

Case Study Assumptions

An investor is considering the purchase of a 25 unit apartment complex to hold as a long term investment. The following assumptions are provided for the purpose of doing a before and after tax projection for the potential investor.

Investor information

Ordinary income marginal tax rate - 36%
Capital gains tax rate - 15%
Cost recovery recapture tax rate - 25%
Anticipated holding period - 5 to 10 years
Before tax leveraged target yield - 15%

Property Information

Acquisition Price - \$1,475,000
Acquisition Costs - \$20,000
Land Allocation - 20%
Improvement Allocation - 80%
Year 1 projected Potential Rental Income - \$8,500 per unit
Potential Rental Income projected escalation - 3% per year
Year 1 projected Other Income - \$20,000
Other Income projected escalation - 2% per year
Projected stabilized vacancy rate - 6%
Projected operating expenses - 40% of Gross Operating Income
*Disposition Price - 9% Cap rate based on year of sale plus one NOI
*(Disposition price rounded to nearest \$1,000)
Disposition cost of sale - 4% of disposition price

Financing Information

Loan amount - 75% of acquisition price
Interest Rate - 8.5%
Amortization period - 25 years
Term - 10 years
Payments per year - 12
Loan costs - 2% of loan amount