





# 9 - Investment Analysis - ch. 11

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## ▼ Supplemental

- ▼ cap rate is positive with interest
- ▼ price is negative with interest
- ▼ DSCR = NOI / debt service
- ▼ BTCF (before tax cash flow) = NOI - debt service
- ▼ Purchase price = NOI / Cap rate
- ▼ opex = max(expenses, expense stop)

## ▼ Lecture

- ▼ investment benefits
  - ▼ cash flow post-tax

## Resources

[https://s3-us-west-2.amazonaws.com/secure.notion-static.com/ad7403b5-d139-4f06-b893-ae65293466cb/8\\_-\\_INVESTMENT\\_ANALYSIS\\_AND\\_TAXATION\\_OF\\_INCOME\\_PROPERTIES\\_-\\_Chapter\\_11.pdf](https://s3-us-west-2.amazonaws.com/secure.notion-static.com/ad7403b5-d139-4f06-b893-ae65293466cb/8_-_INVESTMENT_ANALYSIS_AND_TAXATION_OF_INCOME_PROPERTIES_-_Chapter_11.pdf)

- ▼ price appreciation
- ▼ diversification
- ▼ real estate cycle
  - ▼ growth and decline in rents, occupancy, value
  - ▼ industry is large and competitive with many owners and limited concentration of ownership
- ▼ investment strategies
  - ▼ risk/return focused
    - ▼ core, value added, or opportunistic
  - ▼ property type
    - ▼ office, retail, apartment, hotel
  - ▼ Geographic focus
- ▼ market analysis
  - ▼ S/D analysis for property type and local market
  - ▼ local Absorption projection to forecast future occupancy rates and rent levels
- ▼ leverage
  - ▼ use of debt to acquire property
- ▼ loan to value ratio (LTV)
  - ▼ = mortgage balance / property value

- ▼ debt service coverage ratio (DSCR)
  - ▼ = annual NOI / mortgage payments
  - ▼ higher DSCR shows greater ability for borrower to make payments
- ▼ Net operating income (NOI)
  - ▼ rent and other property income MINUS expenses
  - ▼ often capitalized to determine market value of a property
- ▼ before tax cash flow
  - ▼ = NOI - DSCR - capital expenditures (Cap Ex)
- ▼ after tax cash flow
  - ▼ = before tax cash flow - taxes
- ▼ taxable income
  - ▼ = NOI - interest - tax depreciation
- ▼ tax depreciation
  - ▼ amount of purchase price allocated to improvements, exclusive of land, is the depreciable cost basis
  - ▼ depreciable cost basis can be amortized as tax depreciation over 27.5 years for residential and 39 years for non-residential
- ▼ mortgage interest deduction

- ▼ interest portion of monthly payments is fully tax deductible for investment properties
- ▼ limited to primary and secondary homes to annual interest up to 750k of mortgagee debt
- ▼ unleveraged returns vs leveraged returns
  - ▼ IRR, ROE, and equity multiplier due to mortgage financing are different
  - ▼ leveraged returns should be higher than unleveraged to account for additional risk from use of leverage

## ▼ Discussion



### SUMMARY