

# INVESTMENT ANALYSIS:

Seller Asking Price:	240 000
Agreed Purchase Price (OTP):	185 000
Estimated Transaction Costs:	35 000
5% Downpayment:	9 250
Initial Investment Basis:	220 000
Refurbishment Cost:	5000
Holding Cost During Refurb:	1500
Mortgage:	175 750
<b>Initial Equity Required:</b>	<b>50 750</b>

Cap Rate:	11,68%
Equity Reversion Rate (COC):	0,93%
Break-Even Ratio:	99,49%
Debt Coverage Ratio:	100,93%
Loan to Value Ratio:	95,00%
Internal Rate of Return:	1,30%
Below Market Value%:	15,98%
Below Asking %:	22,92%

**FODDERPRO**

Monthly Cost Breakdown (1st year)	ST+3%	ST+5%
Monthly Rental Income:	3 336	3 336
Monthly Bond Cost (11,5% bond):	1786	2183
Monthly Levies:	900	900
Monthly Prop Taxes:	40	40
Owners Insurance:	120	120
Vacancy Allowance - 10%:	33	33
Maintenance Allowance - 5%:	167	167
Overheads Allowance - 4.5%:	150	150
Management Fee - 11%:	100	100
<b>Cashflow after deductions &amp; Allowances:</b>	<b>39</b>	<b>-632</b>
<b>Cash on hand after expenses: (Assuming no expenses for Vacancy, Maintenance &amp; Overheads)</b>	<b>389</b>	<b>-7</b>
	<b>-281</b>	

<b>Property Info:</b>	
Property Adress:	371 Thabo Sehume
Scheme Name:	Bauhaus
Number of Units:	1
Unit Types:	0
Purchase price p/m2:	6167
All-in cost p/m2:	7550
Rental rate p/m2:	111
Size Erf:	30
Bedrooms:	1
Bathrooms:	1

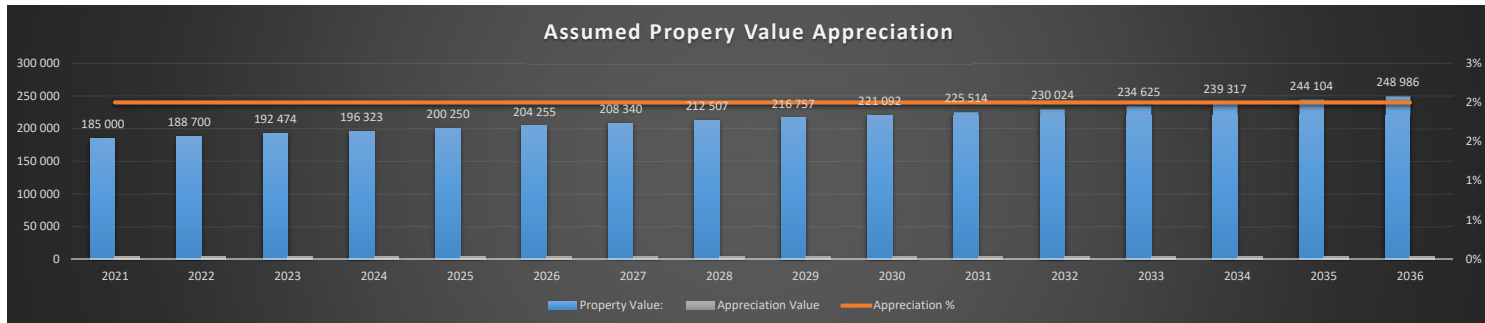
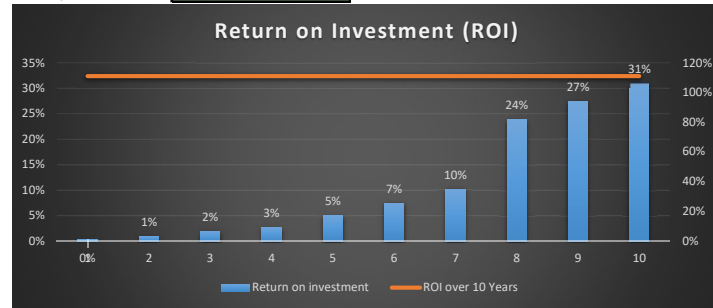
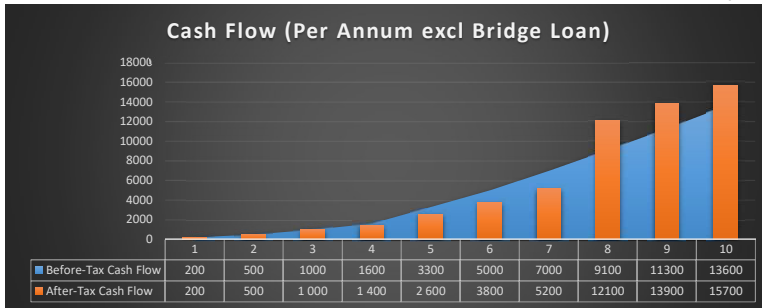
<b>Quick Ranking on Risk &amp; Return</b>	
Stress Test Performance Rating:	Medium
Returns Performance Rating:	Medium
Purchase Price Performance Rating:	High

