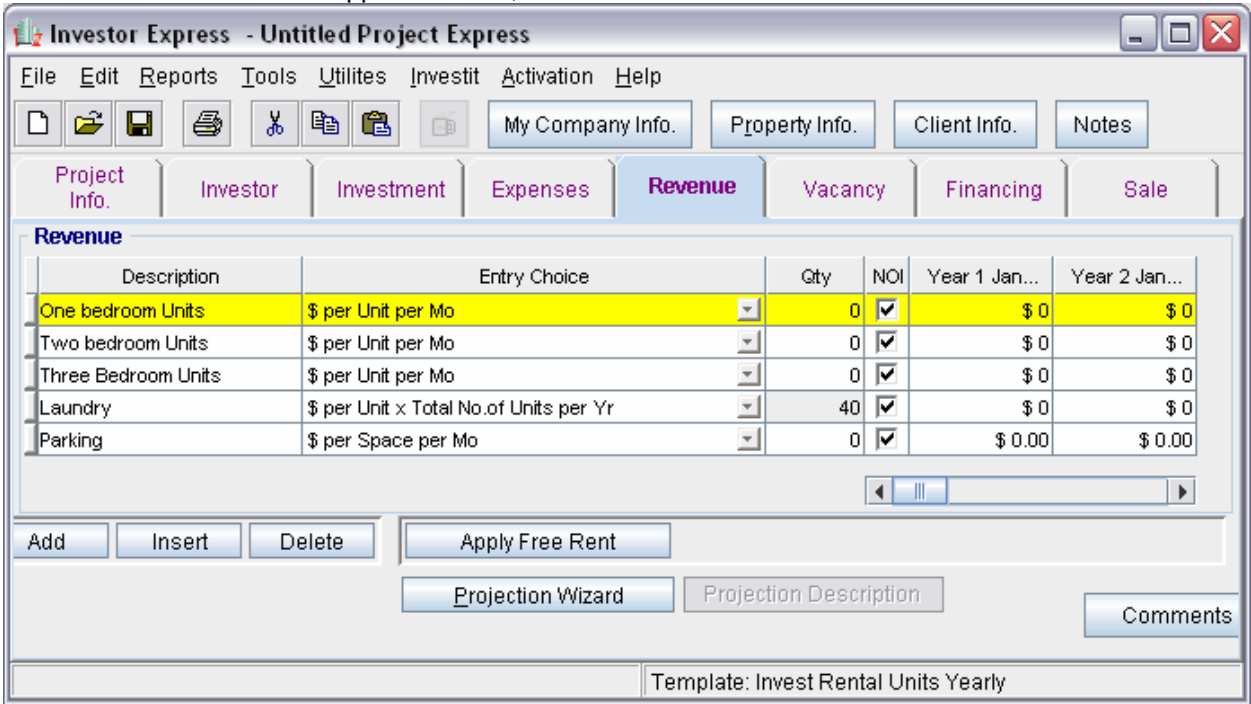
\$15 per Unit x Total No. of Units per Mo then increasing at 5.00% per year compounding

