

REAL ESTATE INVESTMENT YEARLY Example USA

INTRODUCTION

This example uses the Real Estate Investment Yearly template.

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: Pentium Place
Description: 12,000 Sq Ft Office Building
Analysis Period: 10 years
Starting Date: Year 1 Jan
Building Area 14,000 Sq Ft
Rentable Area: 12,000

Purchase Price

Purchase Price: \$1,600,000
Acquisition Costs: 3.00% 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: 7.500%
 Reinvestment Rate: 2.500%

INVESTMENT Folder

Description: Land
Amount: \$648,000
Year 1 Jan
Depreciation Method: Land (No Deprec.)

Description: Improvements
Amount: \$1,000,000
Year 1 Jan
Depreciation Method: Commercial Prop. St Line

EXPENSES Folder

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

Property Taxes

Year 1 Jan \$30,000 per Year increasing by 3.00% per year compounded

Insurance

Year 1 Jan \$10,000 per Year increasing by 4.00% per year compounded

Maintenance

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

Utilities

Year 1 Jan \$1,400 per month for one year then increasing by 3.00% per year compounded

Property Management

5.00% of Effective Gross Income

REVENUE Folder**Base Rent**

\$15.00 per Unit of Total Rentable Area per Yr. Two terms of five years and one term of one year. Increase for the second term based on 3.00% compounding per year for five years. Increase for the third term based on 3.00% compounding per year for five years.

Free Rent: 0.08% for the first 2 years

Recoverable Expenses

Year 1 Jan \$4.00 per Unit of Total Rentable Area per Year increasing by 3.00% per year compounded

Parking

No. of Spaces: 30

\$30 per Space per Mo. for one year then increasing at 3.00% per year compounding

VACANCY Folder

Global Vacancy of 5.00%

FINANCING Folder**Mortgage**

Type: Standard Mortgage

Year 1 January, \$950,000

Time Period: 11 years

Amortization Period: 25 years

Interest Rate: 7.00%

SALE Folder**Real Estate Commissions**

5.00% of Sale Price

Selling Expenses

Selling Expenses: 1.00% of Sale Price

Legal Fees: 2.00% of Sale Price

Sale Price

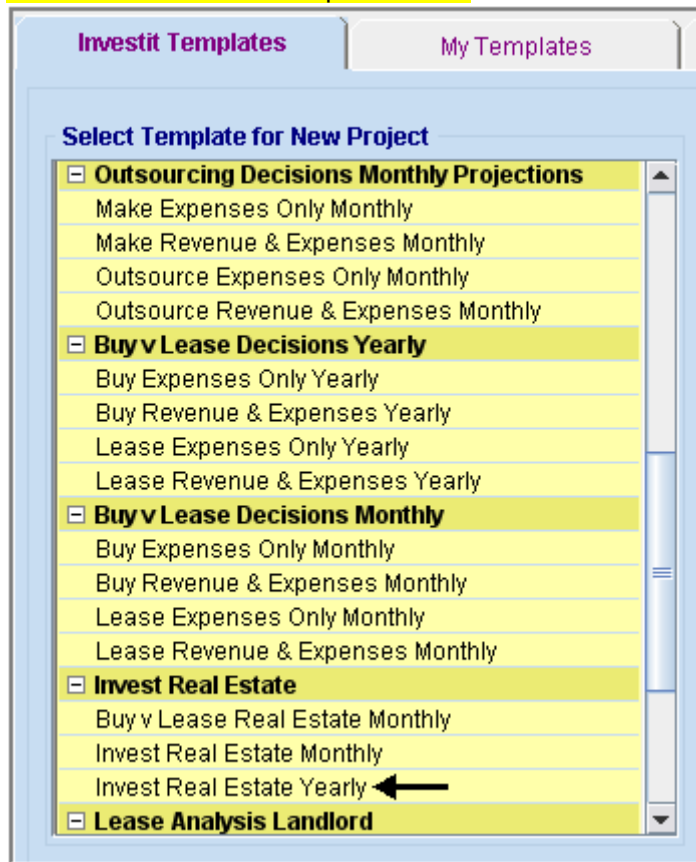
Based on a Cap Rate of 8.00% using the Income for the year following the Sale i.e., based on the Income & Expenses for year 11.

