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 for **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 fully **Tax Deductible** for **Investment Properties**. Limited for primary and secondary **Homes** to the annual **Interest** on a total of up to **$750,000** of **Mortgage Debt**.

Unleveraged Returns vs. Leveraged Returns: The **IRR**, **ROE,** and **Equity Multiple** due to **Mortgage Financing**. The **Leveraged** returns should generally be higher than the **Unleveraged** returns to account for the additional **Risk** from the use of **Leverage**.