

# INVESTMENT ANALYSIS AND TAXATION OF INCOME PROPERTIES

**Investment Benefits:** Cash Flow (after Taxes), Price Appreciation, Diversification.

**Real Estate Cycle:** The Real Estate industry is Cyclical, with periods of Growth and periods of Decline in Rents, Occupancy and Property Values. The industry is very large and highly competitive, with many owners and limited concentration of ownership.

**Investment Strategies:** Risk/Return focus (Core, Value-Added, or Opportunistic), Property Type (e.g. Office, Retail, Apartments, Hotels), and/or Geographical focus.

**Market Analysis:** Supply/Demand analysis or Property Type and Local Market, and local Absorption projections to forecast future Occupancy Rates and Rent Levels.

**Leverage:** The use of Debt to acquire or own Property.

**Loan to Value Ratio (LTV):** Mortgage Balance divided by Property Value (or Price).

**Debt Service Coverage Ratio (DSCR):** Annual NOI divided by Mortgage Payments. A higher DSCR shows a greater ability for the Borrower to make Mortgage Payments.

**Net Operating Income (NOI):** Rent and other Property Income minus Operating Expenses. NOI is often Capitalized to determine the Market Value of a Property.

**Before Tax Cash Flow:** NOI minus Debt Service and Capital Expenditures (Cap Ex).

**After Tax Cash Flow:** Before Tax Cash Flow minus Taxes. The Government is your partner in every Investment through its power to Tax the annual Income and Capital Gains from Sale. Federal, State, Local and all other Taxes must be considered.

**Taxable Income:** Net Operating Income minus Interest and Tax Depreciation.

**Tax Depreciation:** The amount of the Purchase Price allocated to the Improvements, exclusive of the Land, is the Depreciable Cost Basis of the Property. The Depreciable Cost Basis can be Amortized as Tax Depreciation over 27.5 years for Residential Income Properties and 39 years for Non-Residential Income Properties.

**Mortgage Interest Deduction:** The Interest portion of the monthly P&I Payments is Tax Deductible for primary and secondary Homes on Loans totaling up to \$750,000.

**Unleveraged Returns vs. Leveraged Returns:** The Internal Rate of Return (IRR), Return on Equity (ROE) and Equity Multiple from an Investment before and after the effect of Mortgage Financing. The Leveraged returns should generally be higher than the Unleveraged returns to account for the additional Risk from the use of Leverage.