

REAL ESTATE INVESTMENT ANALYSIS

Executive Summary & Recommendation

STRATEGIC RECOMMENDATION: BUY

Confidence Level: High

Investment Analysis Summary

Financial Metric	Ownership Scenario	Rental Scenario	Strategic Advantage
Net Present Value	\$125,000	\$85,000	\$40,000 (Ownership)
Initial Investment Required	\$150,000	\$5,000	Lower Capital Requirement
Internal Rate of Return	8.0%	6.0%	2.0% Difference

Net Present Value Analysis



Strategic Investment Insights

Executive Summary: Our comprehensive financial analysis identifies **BUY** as the strategically optimal approach, delivering a quantified advantage of **\$40,000** in net present value over the alternative scenario.

Strategic Value Drivers:

- *Market Timing:* Current interest rate environment favors the recommended approach
- *Tax Optimization:* Strategic tax benefits through buy structure
- *Cash Flow Management:* Optimal liquidity positioning for operational needs
- *Wealth Strategy:* Long-term asset building aligned with investment objectives
- *Risk Profile:* High confidence level with conservative modeling

Investment Thesis: This recommendation reflects rigorous financial modeling incorporating current market dynamics, tax implications, opportunity costs, and strategic risk assessment over the full 25-year analysis horizon.

Risk Assessment

Risk Profile: High Risk Investment Primary Risk Factors: • Interest rate volatility impacting financing costs and opportunity returns • Real estate market cycles affecting property values and rental rates • Tax policy changes potentially altering investment benefits • Economic conditions influencing employment and housing demand **Risk Mitigation:** • Conservative assumptions used in base case analysis • Sensitivity analysis identifying key variable impacts • Diversification considerations for overall portfolio **Monitoring Requirements:** Regular review recommended as market conditions evolve and personal circumstances change.

Key Assumptions & Parameters

Core Financial Assumptions:

- Analysis Period: 25 years
- Cost of Capital: 8.0% annually
- Property Tax Rate: 1.2%
- Rent Growth Rate: 3.0% annually
- Property Appreciation: 3.5% annually

Purchase Scenario:

- Property Value: \$750,000
- Down Payment: 20%

- Mortgage Rate: 5.5%

Rental Scenario:

- Annual Rent: \$36,000
- Security Deposit: \$3,000

Generated by Real Estate Decision Tool | August 11, 2025 01:13 PM

This analysis is based on the assumptions provided and current market conditions. Consult with qualified financial and tax professionals before making investment decisions.

DETAILED FINANCIAL ANALYSIS

Analysis Methodology

Analysis Framework:

This analysis employs Net Present Value (NPV) methodology to compare the total cost of ownership versus rental over the specified time horizon. All cash flows are discounted to present value using the specified cost of capital. **Ownership Scenario Modeling:**

- Initial investment including down payment, closing costs, and transaction fees
- Monthly mortgage payments (principal and interest)
- Property taxes with annual escalation
- Insurance, maintenance, and property management costs
- Tax benefits from mortgage interest and property tax deductions
- Terminal value from property sale at end of period

Rental Scenario Modeling:

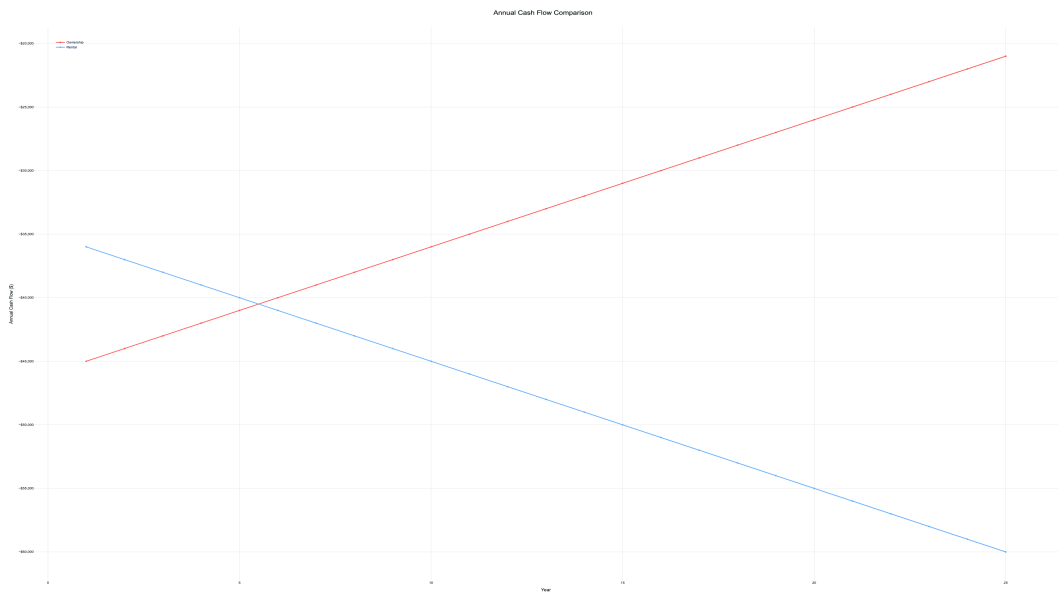
- Initial costs including security deposits and moving expenses
- Monthly rent payments with annual increases
- Investment of down payment savings in alternative investments
- Tax implications of investment returns

Sensitivity Considerations:

