

# SCENARIO 2



## **PURCHASE SCENARIO 2**

**LA ESTRELLA VISTA**  
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<b>Annual Operating Expenses First Year</b>	<b>First Year Month</b>	<b>Annual</b>	<b>Notes</b>
<b>Advertising</b>	0	0	
<b>Home Owners Association</b>	300	3,600	
<b>Insurance</b>	0	0	
<b>Maintenance</b>	0	0	<b>New building</b>
<b>Property Management</b>	0	0	
<b>Property Taxes</b>	305	3,660	
<b>Supplies</b>	0	0	
<b>Utilities</b>	<b>Power</b>	15	180
	<b>Water / Sewer</b>		0
	<b>Solid Waste</b>		0
			<b>By HOA</b>
			<b>By HOA</b>
<b>Total Annual Operating Expenses First Year</b>		<b>7,440</b>	
<b>Deposit to Capital Improvement savings</b>	50	600	<b>Optional</b>
<b>Gross Annual Income First Year</b>	<b>First Year Month</b>	<b>Annual</b>	<b>Notes</b>
<b>Rents</b>	<b>per Apartment 1,050</b>		
	<b>4 Apartments</b>	<b>4,200</b>	<b>50,400</b>
<b>Laundry Equipment Rental per Apartment 50</b>			
	<b>4 Apartments</b>	<b>200</b>	<b>2,400</b>

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Income Statement	Year	Purchase	1	2	3	4	5	6	7	8	9	10
Income Growth Rate	3.00%											
Gross Rents		50,400	51,912	53,469	55,073	56,726	58,427	60,180	61,986	63,845	65,761	67,733
Other Income		2,400	2,472	2,546	2,622	2,701	2,782	2,865	2,951	3,040	3,131	3,225
Potential Gross Income		52,800	54,384	56,015	57,695	59,427	61,209	63,045	64,937	66,885	68,892	70,958
less Vacancy	3.00%	(1,584)	(1,632)	(1,680)	(1,731)	(1,783)	(1,836)	(1,891)	(1,948)	(2,007)	(2,067)	(2,129)
Effective Gross Income		51,216	52,752	54,335	55,964	57,644	59,373	61,154	62,989	64,878	66,825	68,829
less Operating Expenses	5.00%	(7,440)	(7,812)	(8,203)	(8,613)	(9,044)	(9,496)	(9,971)	(10,470)	(10,994)	(11,544)	(12,121)
Net Operating Income		43,776	44,940	46,132	47,351	48,600	49,877	51,183	52,519	53,884	55,281	56,708
less Interest Expense		(33,167)	(32,817)	(33,806)	(33,387)	(32,938)	(32,456)	(31,940)	(31,386)	(30,793)	(30,156)	(29,473)
Misc Closing Costs		(900)										
Depreciation												
Building		(21,418)	(21,418)	(22,327)	(22,327)	(22,327)	(22,327)	(22,327)	(22,327)	(22,327)	(22,327)	(22,327)
Personal Property 1		(857)	(857)	(857)	(857)	(857)	(857)	(857)	0	0	0	0
Personal Property 2		0	0	0	0	0	0	0	0	0	0	0
Improvements	6	0	0	0	0	0	0	(145)	(145)	(145)	(145)	(145)
Amortized Points	30	(238)	(238)	(238)	(238)	(238)	(238)	(238)	(238)	(238)	(238)	(238)
Taxable Income (Loss) Basis		(12,804)	(10,391)	(8,823)	(7,202)	(5,523)	(3,783)	(2,128)	596	2,532	4,539	6,622
Taxable Income (Loss)												
Active		(12,804)	(10,391)	(8,823)	(7,202)	(5,523)	(3,783)	(2,128)	596	2,532	4,539	6,622
Passive (Loss Carryover)		(12,804)	(23,195)	(32,018)	(39,221)	(44,474)	(48,527)	(50,655)	(50,059)	(47,527)	(42,988)	(36,366)
Ratios Operating Expense		14.53	14.81	15.10	15.39	15.69	15.99	16.30	16.62	16.95	17.28	17.61
Income		85.47	85.19	84.90	84.61	84.31	84.01	83.70	83.38	83.05	82.72	82.39
Cash Flow												
Net Operating Income		43,776	44,940	46,132	47,351	48,600	49,877	51,183	52,519	53,884	55,281	56,708
less Debt service		(38,002)	(38,002)	(38,002)	(38,002)	(38,002)	(38,002)	(38,002)	(38,002)	(38,002)	(38,002)	(38,002)
Before Tax Cash Flow		5,774	6,938	8,130	9,349	10,598	11,875	13,181	14,517	15,882	17,278	18,706
Reserve Fund (Savings)	Recommended											
Deposits		600	618	637	656	675	696	716	738	760	783	806
Interest Income	4.00%	24	25	26	52	81	111	143	17	48	80	114
Improvement Withdrawal		0	0	0	0	0	0	(4,000)	0	0	0	0
Balance			643	1,305	2,013	2,769	3,575	435	1,190	1,998	2,860	3,781