INSTRUCTIONS FOR ENTERING THE PROJECT INTO INVESTIT DECISIONS

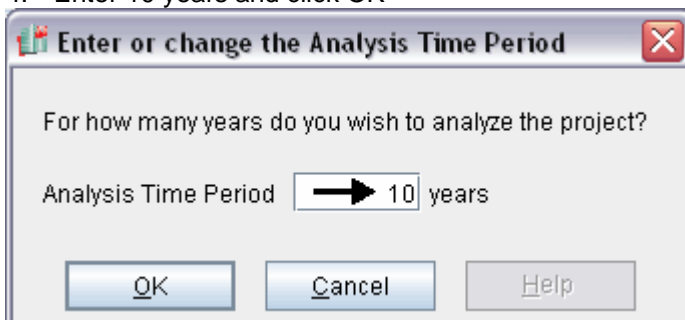
Getting started

The first step is to open the Investit Template “Invest Real Estate Yearly” as follows:

1. Open Investit Decisions.
2. Select the Investit Templates folder



3. Open the Investit template “Invest Real Estate Yearly” The analysis period dialog will appear
4. Enter 10 years and click OK



ENTERING THE PROJECT DATA AND INFORMATION

PROJECT INFO Folder

Property Name: Pentium Place

Description: 12,000 Sq Ft Office Building

Analysis Period: 10 years

Starting Date: Year 1 Jan

Building Area 14,000 Sq Ft

Rentable Area: 12,000

Purchase Price: \$1,600,000

Acquisition Costs: 3.00% of Purchase Price

Enter the following into the Projection Wizard

Project Info.	Investor	Investment	Expenses	Revenue	Vacancy	Financing
Report Headers						
Property Name	Pentium Place ←					
Description	12,000 Sq Ft Office Building ←					
Total Purchase Price						
Purchase Price	→ \$ 1,600,000					
Acquisition Costs	→ 3.00% % of Purchase Price ▾					
Total Purchase Price	\$ 1,648,000					
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						
<input checked="" type="radio"/> Potential Gross Income <input type="radio"/> Effective Gross Income						
Edit Unit of Measure						
Building						
Building Area	→ 14,000 Sq. Ft					
Rentable Area	→ 12,000 Sq. Ft					
Land						
Land Area	0 Sq. Ft					
Frontage	0 Ft					

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: 7.500%

Reinvestment Rate: 2.500%

Set up the Investor folder as follows

Project Info.	Investor	Investment	Expenses	Revenue	Vacancy
<input type="checkbox"/> Turn off Tax Calculations					
Tax Rate					
Investor's Marginal Tax Rate	35.00%				
Capital Gain Tax Rate	15.00%				
Recaptured Depreciation Tax Rate	25.00%				
Discount Rate or Desired Return on Investment					
Before Tax	→ 13.00%				
After Tax	8.45%				
Short Term Rates					
Before Tax					
Financing Rate	→ 7.500%				
Reinvestment Rate	→ 2.500%				
After Tax					
Financing Rate	4.875%				
Reinvestment Rate	1.625%				

INVESTMENT Folder

Description: Land
Amount: \$648,000
Year 1 Jan
Depreciation Method: Land (No Deprec.)