Go / No-Go based on Quick Ranking



Payback Period	0	1	2	3	4	5	6	7	8	9	10
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
ATCF:		200	500	1 000	1 400	2 600	3 800	5 200	12 100	13 900	15 700
ATER:		0	0	0	0	0	0	0	0	0	0
Total:	44 250	200	500	1 000	1 400	2 600	3 800	5 200	12 100	13 900	15 700
Cummulative:	44 250	44 050	43 550	42 550	41 150	38 550	34 750	29 550	17 450	3 550	12 150
Initial Calc:	0	1	2	3	4	5	6	7	8	9	-

Equity Reversion Payback Period: **9,00 years**



## Operating Expenses

Annual Operating Expense Increase:

Management Fee (% of EGI):

Transaction Costs: 6%:

	0*	1	2	3	4	5	6	7	8	9
<b>Increase in property taxes:</b>		3,0%	3,0%	3,0%	3,0%	3,0%	3,0%	3,0%	3,0%	3,0%

(to the following and continuing years)

\* fill in this box only if property taxes below need to be adjusted for the first year of operations

### First-year Operating Forecast

**Potential Gross Rent**

*Less: Allowance for Vacancies @ 10%*

*Plus: Other Income*

**Effective Gross Income**

Current Expense Estimates (per annum):

**Operating Expenses**

Management Fee (% of EGI)

Levies

Insurance

Maintenance & Repairs & Overheads (9,5% of Rental)

Property Taxes

**Net Operating Income (NOI)**

R	10 800,00
R	1 440,00
R	3 803,04
R	40,00

1 200

11 300

1 500

4 000

0

R 40 000,00

R 400,00

R 39 600,00

-

**R 39 600,00**

R 18 000,00

**R 21 600,00**

10%

## Operating Statement

### Operating Forecast

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>
Transaction Costs: 6%:										
1, Potential Gross Rent	40 000	42 800	45 800	48 500	51 400	54 500	57 800	61 300	65 000	68 900
2, Vacancy Allowance	<u>400</u>	<u>2 100</u>	<u>3 700</u>	<u>4 900</u>	<u>5 100</u>	<u>5 500</u>	<u>5 800</u>	<u>6 100</u>	<u>6 500</u>	<u>6 900</u>
3, Gross Rental	39 600	40 700	42 100	43 600	46 300	49 000	52 000	55 200	58 500	62 000
4, Other Income	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
5, Effective Gross Income	<u>39 600</u>	<u>40 700</u>	<u>42 100</u>	<u>43 600</u>	<u>46 300</u>	<u>49 000</u>	<u>52 000</u>	<u>55 200</u>	<u>58 500</u>	<u>62 000</u>
<b>6, Operating Expenses</b>										
7, Management Fee	1 200	1 200	1 300	1 300	1 400	1 500	1 600	1 700	1 800	1 900
9, Levies	11 300	11 800	12 300	12 900	13 500	14 100	14 700	15 400	16 100	16 800
10, Insurance	1 500	1 600	1 700	1 800	1 900	2 000	2 100	2 200	2 300	2 400
13, Maintenance & repairs	4 000	4 200	4 400	4 600	4 800	5 000	5 200	5 400	5 600	5 900
14, Property Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
15, Total Expenses	<u>18 000</u>	<u>18 800</u>	<u>19 700</u>	<u>20 600</u>	<u>21 600</u>	<u>22 600</u>	<u>23 600</u>	<u>24 700</u>	<u>25 800</u>	<u>27 000</u>
16, Net Operating Income	<u><b>21 600</b></u>	<u><b>21 900</b></u>	<u><b>22 400</b></u>	<u><b>23 000</b></u>	<u><b>24 700</b></u>	<u><b>26 400</b></u>	<u><b>28 400</b></u>	<u><b>30 500</b></u>	<u><b>32 700</b></u>	<u><b>35 000</b></u>

### Forecasted Operating Expense Ratios

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>
	45,5%	46,2%	46,8%	47,2%	46,7%	46,1%	45,4%	44,7%	44,1%	43,5%







