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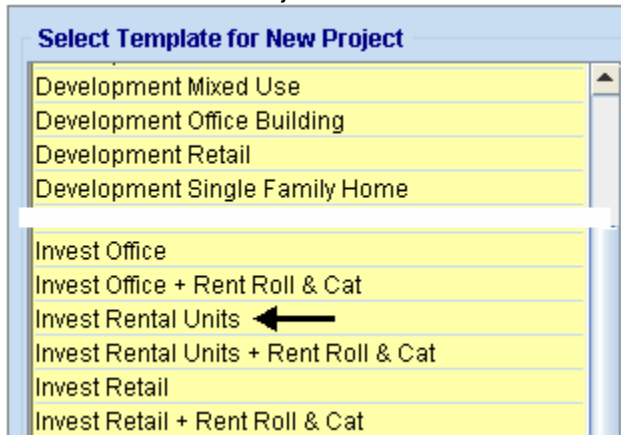
3. Select and open the Investit template ""Invest Rental Units" The analysis period dialog will open at this point.
4. Enter 10 years and click OK

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;

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;
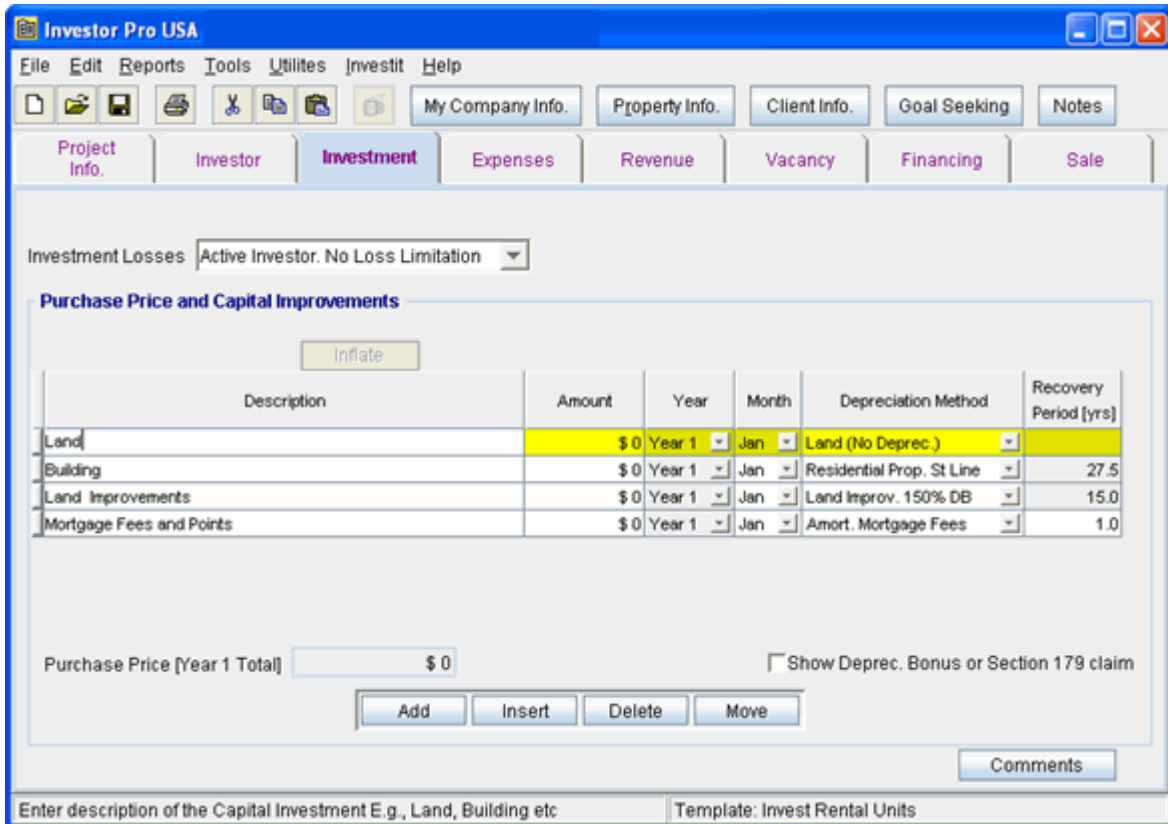
First Row
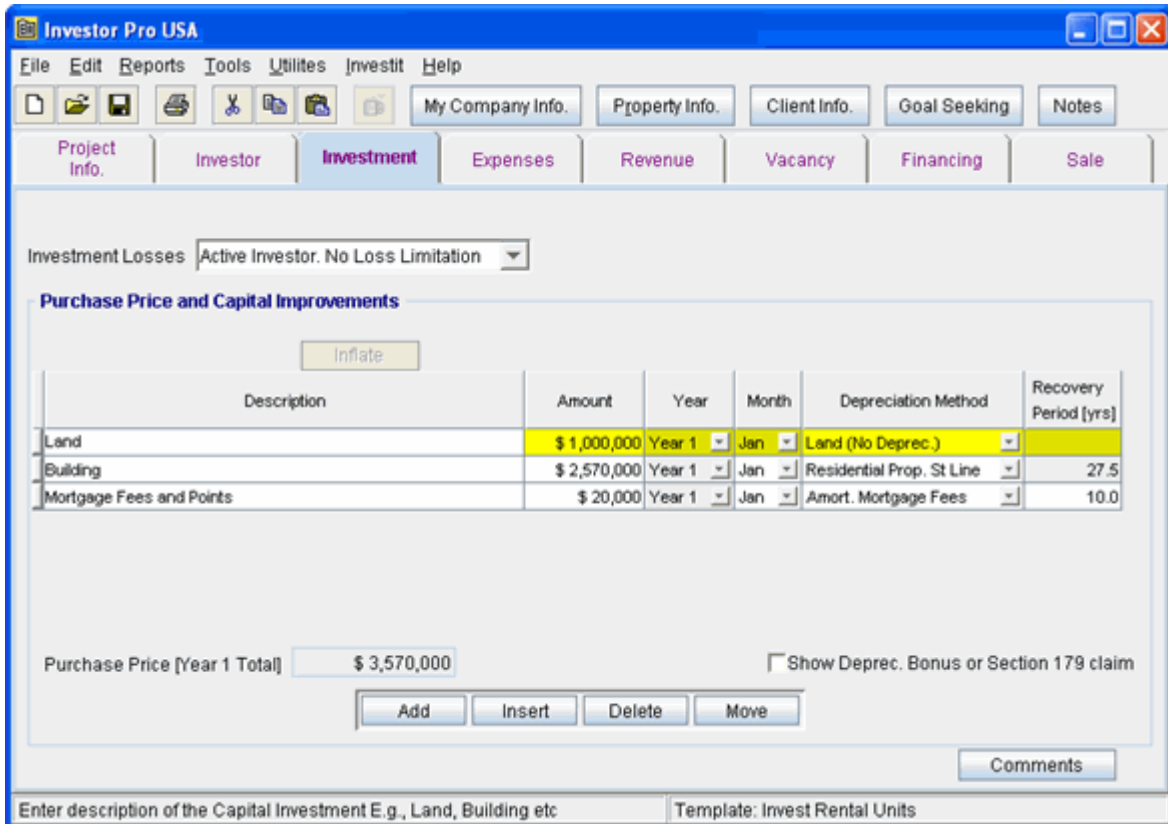1. Enter the Amount: $1,000,000

