

**Financial Analysis for  
Jennings Apartment Complex  
Prepared by Louis Burns**

February 16<sup>th</sup>, 2012

This analysis is for an equity investor with \$250,000 to invest.

## Executive Summary

Multi-family residential appears to be the best investment in commercial real estate in the current market for the following reasons:

- Foreclosures have created an influx of renters from former home owners
- Tighter lending guidelines have prevented many renters from owning
- Other industries are in flux reallocating their resources away from office and retail spaces in favor of mobile workforces and online shopping.

The local Fort Worth market has weathered the real estate bubble better than most areas across the country. Middle of the market apartment units have relatively less risk than many of the other commercial options.

The property in question is a 12 unit apartment complex on 3 parcels large enough to build another 6 units. It is surrounded by a number of SFR and vacant lots that could also be developed. The seller has other apartments in the area should this one prove profitable enough.

The property is currently fully leased though leases are month to month with long term renters. Many of the units have been renovated and some have their original wood flooring. A full inspection would reveal the condition of each unit.

The area is the medical district of south Fort Worth. Prices have remained fairly stable in recent years in this modest neighborhood.

The analysis looked at two different scenarios – using a FHA loan, what would be the return with the minimum down payment and the maximum down payment of the full \$250,000.

Though more complex capital accumulation models should be considered as well, the highest return is from purchasing the property with the minimum down payment – and possibly purchasing another property with the remainder.

Reference the following spreadsheets for market analysis, scenario analysis, seller supplied info, cash flows and disposition analysis.

Jennings Apartment Complex

Agent supplied data

Asking Price       \$   645,000  
Units                       12  
Total SF                7,504  
Avg Unit SF            625  
Lot size in SF         16,960  
Occupancy             100%

\$/SF       \$    1.05

Units rented for \$600-650

Cap rate       9.15%

Room for 6 more units on included adjacent lot

2010

Gross Income       \$    95,000

Vacancy

EGI                 \$    95,000

OE                 \$    36,000

NOI                \$    59,000

BTCF               \$    65,000



Jennings Apartment Complex Cash Flow Analysis Worksheet For Minimum Down Payment

	1	2	3	4	5	6	7	8	9	10	11
PGI	\$ 91,849	\$ 93,686	\$ 95,560	\$ 97,471	\$ 99,420	\$ 101,409	\$ 103,437	\$ 105,506	\$ 107,616	\$ 109,768	\$ 111,963
- VCL	\$ 8,266	\$ 8,432	\$ 8,600	\$ 8,772	\$ 8,948	\$ 9,127	\$ 9,309	\$ 9,496	\$ 9,685	\$ 9,879	\$ 10,077
= EGI	\$ 83,583	\$ 85,254	\$ 86,959	\$ 88,698	\$ 90,472	\$ 92,282	\$ 94,128	\$ 96,010	\$ 97,930	\$ 99,889	\$ 101,887
-OE	\$ 37,600	\$ 38,352	\$ 39,119	\$ 39,901	\$ 40,699	\$ 41,513	\$ 42,344	\$ 43,191	\$ 44,054	\$ 44,935	\$ 45,834
= NOI	\$ 45,983	\$ 46,902	\$ 47,840	\$ 48,797	\$ 49,773	\$ 50,768	\$ 51,784	\$ 52,820	\$ 53,876	\$ 54,953	\$ 56,052
NOI	\$ 45,983	\$ 46,902	\$ 47,840	\$ 48,797	\$ 49,773	\$ 50,768	\$ 51,784	\$ 52,820	\$ 53,876	\$ 54,953	\$ 56,052
- Mortgage Interest	\$ 20,888	\$ 20,610	\$ 20,321	\$ 20,019	\$ 19,705	\$ 19,377	\$ 19,036	\$ 18,680	\$ 18,309	\$ 17,922	
- Cost Recovery	\$ 16,103	\$ 16,801	\$ 16,801	\$ 16,801	\$ 16,801	\$ 16,801	\$ 16,801	\$ 16,801	\$ 16,801	\$ 16,801	\$ 16,103
- Amort Loan Fees	\$ 289	\$ 289	\$ 289	\$ 289	\$ 289	\$ 289	\$ 289	\$ 289	\$ 289	\$ 289	\$ 289
= Taxable Income	\$ 8,702	\$ 9,202	\$ 10,429	\$ 11,688	\$ 12,978	\$ 14,301	\$ 15,658	\$ 17,050	\$ 18,477	\$ 20,639	
Tax Liability (Savings)	\$ 3,046	\$ 3,221	\$ 3,650	\$ 4,091	\$ 4,542	\$ 5,005	\$ 5,480	\$ 5,967	\$ 6,467	\$ 7,224	
NOI	\$ 45,983	\$ 46,902	\$ 47,840	\$ 48,797	\$ 49,773	\$ 50,768	\$ 51,784	\$ 52,820	\$ 53,876	\$ 54,953	
-ADS	\$ 27,451	\$ 27,451	\$ 27,451	\$ 27,451	\$ 27,451	\$ 27,451	\$ 27,451	\$ 27,451	\$ 27,451	\$ 27,451	\$ 27,451
= BTCF	\$ 18,532	\$ 19,452	\$ 20,390	\$ 21,346	\$ 22,322	\$ 23,318	\$ 24,333	\$ 25,369	\$ 26,425	\$ 27,503	
- Tax Liability (Savings)	\$ 3,046	\$ 3,221	\$ 3,650	\$ 4,091	\$ 4,542	\$ 5,005	\$ 5,480	\$ 5,967	\$ 6,467	\$ 7,224	
= ATCF	\$ 15,486	\$ 16,231	\$ 16,739	\$ 17,256	\$ 17,780	\$ 18,313	\$ 18,853	\$ 19,402	\$ 19,958	\$ 20,279	