Description: Improvements
Amount: \$1,000,000
Year 1 Jan
Depreciation Method: Commercial Prop. St Line

Steps for setting up the Investment folder

1. Individually select rows 3 and 4 and click on the Delete button

Make the following entries in the Investment folder

Project Info.	Investor	Investment	Expenses	Revenue	Vacancy
Investment Losses <input type="text" value="Active Investor. No Loss Limitation"/>					
Purchase Price and Capital Improvements					
<input type="button" value="Inflate"/>					
Description	Amount	Year	Month	Depreciation Method	Recovery Period [yrs]
Land	\$ 648,000	Year 1	Jan	Land (No Deprec.)	
Improvements	\$ 1,000,000	Year 1	Jan	Commercial Prop. St Line	39.0

EXPENSES Folder

Property Taxes

Year 1 Jan \$30,000 per Year increasing by 3.00% per year compounded

Insurance

Year 1 Jan \$10,000 per Year increasing by 4.00% per year compounded

Maintenance

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

Utilities

Year 1 Jan \$1,400 per month for one year then increasing by 3.00% per year compounded

Property Management

5.00% of Effective Gross Income

Steps for setting up Property Taxes

1. Select row 1 'Property Taxes' and click on the Projection Wizard button
2. Make the following entries in the projection wizard

The screenshot displays the 'Projection Wizard' application window. It is divided into two main sections: 'Entry Information' and 'Projection'.

Entry Information:
Description: Property Taxes
Entry Choice: Amount

Projection:
This section contains a table with columns for 'Inflate', 'Amount', 'Project Entry Using...', 'Increase', 'Starting Year', 'Time Period' (subdivided into 'To End' and 'Yrs'), and 'Cont. Proj.'. The first row is highlighted in yellow and contains the following data:
- Inflation: 0% (indicated by a right-pointing arrow)
- Amount: \$ 30,000
- Project Entry Using...: Annual Compounding
- Increase: 3.00% (indicated by a right-pointing arrow)
- Starting Year: Year 1
- To End: [checked checkbox]
- Yrs: 11
- Cont. Proj.: [unchecked checkbox]

Below the table is a 'Projection Description' dialog box. It contains the following text:
Property Taxes
Entry Choice: Amount
Year 1 \$30,000
 Compounding at 3.00% per year for next 10 years
Buttons: OK, Print Report, Help

At the bottom of the main window are several control buttons: New Projection, Insert Projection, Delete Projection, Delete All Projections, and Projection Description. An arrow points from the 'Projection Description' button to the dialog box.

Steps for setting up Insurance

1. Select row 2 'Insurance' and click on the Projection Wizard button
2. Enter the following into the projection wizard

Projection Wizard

Entry Information

Description: Insurance
Entry Choice: Amount

Projection

Inflate	Amount	Project Entry Using...	Increase	Starting Year	Time Period	Cont. Proj.	
				Year	To End	Yrs	
	\$10,000	Annual Compounding	4.00%	Year 1	<input checked="" type="checkbox"/>	11	

Projection Description

Insurance
Entry Choice: Amount
Year 1 \$10,000
Compounding at 4.00% per year for next 10 years

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

Steps for setting up Maintenance

1. Select row 3 'Maintenance' and click on the Projection Wizard button
2. Make the following entries in the projection wizard

Projection Wizard

Entry Information

Description: Maintenance
Entry Choice: \$ per Mo

Projection

Entry	Project Entry Using...	Increase	Starting Year	Time Period		Cont. Proj.
				To End	Yrs	
→ \$ 1,000	Annual Compounding	→ 4.00%	Year 1	<input checked="" type="checkbox"/>	11	

Projection Description

Maintenance
Entry Choice: \$ per Month
Year 1 \$1,000 per Month for 1 year
Compounding at 4.00% per year for next 10 years

OK Print Report Help

New Projection Insert Projection Delete Projection
Delete All Projections Projection Description

Steps for setting up Utilities

1. Select row 4 'Utilities' and click on the Projection Wizard button
2. Make the following entries in the projection wizard

The screenshot shows the 'Projection Wizard' application window. The 'Entry Information' section displays 'Description: Utilities' and 'Entry Choice: \$ per Mo'. The 'Projection' section contains a table with the following data:

Entry	Project Entry Using...	Increase	Starting Year	To End	Yrs	Cont. Proj.
\$ 1,400	Annual Compounding	3.00%	Year 1	<input checked="" type="checkbox"/>	11	

A 'Projection Description' dialog box is open, showing the following details:

- Utilities
- Entry Choice: \$ per Month
- Year 1: \$1,400 per Month for 1 year
- Compounding at 3.00% per year for next 10 years

Buttons for 'OK', 'Print Report', and 'Help' are visible in the dialog box. At the bottom of the main window, there are buttons for 'New Projection', 'Insert Projection', 'Delete Projection', 'Delete All Projections', and 'Projection Description'.