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 Delete 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;
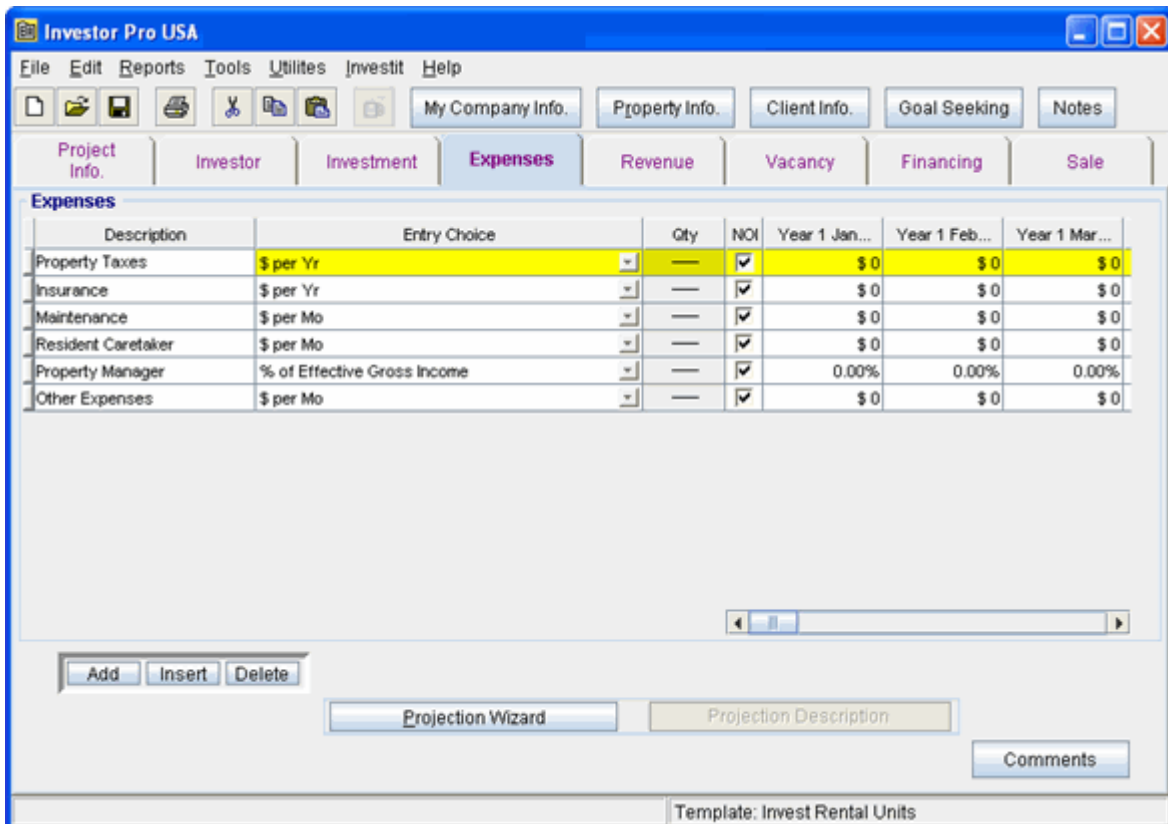
1. Select row 3 'Maintenance'
2. Select Entry Choice: "$ per Unit x Total No. of Units per Yr"