Jennings Apartment Complex Sales Analysis Worksheet For Minimum Down Payment

Disposition Cap Rate	8.0%	Price	\$ 610,000
Cost of Sale	3.0%	+ Acquisition	\$ 6,100
Projected Sale Price	\$ 701,000	+ Loan Costs	\$ 10,126
		- Mortgage	\$ 506,300
Basis at Acquisition	\$ 616,100	Initial Invest	\$ 119,926
- Cost Recovery	\$ 166,615		
= Adjusted Basis	\$ 449,485	Improv Allo.	75%
		Cost Basis	\$ 462,075
Sale Price	\$ 701,000	Y 1/10 Dep	\$ 16,103
- Cost of Sale	\$ 21,030	Y 2-9 Dep	\$ 16,801
- Adjusted Basis	\$ 449,485	Annual Debt Service	\$27,451
= Gain (Loss)	\$ 230,485	Loan Costs	\$ 10,126
- Cost Recovery	\$ 166,615	Amortized Annuanlly	\$ 289
= Capital Gain fr App.	\$ 63,870		
Unamort Loan Costs	\$ 7,233		
Ordinary Income	\$ 7,233		
Sale Price	\$ 701,000		
- Cost of Sale	\$ 21,030		
- Mortgage Balance	\$ 426,659		
= Proceeds Before Tax	\$ 253,311		
- Recapture Tax	\$ 41,654		
- Capital Gain Tax	\$ 9,580		
- Ordinary Income Tax	\$ 2,532		
= Proceeds After Tax	\$ 199,546		

Jennings Apartment Complex Cash Flow Analysis Worksheet For Maximum Down Payment

	1	2	3	4	5	6	7	8	9	10	11
PGI	\$ 91,849	\$ 93,686	\$ 95,560	\$ 97,471	\$ 99,420	\$ 101,409	\$ 103,437	\$ 105,506	\$ 107,616	\$ 109,768	\$ 111,963
- VCL	\$ 8,266	\$ 8,432	\$ 8,600	\$ 8,772	\$ 8,948	\$ 9,127	\$ 9,309	\$ 9,496	\$ 9,685	\$ 9,879	\$ 10,077
= EGI	\$ 83,583	\$ 85,254	\$ 86,959	\$ 88,698	\$ 90,472	\$ 92,282	\$ 94,128	\$ 96,010	\$ 97,930	\$ 99,889	\$ 101,887
-OE	\$ 37,600	\$ 38,352	\$ 39,119	\$ 39,901	\$ 40,699	\$ 41,513	\$ 42,344	\$ 43,191	\$ 44,054	\$ 44,935	\$ 45,834
= NOI	\$ 45,983	\$ 46,902	\$ 47,840	\$ 48,797	\$ 49,773	\$ 50,768	\$ 51,784	\$ 52,820	\$ 53,876	\$ 54,953	\$ 56,052
NOI	\$ 45,983	\$ 46,902	\$ 47,840	\$ 48,797	\$ 49,773	\$ 50,768	\$ 51,784	\$ 52,820	\$ 53,876	\$ 54,953	\$ 56,052
- Mortgage Interest	\$ 15,412	\$ 15,207	\$ 14,993	\$ 14,771	\$ 14,539	\$ 14,297	\$ 14,045	\$ 13,783	\$ 13,509	\$ 13,224	
- Cost Recovery	\$ 16,103	\$ 16,801	\$ 16,801	\$ 16,801	\$ 16,801	\$ 16,801	\$ 16,801	\$ 16,801	\$ 16,801	\$ 16,801	\$ 16,103
- Amort Loan Fees	\$ 213	\$ 213	\$ 213	\$ 213	\$ 213	\$ 213	\$ 213	\$ 213	\$ 213	\$ 213	\$ 213
= Taxable Income	\$ 14,254	\$ 14,681	\$ 15,832	\$ 17,012	\$ 18,219	\$ 19,457	\$ 20,724	\$ 22,022	\$ 23,352	\$ 25,413	
Tax Liability (Savings)	\$ 4,989	\$ 5,138	\$ 5,541	\$ 5,954	\$ 6,377	\$ 6,810	\$ 7,253	\$ 7,708	\$ 8,173	\$ 8,895	
NOI	\$ 45,983	\$ 46,902	\$ 47,840	\$ 48,797	\$ 49,773	\$ 50,768	\$ 51,784	\$ 52,820	\$ 53,876	\$ 54,953	
-ADS	\$ 20,254	\$ 20,254	\$ 20,254	\$ 20,254	\$ 20,254	\$ 20,254	\$ 20,254	\$ 20,254	\$ 20,254	\$ 20,254	\$ 20,254
= BTCF	\$ 25,728	\$ 26,648	\$ 27,586	\$ 28,543	\$ 29,519	\$ 30,514	\$ 31,530	\$ 32,565	\$ 33,622	\$ 34,699	
- Tax Liability (Savings)	\$ 4,989	\$ 5,138	\$ 5,541	\$ 5,954	\$ 6,377	\$ 6,810	\$ 7,253	\$ 7,708	\$ 8,173	\$ 8,895	
= ATCF	\$ 20,739	\$ 21,510	\$ 22,045	\$ 22,589	\$ 23,142	\$ 23,704	\$ 24,276	\$ 24,857	\$ 25,448	\$ 25,805	