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<b>Input Data Investment</b>	<b>Purchase Price</b>		<b>595,000</b>			<b>Growth Rates</b>	<b>Expenses</b>		<b>5.00%</b>
	<b>Initial Investment</b>	<b>LTV</b>	<b>20%</b>				<b>Income</b>		<b>3.00%</b>
	<b>Equity</b>		<b>119,000</b>				<b>Appreciation</b>		<b>5.00%</b>
	<b>less Seller Incentive</b>		<b>0</b>				<b>Reinvestment Rate of Return</b>		<b>5.00%</b>
	<b>Net Equity</b>			<b>119,000</b>			<b>Reserve Fund</b>		<b>5.00%</b>
	<b>Mortgage Principle</b>		<b>476,000</b>				<b>Reserve Fund Rate of Return</b>		<b>4.00%</b>
		<b>Points</b>	<b>1.50%</b>		<b>7,140</b>				
	<b>Closing Costs</b>	<b>900</b>					<b>Mortgage Loan 1</b>	<b>Amount</b>	<b>476,000</b>
	<b>Total Initial Investment</b>		<b>127,040</b>				<b>Balloon Year</b>	<b>0</b>	
							<b>Interest Rate</b>	<b>7.00%</b>	
<b>Depreciation</b>	<b>Non Depreciable</b>	<b>Land</b>	<b>0</b>			<b>Term Years</b>	<b>30</b>		
	<b>Personal Property 1</b>		<b>6,000</b>			<b>Points</b>	<b>1.50%</b>		
	<b>Recovery Period (1,5,7,10)Years</b>		<b>7.0</b>			<b>Payment</b>	<b>3,167</b>		
	<b>Personal Property 2</b>		<b>0</b>						
	<b>Recovery Period (1,5,7,10)Years</b>		<b>0.0</b>			<b>Loan 2</b>	<b>Amount</b>	<b>0</b>	
	<b>Building Basis</b>	<b>100%</b>	<b>589,000</b>			<b>Balloon Year</b>	<b>0</b>		
	<b>Recovery Period Years 2</b>		<b>27.5</b>		<b>Interest Rate</b>	<b>0.00%</b>			
					<b>Term Years</b>	<b>0</b>			
<b>Revenue</b>	<b>Gross Income</b>					<b>Points</b>	<b>0.00%</b>		
	<b>Rents</b>		<b>50,400</b>			<b>Payment</b>	<b>0</b>		
	<b>Other</b>		<b>2,400</b>						
	<b>Vacancy Factor</b>		<b>3%</b>			<b>Improvements</b>	<b>Improvement</b>	<b>Amount</b>	
	<b>Operating Expenses</b>		<b>7,440</b>				<b>Year</b>	<b>4,000</b>	
							<b>6</b>		

**Executive Summary**

<b>Initial Investment</b>	<b>Acquisition Costs</b>					<b>Investment</b>					
		<b>Purchase</b>	<b>Points</b>	<b>Closing</b>	<b>Total</b>				<b>Amount</b>		<b>Percentage</b>
		595,000	7,140	900	603,040				127,040		21.07%

<b>Year</b>	<b>Purchase</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>
Projected Sales Price	595,000	624,750	655,988	688,787	723,226	759,387	797,356	837,224	879,085	923,039	969,191
EOY Loan Balance	(471,165)	(465,980)	(460,420)	(454,459)	(448,066)	(441,212)	(433,862)	(425,980)	(417,529)	(408,467)	(398,750)
EOY Investor Equity	(123,835)	(158,770)	(195,568)	(234,238)	(275,160)	(318,175)	(363,494)	(411,244)	(461,556)	(514,572)	(570,441)
Loan-to-Value Ratio	79.19%	74.59%	70.19%	65.98%	61.95%	58.10%	54.41%	50.88%	47.50%	44.25%	41.14%
Before Tax Cash Flows	4,177	6,938	8,130	9,349	10,598	11,875	13,181	14,517	15,882	17,278	18,706
Cash on Cash Return	4.54%	5.46%	6.40%	7.36%	8.34%	9.35%	10.38%	11.43%	12.50%	13.60%	14.72%
Cummulative	5.774	12,712	20,842	30,191	40,789	52,664	65,846	80,362	96,244	113,523	132,229

<b>Growth Ratios</b>											
Debt Coverage Ratio	115%	118%	121%	125%	128%	131%	135%	138%	142%	145%	149%
Break Even Point	86.1%	84.2%	82.5%	80.8%	79.2%	77.6%	76.1%	74.6%	73.3%	71.9%	70.6%
Percent of Ownership	20.8%	25.4%	29.8%	34.0%	38.0%	41.9%	45.6%	49.1%	52.5%	55.7%	58.9%