3. Select row 6 'Other Expenses'
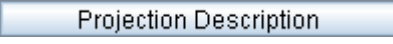4. Select Entry Choice: "% of Potential Gross Income"
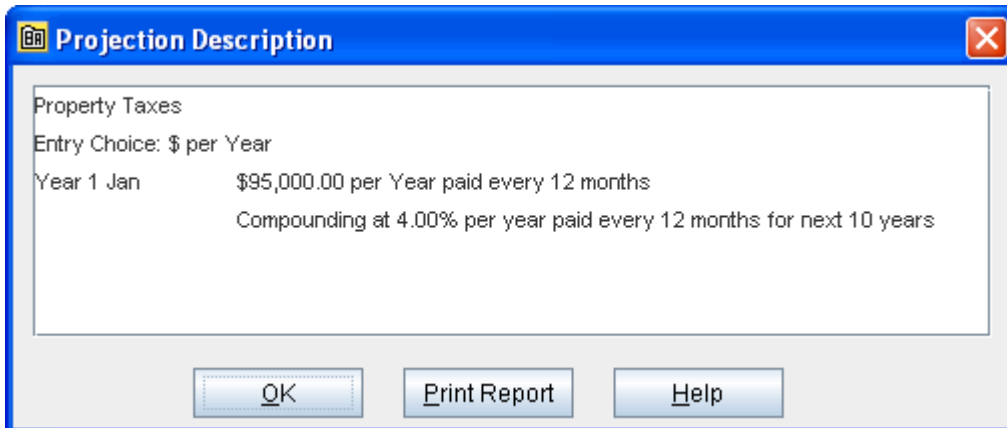
The Expenses folder should now look like this;
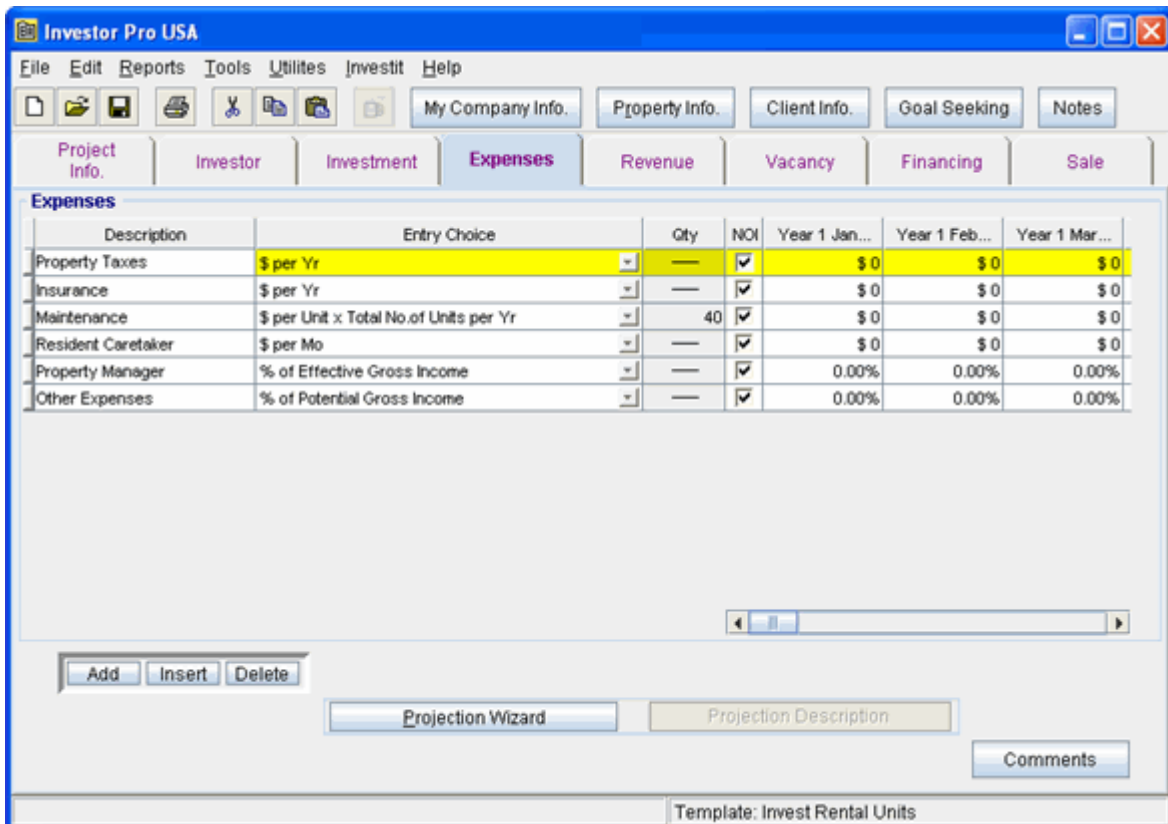
Steps for setting up Property Taxes

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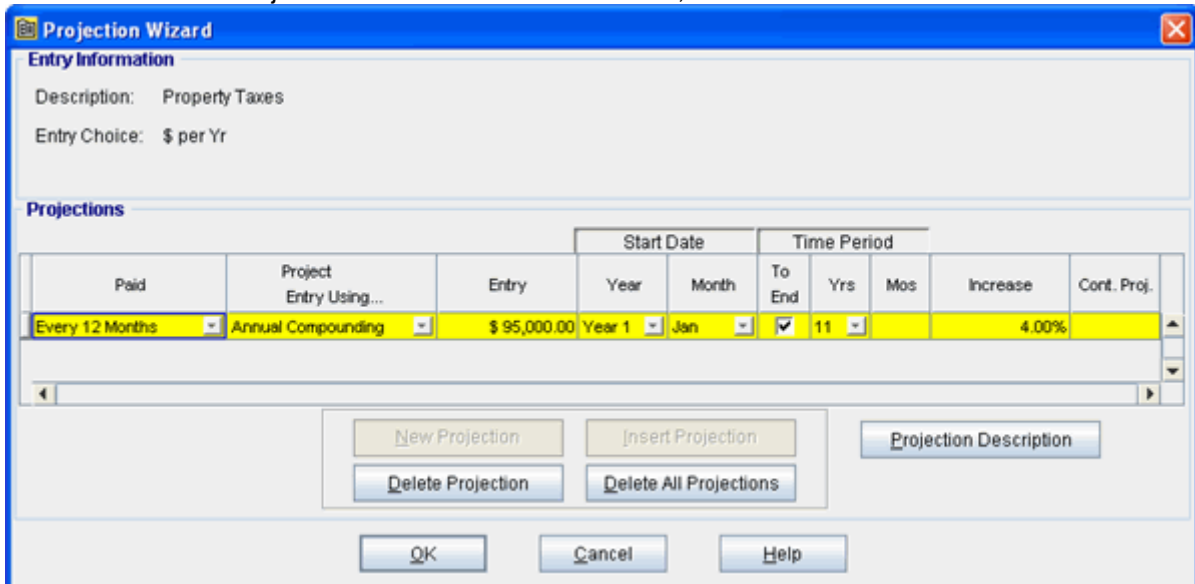   In the **Projection Wizard**

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 [Projection Description] 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;