### Before-Tax Cash Flow (BTCF)

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>
Transaction Costs: 6%:	40 000	42 800	45 800	48 500	51 400	54 500	57 800	61 300	65 000	68 900
Vacancy Allowance	<u>400</u>	<u>2 100</u>	<u>3 700</u>	<u>4 900</u>	<u>5 100</u>	<u>5 500</u>	<u>5 800</u>	<u>6 100</u>	<u>6 500</u>	<u>6 900</u>
	39 600	40 700	42 100	43 600	46 300	49 000	52 000	55 200	58 500	62 000
Other Income	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Effective Gross Income	<u>39 600</u>	<u>40 700</u>	<u>42 100</u>	<u>43 600</u>	<u>46 300</u>	<u>49 000</u>	<u>52 000</u>	<u>55 200</u>	<u>58 500</u>	<u>62 000</u>
<b>Operating Expenses</b>										
Management Fee	1 200	1 200	1 300	1 300	1 400	1 500	1 600	1 700	1 800	1 900
Levies	11 300	11 800	12 300	12 900	13 500	14 100	14 700	15 400	16 100	16 800
Insurance	1 500	1 600	1 700	1 800	1 900	2 000	2 100	2 200	2 300	2 400
Maintenance & Repairs	4 000	4 200	4 400	4 600	4 800	5 000	5 200	5 400	5 600	5 900
Property Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Expenses	<u>18 000</u>	<u>18 800</u>	<u>19 700</u>	<u>20 600</u>	<u>21 600</u>	<u>22 600</u>	<u>23 600</u>	<u>24 700</u>	<u>25 800</u>	<u>27 000</u>
Net Operating Income	21 600	21 900	22 400	23 000	24 700	26 400	28 400	30 500	32 700	35 000
Debt Service	<u>21 400</u>	<u>21 400</u>	<u>21 400</u>	<u>21 400</u>	<u>21 400</u>	<u>21 400</u>	<u>21 400</u>	<u>21 400</u>	<u>21 400</u>	<u>21 400</u>
<b>Before-Tax Cash Flow</b>	<u><u>200</u></u>	<u><u>500</u></u>	<u><u>1 000</u></u>	<u><u>1 600</u></u>	<u><u>3 300</u></u>	<u><u>5 000</u></u>	<u><u>7 000</u></u>	<u><u>9 100</u></u>	<u><u>11 300</u></u>	<u><u>13 600</u></u>

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## Income Tax Issues

Marginal Tax Rate:	<input type="text" value="28%"/>
Transaction Costs: 6%:	
Other Tax Deductables	<input type="text" value="1 440"/>
Insurance	<input type="text" value="1 440"/>
Management Fee	<input type="text" value="1 200"/>
Tax Deduction	<input type="text" value="R 2 600,00"/>

Tax Calculations	1	2	3	4	5	6	7	8	9	10
Net Operating Income	21 600	21 900	22 400	23 000	24 700	26 400	28 400	38 100	40 600	43 300
- Interest Expense	20 100	20 000	19 800	19 600	19 400	19 100	18 900	18 600	18 200	17 800
- Tax Deductables	2 600	2 678	2 758	2 841	2 926	3 014	3 105	3 198	3 294	3 392
Taxable Income (Loss)	-1 100	-778	-158	559	2 374	4 286	6 395	16 302	19 106	22 108
x Marginal tax rate	0,28	0,28	0,28	0,28	0,28	0,28	0,28	0,28	0,28	0,28
Income taxes	-300	-200	0	200	700	1 200	1 800	4 600	5 300	6 200

### Projected After-Tax Cash Flows from Operations

	1	2	3	4	5	6	7	8	9	10
Potential Gross Rent	40 000	42 800	45 800	48 500	51 400	54 500	57 800	61 300	65 000	68 900
Vacancy Allowance	400	2 100	3 700	4 900	5 100	5 500	5 800	6 100	6 500	6 900
	39 600	40 700	42 100	43 600	46 300	49 000	52 000	55 200	58 500	62 000
Other Income	0	0	0	0	0	0	0	0	0	0
Effective Gross Income	39 600	40 700	42 100	43 600	46 300	49 000	52 000	55 200	58 500	62 000

### Operating Expenses

Management Fee (% of	1 200	1 200	1 300	1 300	1 400	1 500	1 600	1 700	1 800	1 900
Levies	11 300	11 800	12 300	12 900	13 500	14 100	14 700	15 400	16 100	16 800
Insurance	1 500	1 600	1 700	1 800	1 900	2 000	2 100	0	0	0
Maintenance & Repairs	4 000	4 200	4 400	4 600	4 800	5 000	5 200	0	0	0
Property Taxes	0	0	0	0	0	0	0	0	0	0
		0								
- Operating Expenses	18 000	18 800	19 700	20 600	21 600	22 600	23 600	17 100	17 900	18 700
Net Operating Income	21 600	21 900	22 400	23 000	24 700	26 400	28 400	38 100	40 600	43 300
- Debt Service	21 400	21 400	21 400	21 400	21 400	21 400	21 400	21 400	21 400	21 400
Before-Tax Cash Flow	200	500	1 000	1 600	3 300	5 000	7 000	16 700	19 200	21 900
- Income Taxes	0	0	0	200	700	1 200	1 800	4 600	5 300	6 200
<b>After-Tax Cash Flow</b>	<b>200</b>	<b>500</b>	<b>1 000</b>	<b>1 400</b>	<b>2 600</b>	<b>3 800</b>	<b>5 200</b>	<b>12 100</b>	<b>13 900</b>	<b>15 700</b>



