

**Make sure your audio (sound) is turned-on!**

**Introduction:**

**Investment Problem 1**

You are considering the purchase of a **2-unit** apartment building with money that you saved or otherwise accumulated. You have \$55,000 and can use any portion of these funds. Each apartment is a one-bedroom unit. As part of your investigation you discover the following information about the property and market in which it trades:

1. The asking or list price is \$135,000. The appraiser has allocated the market value at 15% to the land and 85% to the building.
2. Market rent is \$725 per unit per month and is expected to increase by 5% per year over the next five years. You expect to hold the property for the next three years.
3. Vacancy and collection losses in this market have been, and are expected to remain, at 4%.
4. Operating expenses are currently \$2,400 per year for fixed expenses, \$1,500 for variable expenses, and \$700 per year for reserves. These operating expense categories will increase by 5%, 6%, and 5% per year respectively.
5. The property is anticipated to appreciate in value by a total of 9% over the three-year holding period.
6. The lender is quoting a loan-to-value ratio of 80% for a 30-year loan with monthly payments and a 10% interest rate. The amortization table indicates that the principal repayment for this loan will be \$600, \$663, and \$733 for the first three years respectively.
7. Brokerage commissions are, and should remain at 6%.
8. The property could be put in service in January. The IRS depreciation rates are based on straight-line depreciation over a 27.5-year recovery period.
9. Your effective tax rates are 28% (income) and 20% (capital gains) and you feel that you need a 15% rate of return on the investment to cover your perception of the risk.

**Make sure your audio (sound) is turned-on!**

**Introduction:**

**Investment Problem 2**

You are considering the purchase of a **3-unit** apartment building with money that you saved or otherwise accumulated. You have \$55,000 and can use any portion of these funds. Each apartment is a one-bedroom unit. As part of your investigation you discover the following information about the property and market in which it trades:

1. The asking or list price is \$150,000. The appraiser has allocated the market value at 20% to the land and 80% to the building.
2. Market rent is \$550 per unit per month and is expected to increase by 5% per year over the next five years. You expect to hold the property for the next three years.
3. Vacancy and collection losses in this market have been, and are expected to remain, at 5%.
4. Operating expenses are currently \$3,000 per year for fixed expenses, \$2,000 for variable expenses, and \$800 per year for reserves. These operating expense categories will increase by 8%, 8%, and 8% per year respectively.
5. The property is anticipated to appreciate in value by a total of 12% over the three-year holding period.
6. The lender is quoting a loan-to-value ratio of 80% for a 30-year loan with monthly payments and a 10% interest rate. The amortization table indicates that the principal repayment for this loan will be \$600, \$663, and \$733 for the first three years respectively.
7. Brokerage commissions are, and should remain at 5%.
8. The property could be put in service in January. The IRS depreciation rates are based on straight-line depreciation over a 31.5-year recovery period.
10. Your effective tax rates are 20% (income) and 15% (capital gains) and you feel that you need a 10% rate of return on the investment to cover your perception of the risk.

**Make sure your audio (sound) is turned-on!**

**Introduction:**

**Investment Problem: Homework**

You are considering the purchase of a **4-unit** apartment building with money that you saved or otherwise accumulated. You have \$55,000 and can use any portion of these funds. Each apartment is a one-bedroom unit. As part of your investigation you discover the following information about the property and market in which it trades:

1. The asking or list price is \$175,000. The appraiser has allocated the market value at 20% to the land and 80% to the building.
2. Market rent is \$400 per unit per month and is expected to increase by 8% per year over the next five years. You expect to hold the property for the next three years.
3. Vacancy and collection losses in this market have been, and are expected to remain, at 9%.
4. Operating expenses are currently \$5,000 per year for fixed expenses, \$3,500 for variable expenses, and \$1,000 per year for reserves. These operating expense categories will increase by 10%, 8%, and 6% per year respectively.
5. The property is anticipated to appreciate in value by a total of 15% over the three-year holding period.
6. The lender is quoting a loan-to-value ratio of 75% for a 30-year loan with monthly payments and a 8% interest rate. The amortization table indicates that the principal repayment for this loan will be \$1096.42, \$1187.42, and \$1285.97 for the first three years respectively.
7. Brokerage commissions are, and should remain at 5%.
8. The property could be put in service in January. The IRS depreciation rates are based on straight-line depreciation over a 31.5-year recovery period.
11. Your effective tax rates are 10% (income) and 30% (capital gains) and you feel that you need a 15% rate of return on the investment to cover your perception of the risk.