Steps for setting up Property Management

1. Select row 5 'Property Management' and click on the Projection Wizard button
2. Make the following entries in the projection wizard

Projection Wizard

Entry Information

Description: Property Management
Entry Choice: % of Effective Gross Income

Projection

%	Project Entry Using...	Increase	Starting Year	Time Period		Cont. Proj.
				To End	Yrs	
→ 5.00%	Constant (Fill Right)		Year 1	<input checked="" type="checkbox"/>	11	

Projection Description

Property Management
Entry Choice: % of Effective Gross Income
Year 1 5.00% of Effective Gross Income
 Constant per year for next 10 years

OK Print Report Help

New Projection Insert Projection Delete Projection

Delete All Projections Projection Description

REVENUE Folder

Base Rent

\$15.00 per Unit of Total Rentable Area per Yr. Two terms of five years and one term of one year. Increase for the second term based on 3.00% compounding per year for five years. Increase for the third term based on 3.00% compounding per year for five years.

Free Rent: 0.08% for the first 2 years

Recoverable Expenses

Year 1 Jan \$4.00 per Unit of Total Rentable Area per Year increasing by 3.00% per year compounded

Parking

No. of Spaces: 30

\$30 per Space per Mo then increasing at 3.00% per year compounding

Make the following changes to the Revenue folder

Project Info.	Investor	Investment	Expenses	Revenue	Vacancy
Revenue					
Description	Entry Choice	Qty	NOI	Year 1 Jan...	
Base Rent	\$ per Unit of Total Rentable Area per Yr ←	12,000	✓	\$ 0.00	
Free Rent	% of Rent	—		0.00%	
Recoverable Expenses	\$ per Unit of Total Rentable Area per Yr ←	12,000	✓	\$ 0.00	
Parking	\$ per Space per Mo	→ 30	✓	\$ 0.00	

Setting up the Base Rent

1. Select row 1 'Base Rent' and click on the Projection Wizard button
2. Make the following entries in the projection wizard

Projection Wizard

Entry Information

Description: Base Rent

Entry Choice: \$ per Unit of Total Rentable Area per Yr

Projection

Entry	Project Entry Using...	Increase	Term	Starting Year	Time Period		Cont. Proj.
					To End	Yrs	
\$ 15.00	Stepped Proj. (Lease)	3.00%	1	Year 1	5	5	
		3.00%	2	Year 6	5	5	
			3	Year 11	<input checked="" type="checkbox"/>	1	

Stepped Projection

New value at "End of Term" based on:

- Annual Compounding Rate Increase
- Enter Value
- \$ Increase
- % Increase

No. of Terms: 3

Show Example ->

OK Cancel Help

New Projection Insert Projection Delete Projection

Edit Stepped Projection Delete All Projections Projection Description

Setting up the Free Rent

1. Enter the Free Rent directly into the grid as follows

Project Info.	Investor	Investment	Expenses	Revenue	Vacancy	Financing
Revenue						
Description	Entry Choice	Qty	NOI	Year 1 Jan...	Year 2 Jan...	
Base Rent	\$ per Unit of Total Rentable Area per Yr	12,000	<input checked="" type="checkbox"/>	\$ 15.00	\$ 15.00	
Free Rent	% of Rent	—		→ 0.08%	→ 0.08%	
Recoverable Expenses	\$ per Unit of Total Rentable Area per Yr	12,000	<input checked="" type="checkbox"/>	\$ 4.00	\$ 4.12	
Parking	\$ per Space per Mo	30	<input checked="" type="checkbox"/>	\$ 30.00	\$ 30.90	