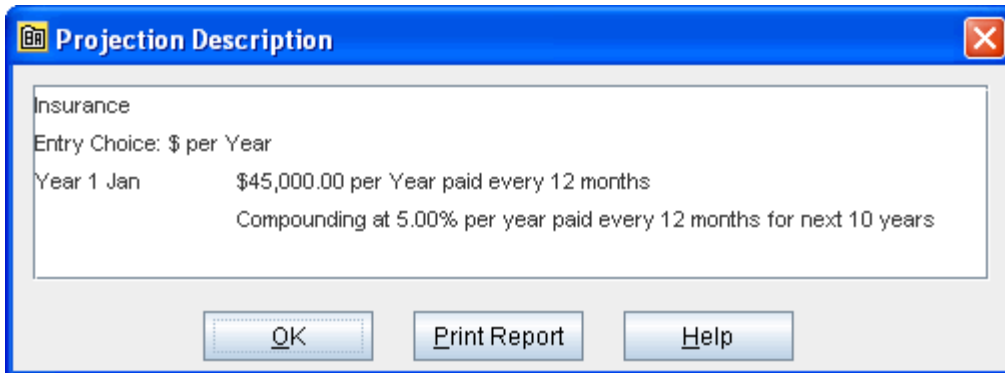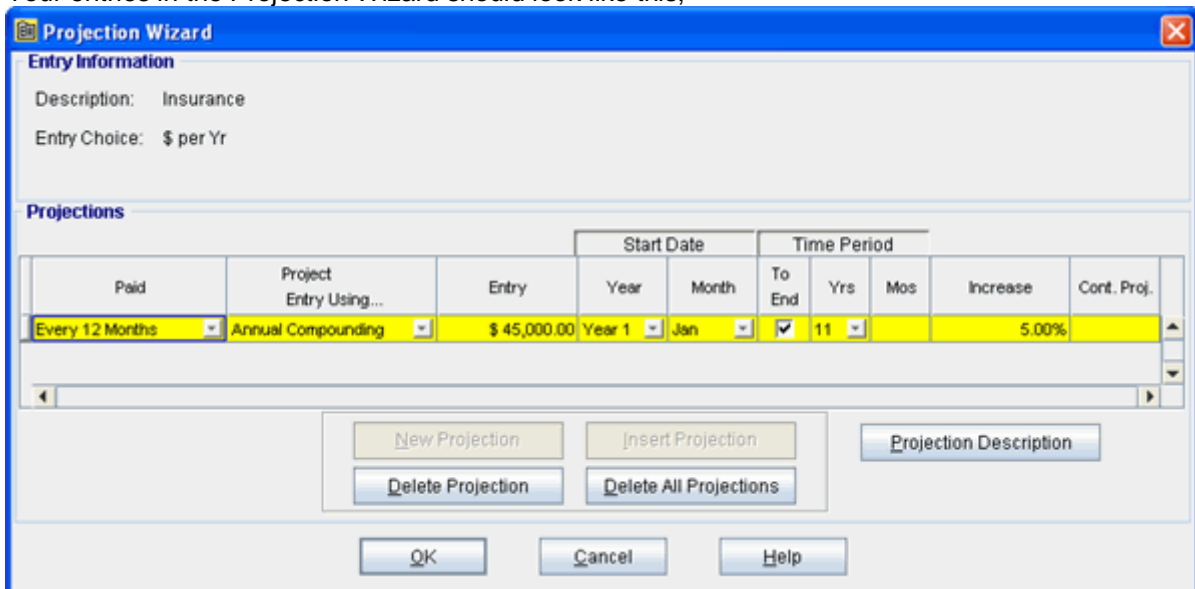Press OK to return to the Expenses folder

Steps for setting up Insurance
1. Select row 2 'Insurance'
2. Click on the [Projection Wizard] 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 [Projection Description] 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;

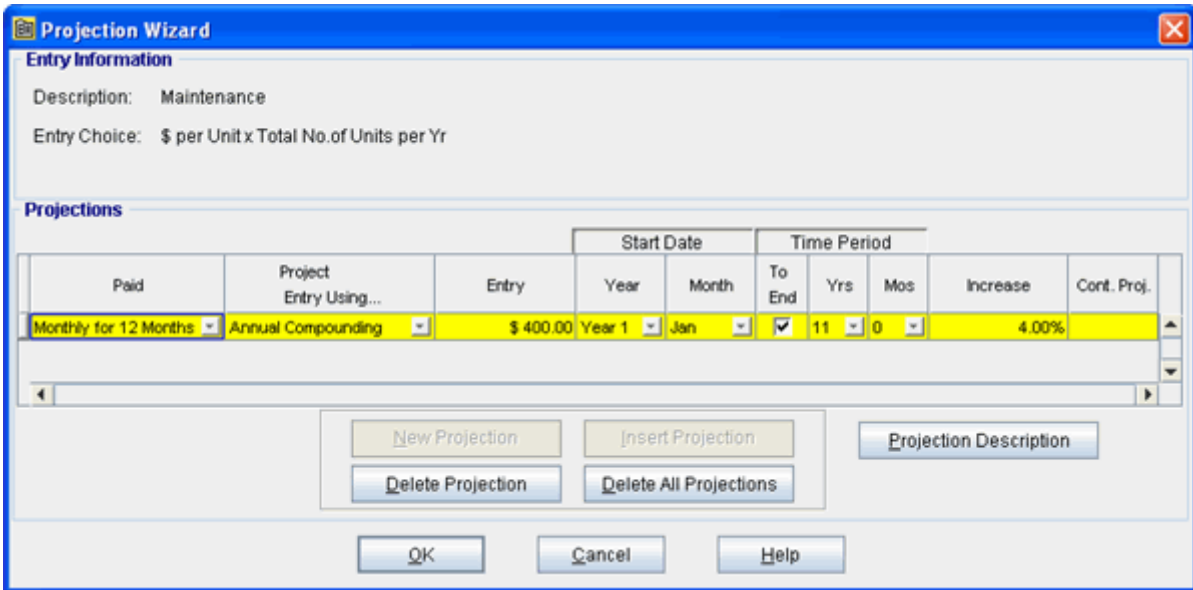Press Ok to return to the Expenses folder

