

TOM LUNDSTEDT PRESENTS

Study Guide

Part 1 of 4

"Boost Your Business by Working with Investors"

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This material is designed to provide information in regard to the subject matter covered. It is offered with the understanding that the instructor is not engaged in rendering legal or accounting services. If legal or accounting advice is required, the services of a competent professional should be sought.

Disclaimer:

The purpose of this webinar is to familiarize you with several investment issues, not turn you into an accountant or attorney!

We're going to discuss some important tax and financial issues and it's important to make it clear right up front that the presenter, Tom Lundstedt, is not engaged in rendering legal, accounting or other professional services. Everyone's situation is unique, so – before you, or your clients take any real world action – be sure to check with the proper professionals.

Keep in mind, we are not the accountants, we are not the attorneys. Leave that stuff to the professionals. But, knowing the material in this program, should help you "talk the talk." Once the attorneys and the accountants in your town realize how knowledgeable you are, it's likely you'll get some good referrals because they have clients who want and need good investment properties. A good accountant, a good attorney, and a good real estate agent – that's a great financial team!

A rental property is a "money machine" made of three parts:

- _____
- _____
- _____

I. Analyzing a rental property before you buy:

A. There are four financial benefits of owning a rental property:

- 1.
- 2.
- 3.
- 4.

Depreciation rules:

Years

Land:

Personal property:

Residential rental building:

Non-residential rental building:

Land improvements:

Depreciation rates (rounded to two decimals)

	<u>Year 1</u>	<u>Year 2</u>
Personal property:	20%	32%
Residential building	3.48%	3.64%
Non-residential building	2.46%	2.56%
Land improvements	5%	9.5%

Investment Property Worksheet

This form is designed to assist in estimating the first year benefits of a real estate investment. It does not consider the effect of selling or exchanging the property in the future. This form is not a substitute for legal or tax advice. Anyone contemplating the purchase of a real estate investment should seek the services of competent legal and tax advisors.

Purchase cost \$ _____
 Cash invested \$ _____
 Financing: Amount _____ Rate _____ P&I _____ per month
 Financing: Amount _____ Rate _____ P&I _____ per month

Land value \$ _____ Depreciation
 Personal property value \$ _____ x _____ % = \$ _____
 Building value \$ _____ x _____ % = \$ _____
 Land improvement value \$ _____ x _____ % = \$ _____
 Total depreciation \$ _____
 Annual rent _____ Less vacancy _____ = Gross operating income _____

Annual operating expenses

Real estate tax	_____	Insurance	_____
Repairs	_____	Utilities	_____
Association dues	_____	Advertising	_____
Management	_____	Supplies	_____
Miscellaneous	_____	Miscellaneous	_____

Total operating expenses \$ _____

I. Gross operating income \$ _____
 Minus: operating expenses - \$ _____
 Equals: net operating income = \$ _____
 Minus: annual debt service (monthly P&I x 12) - \$ _____
 Equals: cash flow before tax = \$ _____

II. Annual debt service \$ _____
 Minus: interest - \$ _____
 Equals: principal reduction = \$ _____

III. Net operating income \$ _____
 Minus: interest - \$ _____
 Minus: total depreciation - \$ _____
 Equals: taxable income = \$ _____
 Multiplied by tax bracket x _____ %
 Equals: tax paid or saved = \$ _____

IV. Appreciation (estimate) \$ _____

Return on investment with appreciation
 Cash flow before tax + Principal reduction + Tax saved + Appreciation = _____ %
 Cash invested

Return on investment without appreciation
 Cash flow before tax + Principal reduction + Tax saved = _____ %
 Cash invested

Capitalization rate
 Net operating income = _____ %
 Purchase cost

Cash on cash
 Cash flow before tax = _____ %
 Cash invested

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Investment Property Worksheet

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Purchase cost			\$ _____	
Cash invested			\$ _____	
Financing:	Amount _____	Rate _____	P&I _____	per month
Financing:	Amount _____	Rate _____	P&I _____	per month
Land value			\$ _____	Depreciation
Personal property value	\$ _____	x _____ %	= \$ _____	
Building value	\$ _____	x _____ %	= \$ _____	
Land improvement value	\$ _____	x _____ %	= \$ _____	
Total depreciation			\$ _____	
Annual rent _____	Less vacancy _____			= Gross operating income _____
Annual operating expenses				
Real estate tax _____	Insurance _____			
Repairs _____	Utilities _____			
Association dues _____	Advertising _____			
Management _____	Supplies _____			
Miscellaneous _____	Miscellaneous _____			
Total operating expenses			\$ _____	
I. Gross operating income			\$ _____	
Minus: operating expenses			- \$ _____	
Equals: net operating income			= \$ _____	
Minus: annual debt service (monthly P&I x 12)			- \$ _____	
Equals: cash flow before tax			= \$ _____	
II. Annual debt service			\$ _____	
Minus: interest			- \$ _____	
Equals: principal reduction			= \$ _____	
III. Net operating income			\$ _____	
Minus: interest			- \$ _____	
Minus: total depreciation			- \$ _____	
Equals: taxable income			= \$ _____	
Multiplied by tax bracket			x _____ %	
Equals: tax paid or saved			= \$ _____	
IV. Appreciation (estimate)			\$ _____	
Return on investment with appreciation				
Cash flow before tax + Principal reduction + Tax saved + Appreciation			= _____ %	
Cash invested				
Return on investment without appreciation				
Cash flow before tax + Principal reduction + Tax saved			= _____ %	
Cash invested				
Capitalization rate				
Net operating income			= _____ %	
Purchase cost				
Cash on cash				
Cash flow before tax			= _____ %	
Cash invested				

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Case study # 1

Your brother says he found a beautiful, little 8-unit apartment building. But he's not sure if it's a good deal or not. Please calculate the first year benefits and rate of return.

Purchase cost:	\$520,000
Cash invested:	\$72,000
Financing:	\$448,000 @ 9.5% @ \$3,780 per month
Annual rent:	3 units rented for \$1,000/month
	3 units rented for \$900/month
	2 units rented for \$760/month
Vacancy rate:	5%
Operating expenses:	\$31,248
Tax bracket:	35% (combined State and Federal)
Land value:	\$68,600
Personal property value:	\$45,000
Building value:	\$350,000
Land improvements:	\$56,400
First year interest:	\$42,434
Purchase date:	January