## Property Disposition

Purchase price:	185 000	Selling price:	274 900
Transaction costs:	35 000	Selling costs:	27 490

Tax rate on capital gains:	18,65%
Tax rate on depreciation recapture:	18,65%

Anticipated holding period:	25
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Mortgage balance:	R 152 924,14
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### Estimate of Investor's Adjusted Tax Basis

Purchase Price	R	185 000,00
+ Transaction Costs	R	35 000,00
Initial Tax Basis	R	220 000,00
- Cumulative Depreciation	R	29 806,09
Adjusted Basis Prior to Sale	R	190 193,91
+ Selling Costs	R	27 490,03
Adjusted Basis at Time of Sale	R	217 683,94

Transaction Costs Calculation	Initial	Sale
Bond Registration Cost	12 000	0
Bank Initiation Fee	6 500	0
FICA, Postage and Petties	3 000	0
Transfer Costs	11 500	
Transfer Duty	0	
FICA, Postage and Petties	2 000	0
	0	
Total	35 000	

### Estimated Income Tax Consequences

Selling Price	R	274 900,27
- Adjusted Basis	R	217 683,94
Gain on Disposal	R	57 216,33
- Gain from depreciation recapture	R	29 806,09
Long-Term Capital Gain	R	27 410,24
Tax on depreciation recapture	R	5 600,00
Tax on capital gain	R	5 100,00
<b>Total Tax Liability on Sale</b>	<b>R</b>	<b>10 700,00</b>

### Estimate of After-Tax Equity Reversion

Selling Price	R	274 900,27
- Selling Costs	R	27 490,03
Net Sales Proceeds	R	247 410,24
- Mortgage Balance	R	152 900,00
Before-tax Equity Reversion	R	94 510,24
- Taxes due on sale	R	10 700,00
<b>After-Tax Equity Reversion</b>	<b>R</b>	<b>83 810,24</b>

## Ratio Analysis - Value

### Income Multipliers

Transaction Costs: 6%:	Gross Rent Multiplier:	Market Price 185 000	/	Gross Rents 40 000	=	4,63
	Gross Income Multiplier:	Market Price 185 000	/	EGI 39 600	=	4,67
	Net Income Multiplier:	Market Price 185 000	/	NOI 21 600	=	8,56

### Using Multipliers to Estimate Market Value

Gross Rent Multiplier Method:	Gross Rents 40 000	x	Input GRM 5,23	=	R 209 111,11
Gross Income Multiplier Method:	EGI 39 600	x	Input GIM 6,50	=	R 257 400,00
Net income Multiplier Method:	NOI 21 600	x	Input NIM 19,00	=	R 410 400,00

10%

## Ratio Analysis - Financial & Profitability

### Financial Ratios

Transaction Costs: 6%:	Operating Ratio:	$\frac{OE}{18\ 000}$	/	$\frac{EGI}{39\ 600}$	=	45%
	Break-even Ratio:	$\frac{(OE + ADS)}{39\ 400}$	/	$\frac{EGI}{39\ 600}$	=	99%
	Debt Coverage Ratio:	$\frac{NOI}{21\ 600}$	/	$\frac{ADS}{21\ 400}$	=	1,01
	Loan-to-value (LTV) Ratio:	$\frac{Mortgage}{175\ 750}$	/	$\frac{Market\ Price}{185\ 000}$	=	95%

### Profitability Measures

	Capitalization Rate:	$\frac{NOI}{21\ 600}$	/	$\frac{Market\ Price}{185\ 000}$	=	11,68%
	Using Cap Rate to Estimate Market Value:	$\frac{NOI}{21\ 600}$	/	$\frac{Return\ Rate}{8,11\%}$	=	R 266 301,37
	Equity Dividend Rate: (before-tax)	$\frac{BTCF}{200}$	/	$\frac{Initial\ Equity}{50\ 750}$	=	0,39%
	Equity Dividend Rate: (after-tax)	$\frac{ATCF}{200}$	/	$\frac{Initial\ Equity}{50\ 750}$	=	0,39%