Steps for setting up Maintenance
1. Select row 3 'Maintenance'
2. Click on the [Projection Wizard] 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;
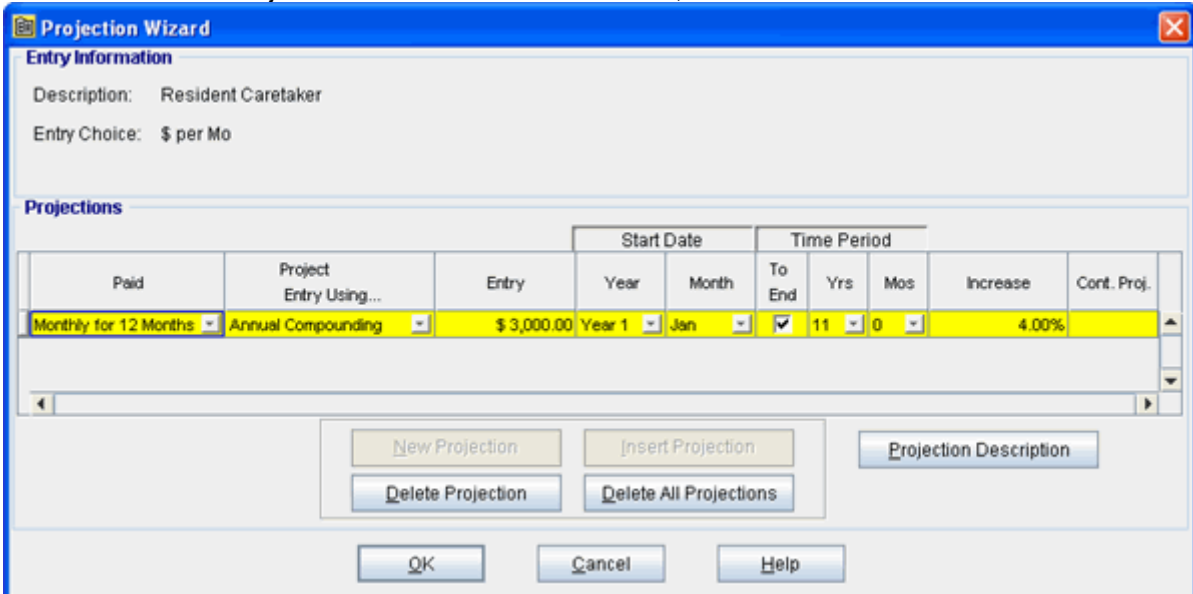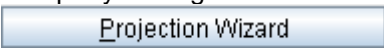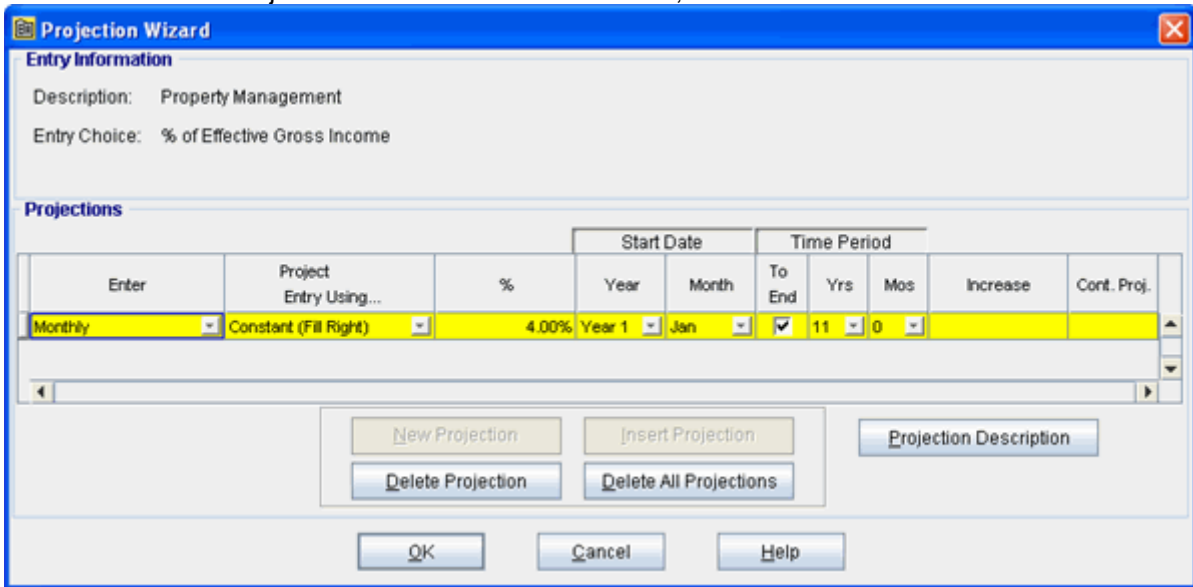
Press Ok to return to the Expenses folder

Steps for setting up Resident Caretaker
1. Select row 4 'Resident Caretaker'
2. Click on the **Projection Wizard** 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 [Projection Wizard] 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;

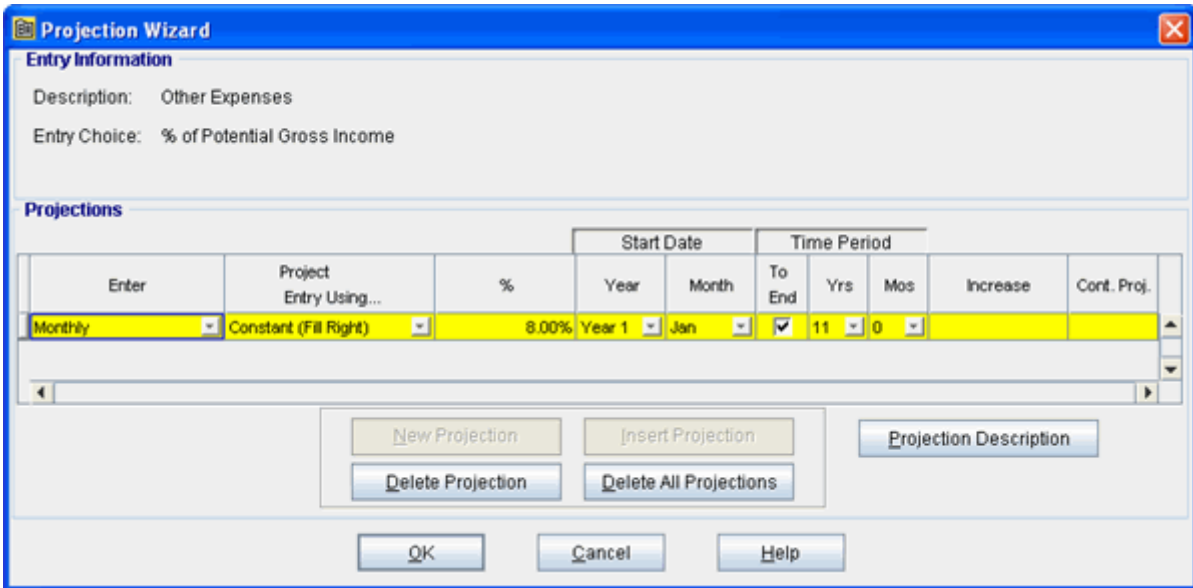Press Ok to return to the Expenses folder