Parking

No. of Spaces: 50

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

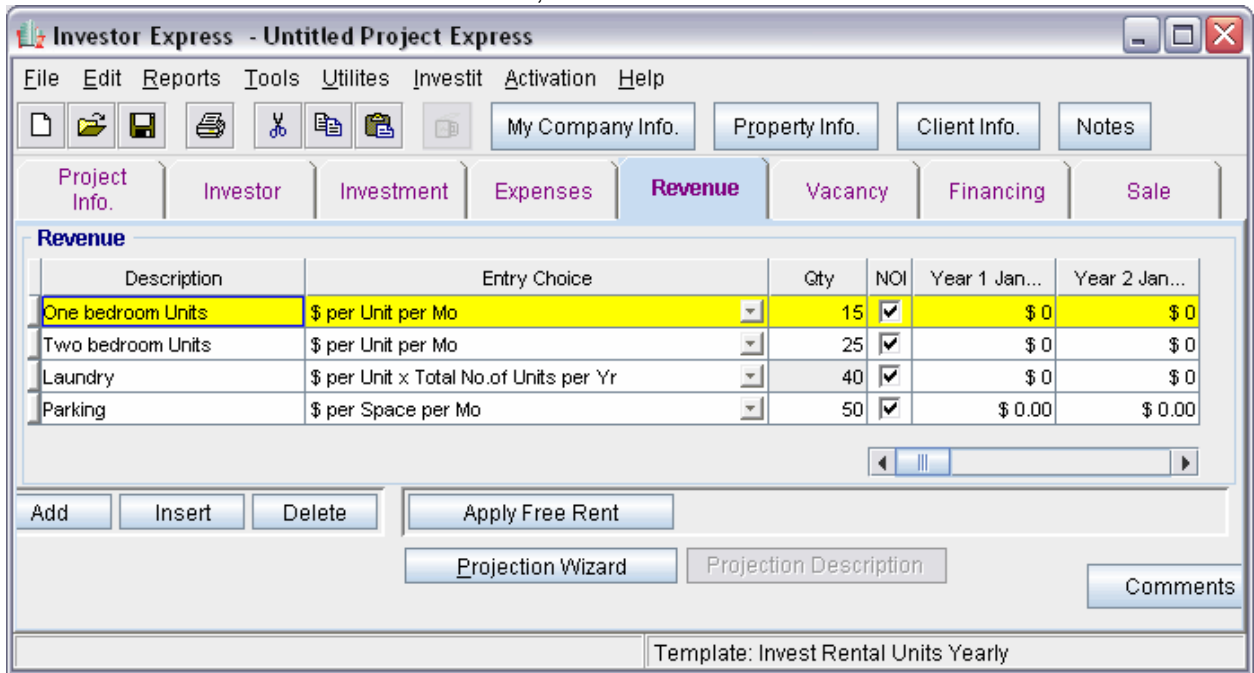
The Revenue folder should appear like this;




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

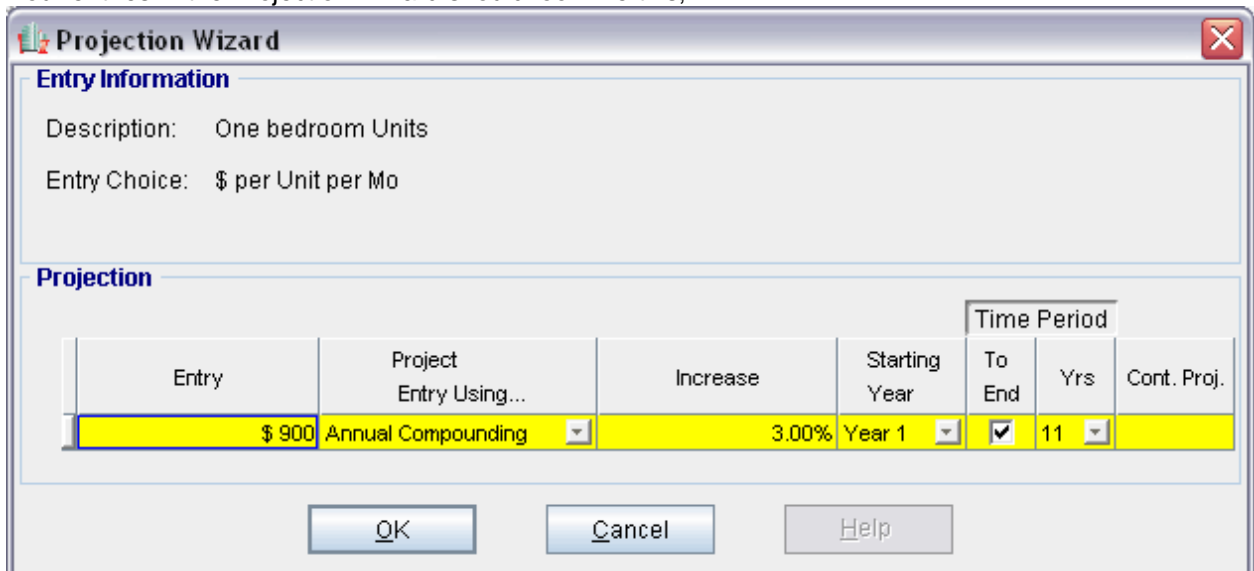
The Revenue folder should now look like this;



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;