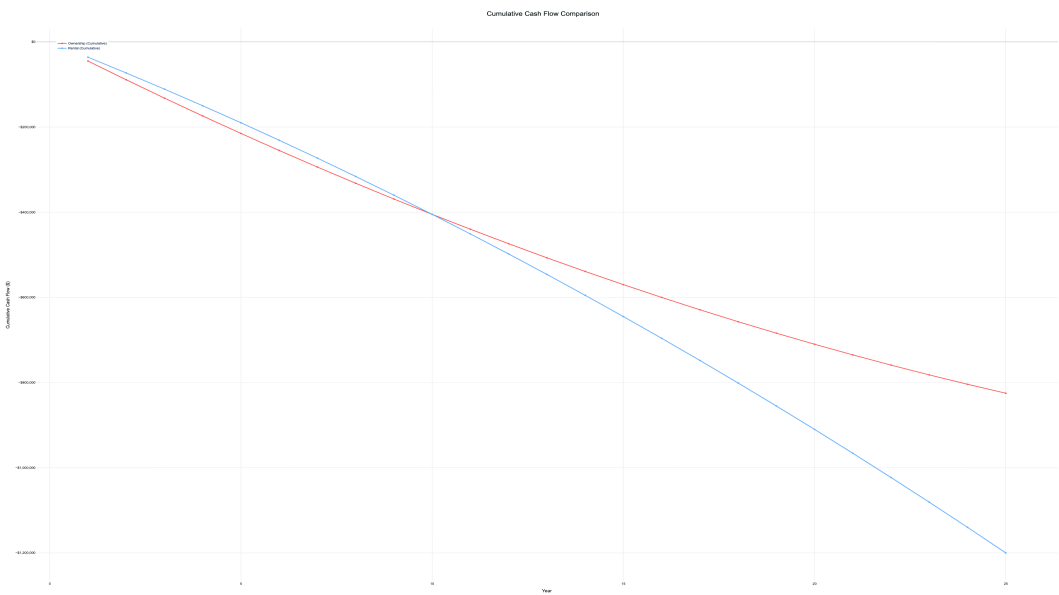
Key assumptions are tested for impact on final recommendation to ensure robustness of the analysis under varying market conditions.

Cash Flow Analysis

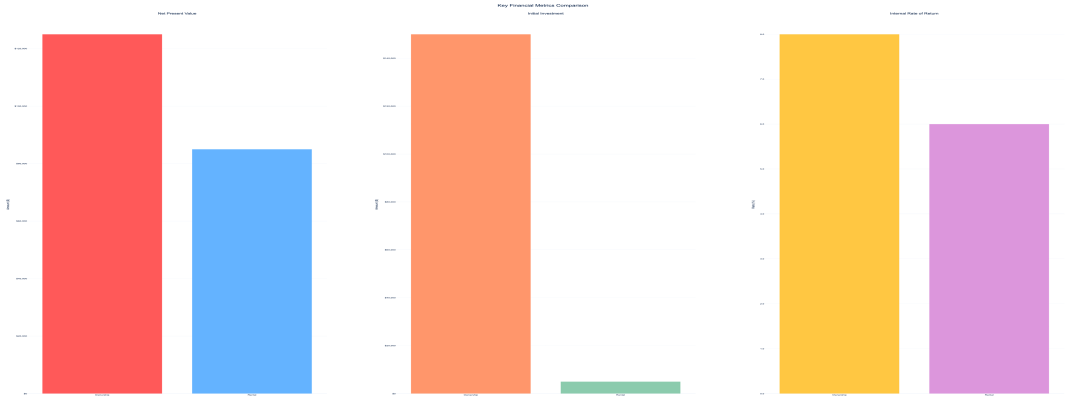
Annual Cash Flow Projections



Cumulative Cash Flow Analysis



Comprehensive Financial Metrics



Sensitivity Analysis

The sensitivity analysis examines how changes in key assumptions impact the Net Present Value of each scenario. This analysis helps identify the most critical factors in the investment decision and provides insight into the robustness of the recommendation under different market conditions.



Detailed Cash Flow Projections

Ownership Scenario - Annual Cash Flows

Year	Annual Cash Flow	Cumulative Cash Flow
1	\$-45,000	\$-45,000
2	\$-44,000	\$-89,000
3	\$-43,000	\$-132,000
4	\$-42,000	\$-174,000
5	\$-41,000	\$-215,000
6	\$-40,000	\$-255,000
7	\$-39,000	\$-294,000
8	\$-38,000	\$-332,000
9	\$-37,000	\$-369,000
10	\$-36,000	\$-405,000
...
Year 25	\$-21,000	\$-825,000

Rental Scenario - Annual Cash Flows

Year	Annual Cash Flow	Cumulative Cash Flow
1	\$-36,000	\$-36,000
2	\$-37,000	\$-73,000
3	\$-38,000	\$-111,000
4	\$-39,000	\$-150,000
5	\$-40,000	\$-190,000
6	\$-41,000	\$-231,000
7	\$-42,000	\$-273,000
8	\$-43,000	\$-316,000

9	\$-44,000	\$-360,000
10	\$-45,000	\$-405,000
...
Year 25	\$-60,000	\$-1,200,000

Appendix: Complete Assumptions

Complete Model Assumptions:

- Financial Parameters:** • Cost of Capital: 8.0% • Analysis Period: 25 years • Tax Rate (Federal + State): 32.0% • Inflation Rate: 2.5%
- Property-Specific Inputs:** • Purchase Price: \$750,000 • Down Payment: 20.0% • Mortgage Interest Rate: 5.5% • Loan Term: 30 years • Property Tax Rate: 1.2% • Property Tax Escalation: 2.0% • Annual Insurance: \$5,000 • Maintenance Rate: 2.0% of property value • Property Appreciation: 3.5%
- Rental Parameters:** • Current Annual Rent: \$36,000 • Rent Increase Rate: 3.0% • Security Deposit: \$3,000 • Moving Costs: \$3,000
- Transaction Costs:** • Purchase Transaction: 5.0% • Sale Transaction: 6.0%

All assumptions are based on current market conditions and industry standards, with conservative estimates used where uncertainty exists.