Setting up the Recoverable Expenses

1. Select row 3 'Recoverable Expenses' and click on the Projection Wizard button
2. Make the following entries in the projection wizard

Projection Wizard

Entry Information

Description: Recoverable Expenses
Entry Choice: \$ per Unit of Total Rentable Area per Yr

Projection

Entry	Project Entry Using...	Increase	Starting Year	Time Period			Cont. Proj.
				To End	Yrs		
→ \$ 4.00	Annual Compounding	→ 3.00%	Year 1	<input checked="" type="checkbox"/>	11		

Projection Description

Recoverable Expenses
Entry Choice: \$ per Unit of Total Rentable Area per Year
Quantity: 12,000
Year 1 \$4.00 per Unit of Total Rentable Area per Year
Compounding at 3.00% per year for next 10 years

Steps for setting up the Parking

1. Select row 4 'Parking' and click on the Projection Wizard button
2. Make the following entries in the projection wizard

The screenshot shows the 'Projection Wizard' application window. The 'Entry Information' section displays 'Description: Parking' and 'Entry Choice: \$ per Space per Mo'. The 'Projection' section contains a table with columns: Entry, Project Entry Using..., Increase, Starting Year, To End, Yrs, and Cont. Proj. The first row is highlighted in yellow and contains: \$ 30.00, Annual Compounding, 3.00%, Year 1, a checked checkbox, 11, and an empty field. A 'Projection Description' dialog box is open in the foreground, showing the following text: 'Parking', 'Entry Choice: \$ per Space per Month', 'Quantity: 30', 'Year 1 \$30.00 per Space per Month for 1 year', and 'Compounding at 3.00% per year for next 10 years'. The dialog box has 'OK', 'Print Report', and 'Help' buttons. At the bottom of the main window, there are buttons for 'New Projection', 'Insert Projection', 'Delete Projection', 'Delete All Projections', and 'Projection Description'.

Entry	Project Entry Using...	Increase	Starting Year	To End	Yrs	Cont. Proj.
\$ 30.00	Annual Compounding	3.00%	Year 1	<input checked="" type="checkbox"/>	11	

Projection Description


Parking
Entry Choice: \$ per Space per Month
Quantity: 30
Year 1 \$30.00 per Space per Month for 1 year
Compounding at 3.00% per year for next 10 years