<b>First Year Ratios</b>			<b>Gross Income Multiplier (Purchase Price / Max Income Possible)</b>
Debt / Equity Ratio	3.75 (Debt / Initial Investment)		Monthly
Capitalization Rate	7.36 (Net Operating Income / Purchase Price) X 100		Annual
Mortgage Constant			11.27
Loan 1	7.98 (Annual Mortgage Payments / Debt) X 100		
Loan 2	0.00 (Annual Mortgage Payments / Debt) X 100		

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Mortgage and Equity												
Year		Purchase	1	2	3	4	5	6	7	8	9	10
Debt Service	Loan 1	38,002	38,002	38,002	38,002	38,002	38,002	38,002	38,002	38,002	38,002	38,002
	Loan 2	0	0	0	0	0	0	0	0	0	0	0
	Total	38,002	38,002	38,002	38,002	38,002	38,002	38,002	38,002	38,002	38,002	38,002
Interest	Loan 1	33,167	32,817	32,442	32,041	31,610	31,147	30,652	30,121	29,551	28,940	28,285
	Loan 2	0	0	0	0	0	0	0	0	0	0	0
	Total	33,167	32,817	32,442	32,041	31,610	31,147	30,652	30,121	29,551	28,940	28,285
Principal	Loan 1	4,835	5,185	5,560	5,962	6,392	6,855	7,350	7,881	8,451	9,062	9,717
	Loan 2	0	0	0	0	0	0	0	0	0	0	0
	Total	4,835	5,185	5,560	5,962	6,392	6,855	7,350	7,881	8,451	9,062	9,717
EOY Loan Balance	Loan 1	471,165	465,980	460,420	454,459	448,066	441,212	433,862	425,980	417,529	408,467	398,750
	Loan 2	0	0	0	0	0	0	0	0	0	0	0
	Total	471,165	465,980	460,420	454,459	448,066	441,212	433,862	425,980	417,529	408,467	398,750
Projected Sales Price		5.00%	624,750	655,988	688,787	723,226	759,388	797,357	837,225	879,086	923,040	696,192
Investor Equity			158,770	195,568	234,328	275,160	318,176	363,495	411,245	461,557	514,573	570,442
Annual ROI (Cash on Cash)		127,040	124.98%	76.97%	61.48%	54.15%	50.09%	47.69%	46.24%	45.41%	45.01%	44.90%

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Sale of Property			Purchase	1	2	3	4	5	6	7	8	9	10
Year													
Projected Sales Price	Growth 5.0%		595,000	624,750	655,988	688,787	723,226	759,387	797,356	837,224	879,085	923,039	969,191
Costs	Basis Unadjusted Basis		595,000	595,000	595,000	595,000	595,000	595,000	595,000	595,000	595,000	595,000	595,000
	add Improvements		0	0	0	0	0	0	4,000	4,000	4,000	4,000	4,000
	less Depreciation		(22,275)	(44,551)	(66,826)	(89,101)	(111,377)	(133,652)	(156,073)	(177,636)	(199,200)	(220,764)	(242,327)
	Adjusted Basis		572,725	550,449	528,174	505,899	483,623	461,348	442,927	421,364	399,800	378,236	356,673
	Cost of Sales add Commissions	6.00%	37,485	39,359	41,327	43,394	45,563	47,841	50,233	52,745	55,382	58,151	
	add Title / Escrow	0.25%	1,600	1,600	1,700	1,800	1,900	2,000	2,100	2,200	2,300	2,400	
Total Costs			572,725	589,534	569,133	548,926	528,817	508,811	492,768	473,697	454,745	435,918	417,224
Gain or Loss				35,216	86,855	139,861	194,409	250,576	304,588	363,527	424,340	487,121	551,967
Taxable Gain (Loss)	Active Net Taxable Gain (Loss)			35,216	86,855	139,861	194,409	250,576	304,588	363,527	424,340	487,121	551,967
	Passive Loss Carryover			(12,804)	(23,195)	(32,018)	(39,221)	(44,744)	(48,527)	(50,655)	(50,059)	(47,527)	(42,988)
	Net Taxable Gain (Loss)			22,412	63,660	107,843	151,188	205,832	256,060	312,872	374,281	439,594	508,979
	Note: Investor to determine their personal Tax Liability												
Proceeds Before Tax Liability	Projected Sales Price		624,750	655,988	688,787	723,226	759,387	797,356	837,224	879,085	923,039	969,191	
	less Cost of Sales		(39,085)	(40,953)	(43,027)	(45,194)	(47,463)	(49,841)	(52,333)	(54,945)	(57,682)	(60,551)	
	less Balance of Loans		(465,980)	(460,420)	(454,459)	(448,066)	(441,212)	(433,862)	(425,980)	(417,529)	(408,467)	(398,750)	
	add Personal Property		6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	
Total Proceeds Before Tax Liability			125,685	160,609	197,301	235,966	276,712	319,653	364,911	412,611	462,890	515,890	

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