Steps for setting up Other Expenses
5. Select row 6 'Other Expenses'
6. Click on the [Projection Wizard] 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
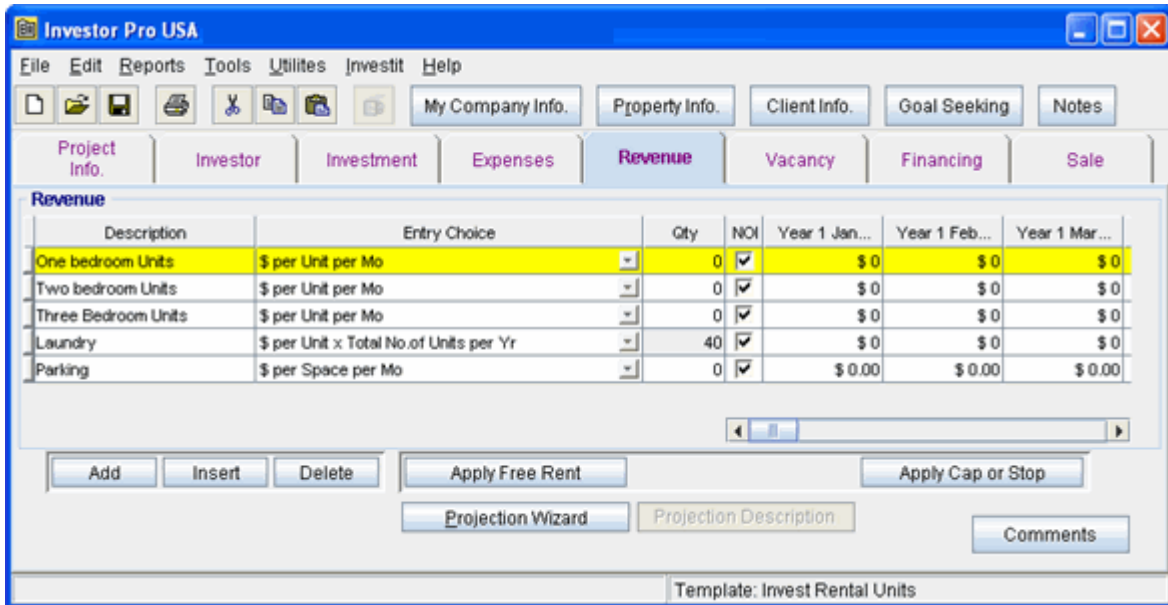
Laundry
$15 per Unit of Total No. of Units per Mo paid monthly for 12 months then increasing at 5.00% per years compounding

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 [Delete] button

7. Select row 4 'Laundry'
8. Select Entry Choice: "$ per Unit x Total No. of Units per Mo"

9. Select row 5 'Parking'
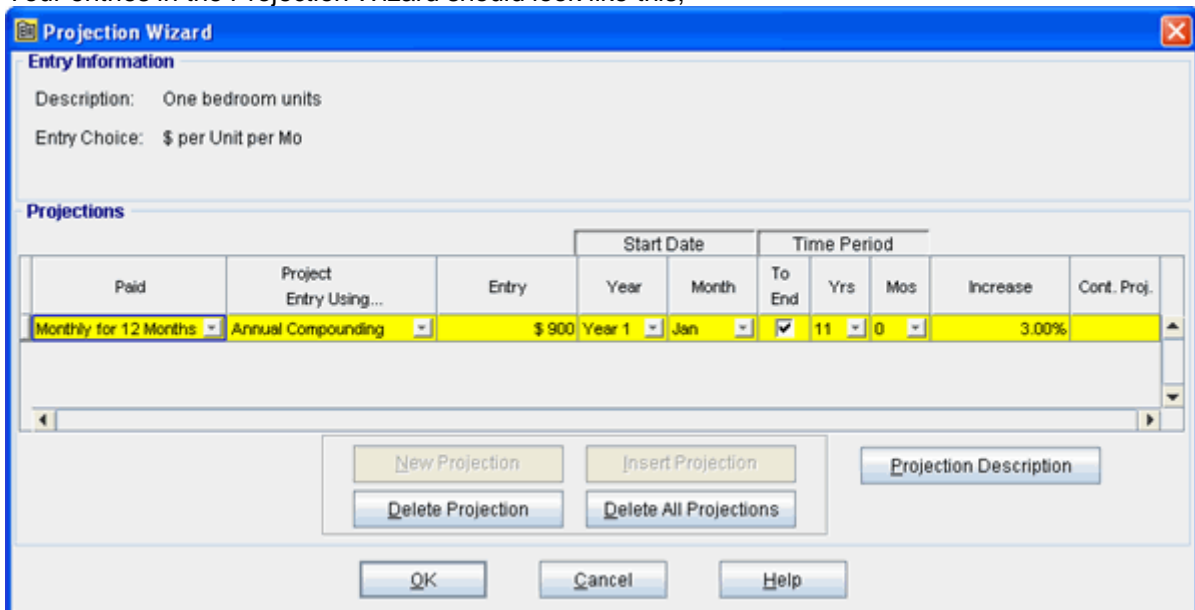10. Enter QTY: 50

The Revenue folder should now look like this;
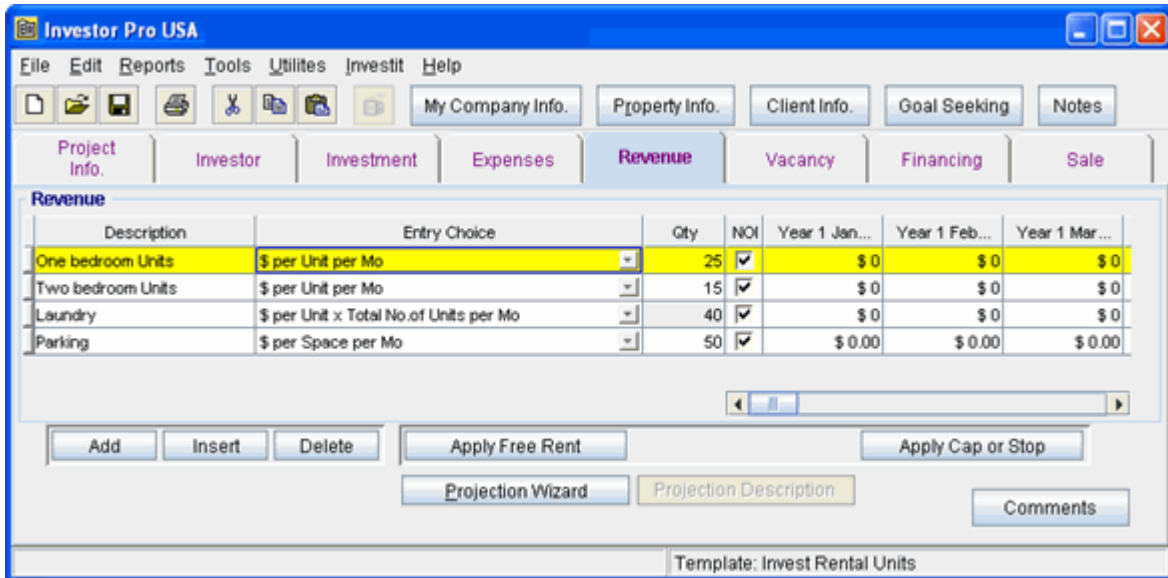
Steps for setting up One bedroom units