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

VACANCY Folder

Global Vacancy of 5.00%

1. Set the Vacancy and Credit Loss to 'Global'

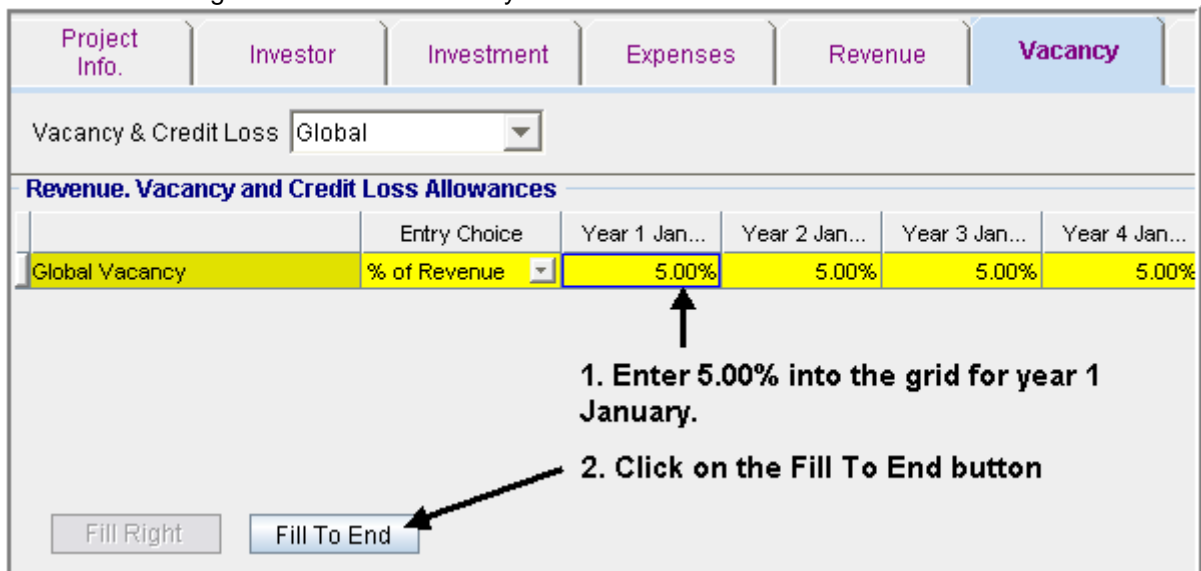


Vacancy & Credit Loss Detailed Entries

Revenue. Vacancy and Revenue

None
Global ←
Detailed Entries

Make the following entries into the Vacancy folder



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

Vacancy & Credit Loss Global

Revenue. Vacancy and Credit Loss Allowances

	Entry Choice	Year 1 Jan...	Year 2 Jan...	Year 3 Jan...	Year 4 Jan...
Global Vacancy	% of Revenue	5.00%	5.00%	5.00%	5.00%

1. Enter 5.00% into the grid for year 1 January.

2. Click on the Fill To End button

Fill Right Fill To End

FINANCING Folder

Mortgage (Borrowing)

Description: First Mortgage
Type: Standard Mortgage
Year 1 January, \$950,000
Time Period: 11 years
Amortization Period: 25 years
Interest Rate: 7.00%

Setting up a mortgage

1. Click on the Add Mortgage button
2. Make the following entries into Mortgage window

Mortgage

Mortgage Details

Analysis Period: Year 1 Jan to Year 10 Dec

Commencing Year 1 Month January

Type Standard Mortgage

Amount \$ 950,000 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	11	0	25	0	7.000%

Make the entries and then click on the Compute button

OK Compute Fill Down Cancel Help Comments

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 "Real Estate Commission" dialog box, but the text input field now contains "5.00%".

Selling Expenses

Selling Expenses: 1.00% of Sale Price

Legal Fees: 2.00% of Sale Price

The Selling Expenses should appear like this;

The screenshot shows a software interface with a tabbed menu at the top: "Expenses", "Revenue", "Vacancy", "Financing", and "Sale". The "Sale" tab is selected. Below the tabs is a section titled "Selling Expenses" containing a table with three columns: "Description", "Entry Choice", and "Expense".

Description	Entry Choice	Expense
Selling Expenses	% of Sale Price	0.00%
Legal	% of Sale Price	0.00%

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

Make the following entries to the Selling Expenses

Expenses				Revenue				Vacancy				Financing				Sale			
Selling Expenses																			
Description				Entry Choice				Expense											
Selling Expenses				% of Sale Price				→ 1.00%											
Legal				% of Sale Price				→ 2.00%											
Add				Insert				Delete				Move							

Sale Price

Based on a Cap Rate of 8.00% using the Income for the year following the Sale i.e., based on the Income & Expenses for year 11.

Setting up the Sale Price

1. Click on the Sale Price Wizard button and make the following entries

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	8.00%	\$ 2,428,090
Net Income Multiplier	0.00	\$ 0	0.00	\$ 0
Compound Annual Growth Rate	0.00%	\$ 1,648,000	Enter Your Own Estimation	
Uniform Annual Increase	0.00%	\$ 1,648,000		

OK Cancel Help

Press OK to return to the Sale Price folder

The Sale Price Estimator should now show the Sale Price

Sale Price Estimator	
Sale Price Wizard	
\$ 2,428,090	

SAVE YOUR PROJECT