

PROPERTY AND INVESTOR DATA SUMMARY

FORM 1

Property Address Olive Drive
 Prepared By Greg Swann

Investor Sullivan
 Date 4/22/2005

PURCHASE PRICE \$ 190,000 (a) LAND ALLOCATION 20%
 IMPROVEMENT ALLOCATION (%) x 80% %
 IMPROVEMENT VALUE \$ 152,000 (b)

	Amount		Rate (%)		Annual Interest
1st Loan	\$ <u>180,500</u>	x	<u>6.50%</u>	=	\$ <u>11,733</u>
	+				+
2nd Loan	\$ _____	x	_____	=	\$ <u>0</u>

TOTAL= \$ 180,500 (c) = \$ 11,733 (d)

Down Payment..... \$ 9,500

Closing Costs..... + \$ 3,500 (e)

Initial Investment..... = \$ 13,000 (f)

Gross Scheduled Income (monthly rent \$ 950 x 12) = \$ 11,400 (g)

Annual Vacancy Allowance (10% x (g)) = \$ 1,140 (h)
 %

ANNUAL OPERATING EXPENSES

Property Taxes	1,082				
Insurance	600				
Utilities	0				
Maintenance	600				
Other.....	370				
.....	0				
.....					
TOTAL.....	\$ 2,652				(i)

Investor's Tax Bracket (%)..... 28% (j)
 Holding Period..... 8 yrs. (k)
 Annual Property
 Appreciation Rate (%)..... 6.00% (l)
 Projected Cost of Sale (%)..... 9.00% (m)

Investor's Pre-Tax	
Investment Rate (%).....	<u>2.00%</u>
1.00 minus <u>28%</u> (j)	= x <u>0.72</u>
tax bracket	
Investor's After-Tax	
Investment Rate.....	<u>1.44%</u> (n)

CASH FLOW BEFORE TAXES

Gross Scheduled Income.....		\$	<u>11,400</u>	(g)
LESS: Vacancy Allowance.....	-	\$	<u>1,140</u>	(h)
<u>GROSS OPERATING INCOME</u>	=	\$	10,260	
LESS: Total Operating Expenses.....	-	\$	<u>2,652</u>	(i)
<u>NET OPERATING INCOME</u>	=	\$	7,608	
LESS: Annual Interest Payments.....	-		<u>11,733</u>	(d)
<u>CASH FLOW BEFORE TAXES</u>	=	\$	-4,125	

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CASH FLOW AFTER TAXES

NET OPERATING INCOME (Form 2).....
 LESS: Annual Interest Payments.....
 LESS: COST RECOVERY (Compute Below)

To Calculate Cost Recovery:

Improvement Value	\$ <u>152,000</u>	(b)
Divided by		
Cost Recovery Period	÷ <u>27.5 yrs.</u>	
Annual Cost Recovery	\$ <u>5,527</u>	

	\$ <u>7,608</u>
-	\$ <u>11,733</u> (d)
5,527	
=	\$ <u>-9,652</u>

TAXABLE INCOME OR (LOSS).....

TIMES: Investor's Tax Bracket (%).....

TAX SAVINGS (if negative)
 or.....

TAX LIABILITY (if positive)

CASH FLOW BEFORE TAXES (Form 2).....

TAX SAVINGS OR LIABILITY.....

CASH FLOW AFTER TAXES.....

	x <u>28%</u> (j)
=	\$ <u>-2,702</u>
	CHANGE SIGN
=	\$ <u>-4,125</u> *
+	<u>2,702</u>
=	\$ <u>-1,422</u>

- * If CFBT is negative: A tax savings will reduce the negative cash flow.
 A tax liability will increase the negative cash flow.
- * If CFBT is positive: A tax savings will increase the positive cash flow.
 A tax liability will reduce the positive cash flow.

TAX DUE ON SALE

Purchase Price.....	\$ <u>190,000</u>	(a)	PV
Annual Appreciation Rate (%).....	<u>6.00%</u>	(l)	i
Holding Period.....	<u>8 yrs.</u>	(k)	n

PROJECTED SALES PRICE: (Solve for FV).....

LESS: Projected Cost of Sale(%): 9.00% (m) x (o)

LESS: Adjusted Basis-

\$	<u>302,831</u>	(o)	FV
- \$	<u>27,255</u>	(p)	
-	<u>149,284</u>		
=	<u>126,292</u>	(r)	

To Calculate Adjusted Basis:

Purchase Price.....	\$ <u>190,000</u>	(a)	
PLUS: Closing Costs.....	+ <u>3,500</u>	(e)	
LESS: Total Cost Recovery:			
\$ <u>5,527</u> (Annual Cost)			
Recovery (Form 3)			
x <u>8</u> Holding Period (k)	- <u>44,216</u>	(q)	
Adjusted Basis..... \$ <u>149,284</u>			

TOTAL TAXABLE GAIN ON SALE.....

To Calculate Recapture Tax:

Recapture Total Cost			
Recovery Taken	\$ <u>44,216</u>	(q)	
Tax Rate (%)	x <u>25%</u>		
Tax Due from Recapture	= \$ <u>11,054</u>		
of Cost Recovery			

	\$ <u>11,054</u>		
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To Calculate Balance of Capital Gains Tax:

Total Taxable Gain	\$ <u>126,292</u>	(r)	
Less: Total Cost of			
Recovery Taken (Recapture)	- <u>44,216</u>	(q)	
Balance of Capital Gain	= <u>82,076</u>		
Times Capital Gains Tax Rate (%)	x <u>15%</u>		
Balance of Capital Gains			
Tax Due From Sale	= \$ <u>12,311</u>		

	+ <u>12,311</u>		
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TOTAL TAX DUE ON SALE = \$ 23,365

RESIDENTIAL INVESTMENT PERFORMANCE SUMMARY

PROJECTED SALES PRICE:.....

= \$ 302,831 (o)

LESS: Projected Cost of Sale:.....

- \$ 27,255 (p)

Mortgage Balance Due:.....

- \$ 180,500 (c)

Tax Due on Sale (Form 4):.....

- \$ 23,365

AFTER-TAX PROCEEDS FROM SALE:.....

= \$ 71,711 (S)

CASH FLOW AFTER TAX (Form 3):.....

\$ -1,422

Investor After-Tax Rate of Return (%):.....

(n) 1.44%

Holding Period:.....

(k) 8 yrs.

PMT
i
n
SOLVE FOR
FV

AMOUNT ACCUMULATED:.....

= -11,966 * (T)

TOTAL FUTURE WEALTH: ((S) + (T)).....

= \$ 59,745

FV

INITIAL INVESTMENT:.....

(f) \$ 13,000

PV

HOLDING PERIOD:.....

(k) 8 yrs.

n
SOLVE FOR

AFTER-TAX RATE OF RETURN/YIELD (%):.....

= 21.00%

i

***Note:** If CFAT is positive, the amount accumulated will also be positive and represents the amount that annual cash flows would earn if invested in a relatively safe and liquid type investment during the holding period.

If CFAT is negative, the amount accumulated will also be negative, and represents the after-tax lost opportunity cost of using investment capital to meet the annual deficit for the duration of the holding period.