1. Select row 1 'One Bedroom Units'
2. Click on the [Projection Wizard] 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%

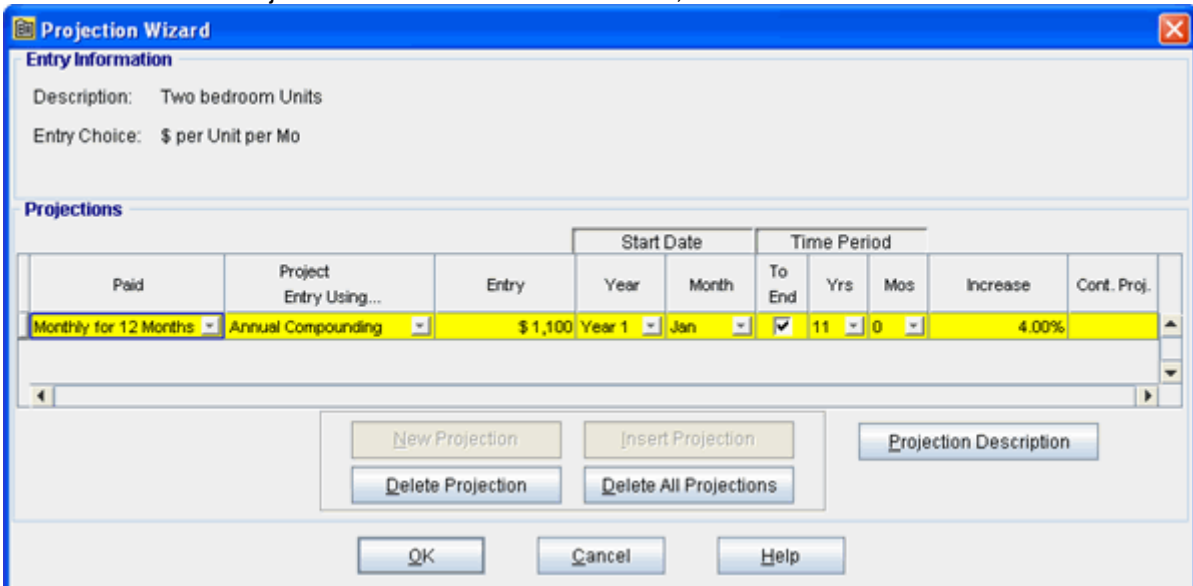Your entries in the Projection Wizard should look like this;

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 [Projection Wizard] 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%

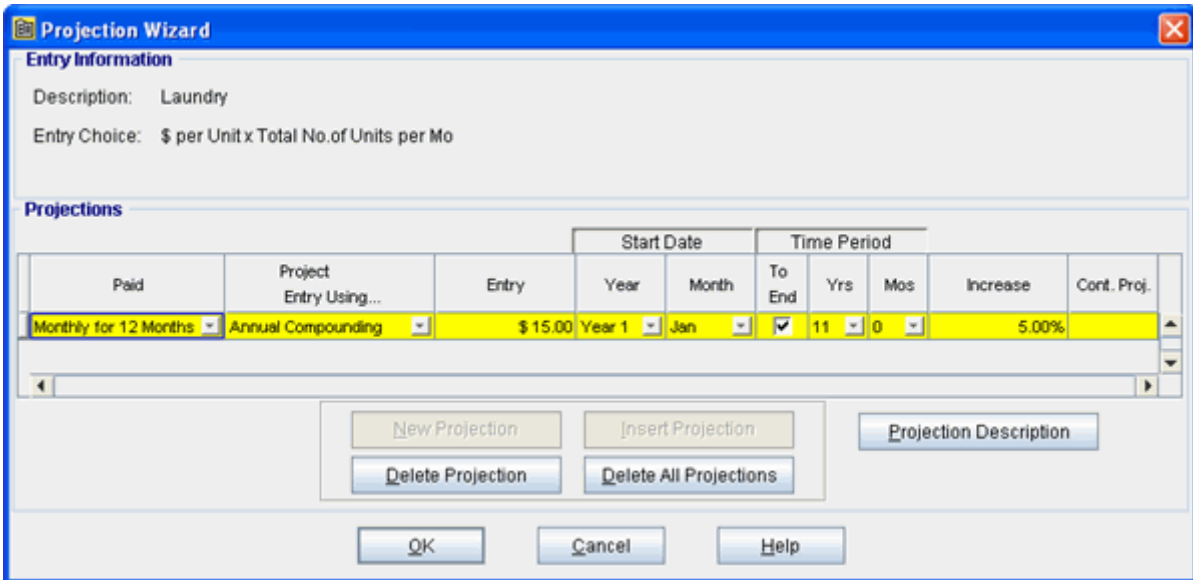Your entries in the Projection Wizard should look like this;

