

PROPERTY AND INVESTOR DATA SUMMARY

FORM 1

Property Address Hughes Drive
Prepared By Greg Swann

Investor Brian Brady
Date 10/29/2008

PURCHASE PRICE \$ 100,000 (a) LAND ALLOCATION 20%
IMPROVEMENT ALLOCATION (%) x 80% %
IMPROVEMENT VALUE \$ 80,000 (b)

| | Amount | | Rate (%) | | Annual Interest |
|----------|------------------|---|--------------|---|-----------------|
| 1st Loan | \$ <u>75,000</u> | x | <u>7.00%</u> | = | \$ <u>5,250</u> |
| | + | | | | + |
| 2nd Loan | \$ <u>0</u> | x | <u>0.00%</u> | = | \$ <u>0</u> |

TOTAL= \$ 75,000 (c) = \$ 5,250 (d)

Down Payment..... \$ 25,000

Closing Costs..... + \$ 5,000 (e)

Initial Investment..... = \$ 30,000 (f)

Gross Scheduled Income (monthly rent \$ 900 x 12) = \$ 10,800 (g)

Annual Vacancy Allowance (10% x (g)) = \$ 1,080 (h)
%

ANNUAL OPERATING EXPENSES

| | |
|----------------|---------------------|
| Property Taxes | <u>1,309</u> |
| Insurance | <u>600</u> |
| Utilities | <u>0</u> |
| Maintenance | <u>600</u> |
| Other..... | <u>640</u> |
| | <u>0</u> |
| | |
| TOTAL..... | \$ <u>3,149</u> (i) |

Investor's Tax Bracket (%)..... 28% (j)
Holding Period..... 8 yrs. (k)
Annual Property
Appreciation Rate (%)..... 4.00% (l)
Projected Cost of Sale (%)..... 7.00% (m)

| | |
|---------------------------|------------------|
| Investor's Pre-Tax | |
| Investment Rate (%)..... | <u>2.00%</u> |
| 1.00 minus <u>28%</u> (j) | = x <u>0.72</u> |
| tax bracket | |
| Investor's After-Tax | |
| Investment Rate..... | <u>1.44%</u> (n) |

CASH FLOW BEFORE TAXES

| | | | | |
|-------------------------------------|---|----|---------------|-----|
| Gross Scheduled Income..... | | \$ | <u>10,800</u> | (g) |
| LESS: Vacancy Allowance..... | - | \$ | <u>1,080</u> | (h) |
| <u>GROSS OPERATING INCOME</u> | = | \$ | <u>9,720</u> | |
| LESS: Total Operating Expenses..... | - | \$ | <u>3,149</u> | (i) |
| <u>NET OPERATING INCOME</u> | = | \$ | <u>6,571</u> | |
| LESS: Annual Interest Payments..... | - | | <u>5,250</u> | (d) |
| <u>CASH FLOW BEFORE TAXES</u> | = | \$ | <u>1,321</u> | |

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CASH FLOW AFTER TAXES

NET OPERATING INCOME (Form 2).....

LESS: Annual Interest Payments.....

LESS: COST RECOVERY (Compute Below)

To Calculate Cost Recovery:

Improvement Value \$ 80,000 (b)

Divided by

Cost Recovery Period ÷ 27.5 yrs.

Annual Cost Recovery \$ 2,909

TAXABLE INCOME OR (LOSS).....

TIMES: Investor's Tax Bracket (%).....

TAX SAVINGS (if negative)

or.....

TAX LIABILITY (if positive)

CASH FLOW BEFORE TAXES (Form 2).....

TAX SAVINGS OR LIABILITY.....

CASH FLOW AFTER TAXES.....

| | | |
|------|--------|-----|
| \$ | 6,571 | |
| - \$ | 5,250 | (d) |
| | | |
| | 2,909 | |
| = \$ | -1,588 | |

x 28% (j)

= \$ -445

CHANGE
SIGN

\$ 1,321 *

+ 445

= \$ 1,766

* If CFBT is negative: A tax savings will reduce the negative cash flow.
A tax liability will increase the negative cash flow.

* If CFBT is positive: A tax savings will increase the positive cash flow.
A tax liability will reduce the positive cash flow.

TAX DUE ON SALE

Purchase Price.....
 Annual Appreciation Rate (%).....
 Holding Period.....

\$ 100,000 (a) PV
4.00% (l) i
8 yrs. (k) n

PROJECTED SALES PRICE: (Solve for FV).....

LESS: Projected Cost of Sale(%): 7.00% (m) x (o)

LESS: Adjusted Basis-

To Calculate Adjusted Basis:

Purchase Price..... \$ 100,000 (a)

PLUS: Closing Costs..... + 5,000 (e)

LESS: Total Cost Recovery:

\$ 2,909 (Annual Cost)
 Recovery (Form 3)
 x 8 Holding Period (k) - 23,272 (q)

Adjusted Basis..... \$ 81,728

\$ 136,857 (o) FV
 - \$ 9,580 (p)

- 81,728
 = 45,549 (r)

TOTAL TAXABLE GAIN ON SALE.....

To Calculate Recapture Tax:

Recapture Total Cost
 Recovery Taken \$ 23,272 (q)

Tax Rate (%) x 25%

Tax Due from Recapture
 of Cost Recovery = \$ 5,818

\$ 5,818

To Calculate Balance of Capital Gains Tax:

Total Taxable Gain \$ 45,549 (r)

Less: Total Cost of
 Recovery Taken (Recapture) - 23,272 (q)

Balance of Capital Gain = 22,277

Times Capital Gains Tax Rate (%) x 15%

Balance of Capital Gains
 Tax Due From Sale = \$ 3,342

+ 3,342

TOTAL TAX DUE ON SALE

= \$ 9,160

RESIDENTIAL INVESTMENT PERFORMANCE SUMMARY

PROJECTED SALES PRICE:.....

= \$ 136,857 (o)

LESS: Projected Cost of Sale:.....

- \$ 9,580 (p)

Mortgage Balance Due:.....

- \$ 75,000 (c)

Tax Due on Sale (Form 4).....

- \$ 9,160

AFTER-TAX PROCEEDS FROM SALE:.....

= \$ 43,117 (S)

CASH FLOW AFTER TAX (Form 3):.....

\$ 1,766

Investor After-Tax Rate of Return (%):.....

(n) 1.44%

Holding Period:.....

(k) 8 yrs.

AMOUNT ACCUMULATED:.....

= 14,861 * (T)

PMT
i
n
SOLVE
FOR
FV

TOTAL FUTURE WEALTH: ((S) + (T)).....

= \$ 57,978

FV

INITIAL INVESTMENT:.....

(f) \$ 30,000

PV

HOLDING PERIOD:.....

(k) 8 yrs.

n
SOLVE
FOR

AFTER-TAX RATE OF RETURN/YIELD (%):.....

= 8.58%

i

***Note:** If CFAT is positive, the amount accumulated will also be positive and represents the amount that annual cash flows would earn if invested in a relatively safe and liquid type investment during the holding period.

If CFAT is negative, the amount accumulated will also be negative, and represents the after-tax lost opportunity cost of using investment capital to meet the annual deficit for the duration of the holding period.