

Purchase Example

Advanced Finance Spring 2006 - Rooks

You purchase a 12 unit apartment building. The unit mix is four 3 Bedroom, 2 Bath units renting for \$1,800 per month, there are eight 2 bedroom, 2 bath units renting for \$1,600 per month. Each unit has a double car garage, there are laundry hookups inside each unit. The building has a laundry room for those tenants who do not have their own washer and dryer. There are six guest parking places. The Expenses of operation are running 35% of the Gross Scheduled Income, the Vacancy Factor is 5% of the Gross Scheduled Income. You can get a new 1st Trust Deed and Note that will allow you to use 50% of the Gross Scheduled Income. The first Trust Deed Lender will allow a 2nd Trust Deed as long as there is at least a \$2,400 annual cash flow.

The improvement value of the building will be 70% of the purchase price. Depreciation will be 27^{1/2} year Straight Line. Your Marginal Tax Bracket, Combined State and Federal, with this investment is 32%.

Unit Mix	4	-	3 Bedroom, 2 Bath Units @ \$1,800 per month
	8	-	2 Bedroom, 2 Bath Units @ \$1,600 per month
Other Income		-	None figured this exercise.
Vacancy Factor		-	5% of Gross Scheduled Income
Expenses of Operation		-	35% of Gross Scheduled Income
New 1 st Trust Deed		-	Payments can be 50% of Gross Scheduled Income the lender requires a cash flow of 1% at purchase, or in this case \$2,400 annually.
New 2 nd Trust Deed		-	The seller has agreed to carry a 2 nd Trust Deed at 6% Interest only with the remainder of the Net Operating Income.
Cash Down Payment		-	The cash down payment will be 30% of the purchase price.

Find the purchase price of the building. Find the cash flow at purchase.
 Build a year one total return.