Press OK to return to the Revenue folder

Steps for setting up Laundry
1. Select row 3 'Laundry'
2. Click on the [Projection Wizard] 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 [Projection Wizard] 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;
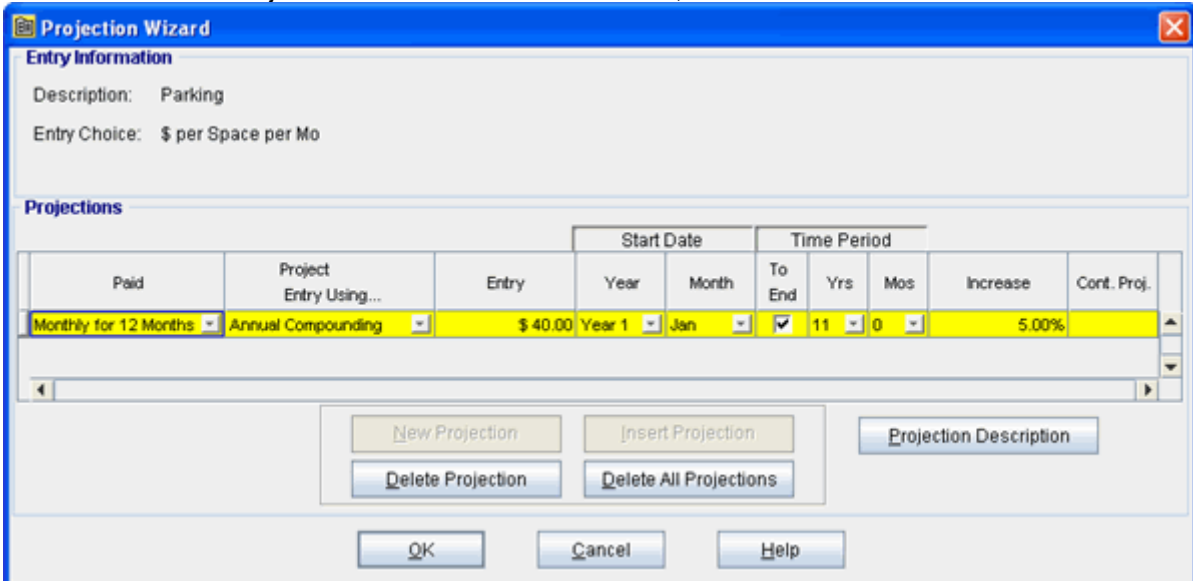
Press OK to return to the Revenue folder

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 Fill To End button

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

Entering the Laundry
7. Select row 3 'Laundry'
8. Year 1 Jan…: Enter 3.00%
9. Press the Fill To End button

Entering the Parking
10. Parking is at 0.00% so leave as is

Select the Financing tab

FINANCING Folder

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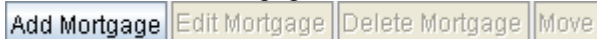Type: Standard Mortgage
Year 1 January, $2,000,000
Time Period 10 years
Amortization Period: 25 years
Interest Rate 7.50%

Setting up a mortgage
1. Click on the Financing folder tab
2. Click on the Add Mortgage button
   Add Mortgage | Edit Mortgage | Delete Mortgage | Move
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;
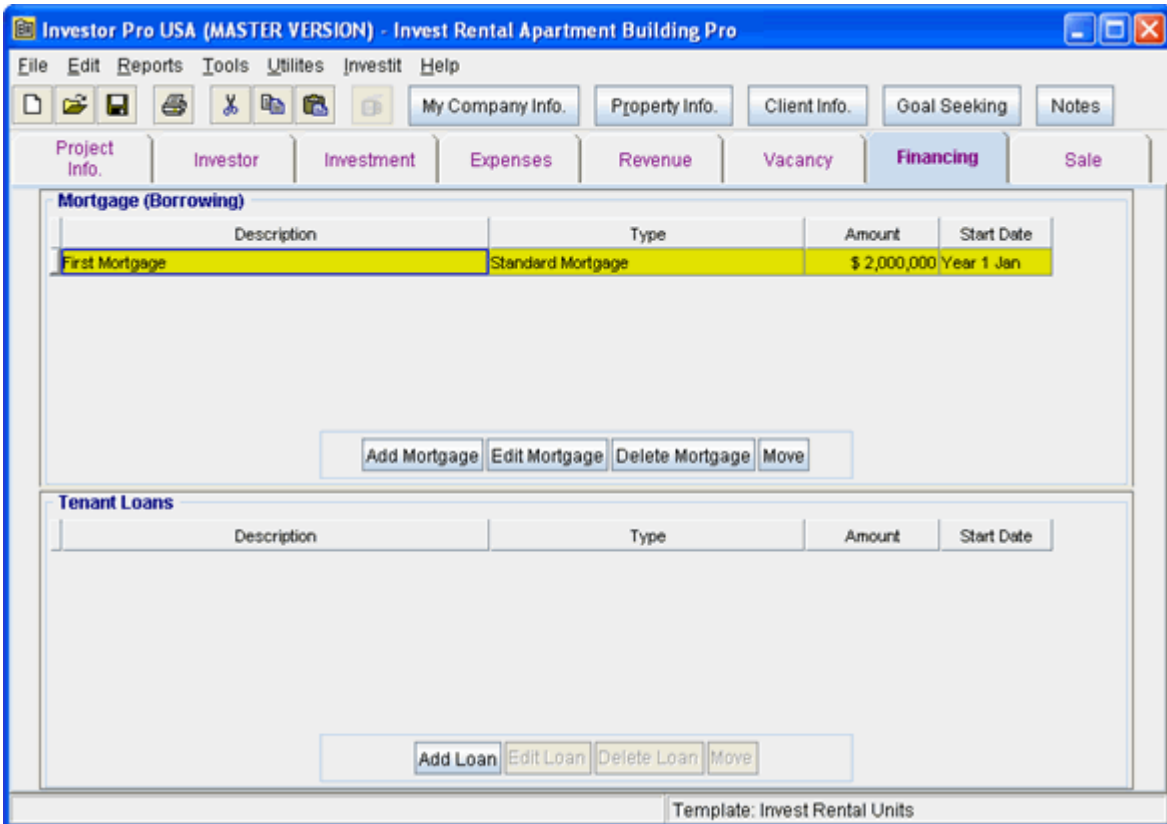
Select the Sale folder

SALE Folder

Real Estate Commissions
5.00% of Sale Price

The Real Estate Commission should appear like this;

Entering the Real Estate Commission
1. Enter 5.00% in the appropriate box

The Real Estate Commission should now look like this;

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

The Selling Expenses should appear like this;

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;

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;

1. Press the [Sale Price Wizard] button

The Sale Price Wizard dialog will pop up;

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;

Press OK to return to the Sale Price folder

The Sale Price Estimator should now look like this;