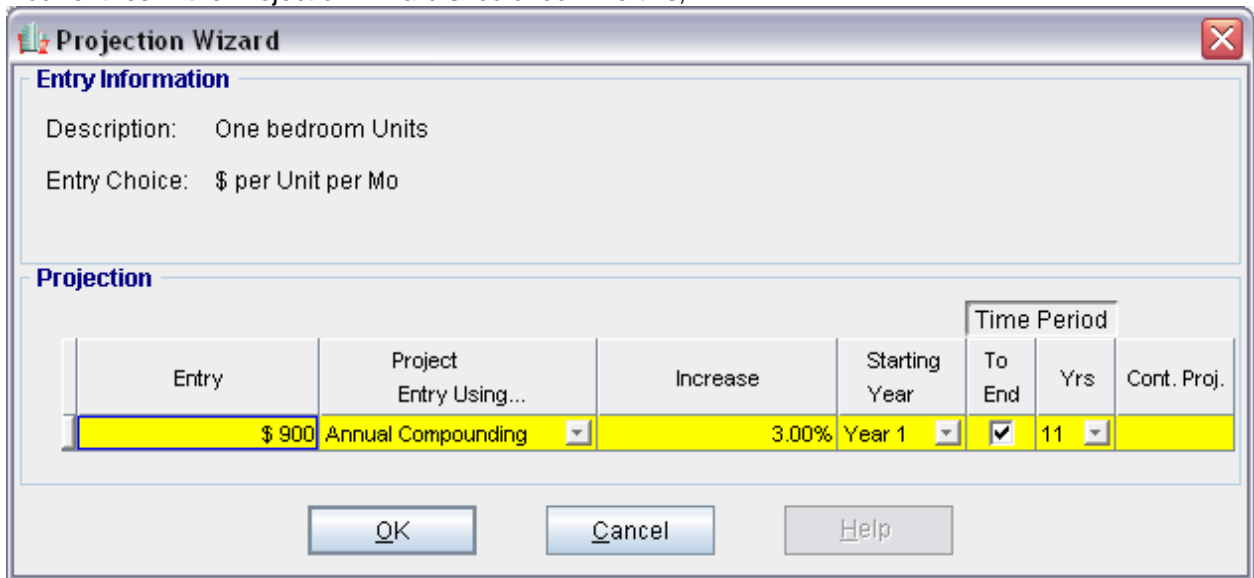


Press OK to return to the Revenue folder

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.
			Year	To End	Yrs	
\$ 900	Annual Compounding	3.00%	Year 1	<input checked="" type="checkbox"/>	11	<input checked="" 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;


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

- Entry Information:**
 - Description: Laundry
 - Entry Choice: \$ per Unit x Total No.of Units per Mo
- Projection Table:**

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;

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

- Entry Information:**
 - Description: Parking
 - Entry Choice: \$ per Space per Mo
- Projection Table:**

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

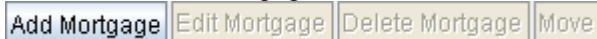
Time Period 10 years

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;

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;



Real Estate Commission

Fixed Percentage of Sale Price

0.00%

Entering the Real Estate Commission

1. Enter 5.00% in the appropriate box

The Real Estate Commission should now look like this;



Real Estate Commission

Fixed Percentage of Sale Price

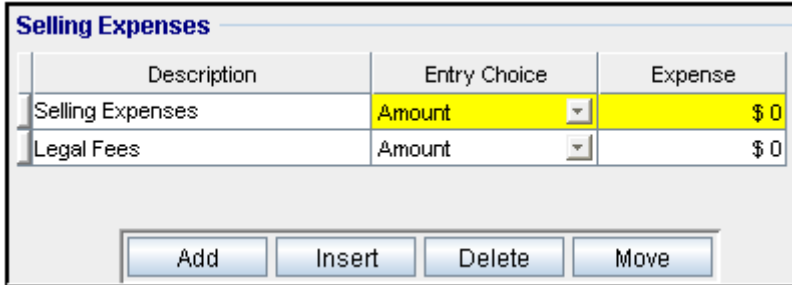
5.00%

Selling Expenses

Selling Expenses: \$6,000

Legal Fees: \$3,000

The Selling Expenses should appear like this;



Selling Expenses

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

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;

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"/>	
<input type="text" value="\$ 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