Jennings Apartment Complex Sales Analysis Worksheet For Maximum Down Payment

Disposition Cap Rate	8.0%	Price	\$ 610,000
Cost of Sale	3.0%	+ Acquisition	\$ 6,100
Projected Sale Price	\$ 701,000	+ Loan Costs	\$ 7,471
		- Mortgage	\$ 373,571
Basis at Acquisition	\$ 616,100	Initial Invest	\$ 250,000
- Cost Recovery	\$ 166,615		
= Adjusted Basis	\$ 449,485	Improv Allo.	75%
		Cost Basis	\$ 462,075
Sale Price	\$ 701,000	Y 1/10 Dep	\$ 16,103
- Cost of Sale	\$ 21,030	Y 2-9 Dep	\$ 16,801
- Adjusted Basis	\$ 449,485	Annual Debt Service	\$20,254
= Gain (Loss)	\$ 230,485	Loan Costs	\$ 7,471
- Cost Recovery	\$ 166,615	Amortized Annuanlly	\$ 213
= Capital Gain fr App.	\$ 63,870		
Unamort Loan Costs	\$ 5,337		
Ordinary Income	\$ 5,337		
Sale Price	\$ 701,000		
- Cost of Sale	\$ 21,030		
- Mortgage Balance	\$ 332,320		
= Proceeds Before Tax	\$ 347,650		
- Recapture Tax	\$ 41,654		
- Capital Gain Tax	\$ 9,580		
- Ordinary Income Tax	\$ 1,868		
= Proceeds After Tax	\$ 294,548		



Jennings Apartment Complex Returns Analysis

IRR w/ Minimum Down Payment				IRR w/ Maximum Down Payment			
IRR Before Tax		IRR After Tax		IRR Before Tax		IRR After Tax	
0	\$ (119,926)	0	\$ (119,926)	0	\$ (250,000)	0	\$ (250,000)
1	\$ 18,532	1	\$ 15,486	1	\$ 25,728	1	\$ 20,739
2	\$ 19,452	2	\$ 16,231	2	\$ 26,648	2	\$ 21,510
3	\$ 20,390	3	\$ 16,739	3	\$ 27,586	3	\$ 22,045
4	\$ 21,346	4	\$ 17,256	4	\$ 28,543	4	\$ 22,589
5	\$ 22,322	5	\$ 17,780	5	\$ 29,519	5	\$ 23,142
6	\$ 23,318	6	\$ 18,313	6	\$ 30,514	6	\$ 23,704
7	\$ 24,333	7	\$ 18,853	7	\$ 31,530	7	\$ 24,276
8	\$ 25,369	8	\$ 19,402	8	\$ 32,565	8	\$ 24,857
9	\$ 26,425	9	\$ 19,958	9	\$ 33,622	9	\$ 25,448
10	\$ 280,814	10	\$ 219,825	10	\$ 382,349	10	\$ 320,353
IRR	21.76%	IRR	17.38%	IRR	13.68%	IRR	10.29%
Effective Tax Rate		20.14%		Effective Tax Rate		24.80%	