

Georgia Association of REALTORS®

*EXPEDITION:
EXCELLENCE*

2012 Inaugural Meeting
Grand Hotel Marriott Resort, Golf Club & Spa
Point Clear, Alabama • February 8-11



Education Session E

How to Work with Investment Property BUYERS

Tom Lundstedt

Thursday, February 9, 2012

You must attend three (3) mini-sessions in order to earn three (3) hours Georgia C.E. credit, six (6) sessions for six (6) hours credit. Partial credit is not available. The mini-session course codes are 62153 and/or 62154.

Due to seating capacities dictated by local fire code ordinances, seating for all education sessions will be based on a first come-first serve basis. GAR will not be allowed to have attendees sitting on the floor or standing up once the room's seating is full.

In order to foster a spirit of camaraderie and to avoid the appearance of recruitment, no nametags or clothing with a company logo will be allowed in the education courses. Should an attendee have one on at the time of entering an education course, the facilitators will kindly ask you to remove the name badge or place a blank nametag over the company logo. We appreciate your cooperation in regards to this matter!

HANDOUTS

"How to Work with Investment Property BUYERS"

By Tom Lundstedt, CCIM
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This material is designed to provide information in regard to the subject matter covered. It is offered with the understanding that the instructor is not engaged in rendering legal or accounting services. If legal or accounting advice is required, the services of a competent professional should be sought.

Tom Lundstedt Seminars www.tomlundstedt.com 800/508-4433

I. Analyzing a rental property before you buy:

A. There are four financial benefits of owning a rental property:

- 1.
- 2.
- 3.
- 4.

Depreciation rules:

Years

Land:

Personal property:

Residential rental building:

Non-residential rental building:

Land improvements:

Example:

	<u>Year 1</u>	<u>Year 2</u>
Personal property:	20%	32%
Residential building	3.48%	3.64%
Land improvements	5%	9.5%

Investment Property Worksheet

This form is designed to assist in estimating the first year benefits of a real estate investment. It does not consider the effect of selling or exchanging the property in the future. This form is not a substitute for legal or tax advice. Anyone contemplating the purchase of a real estate investment should seek the services of competent legal and tax advisors.

Purchase cost \$ 260 000
 Cash invested \$ 36 000

Financing: Amount _____ Rate _____ P&I _____ per month
 Financing: Amount _____ Rate _____ P&I _____ per month

Land value \$ _____
 Personal property value \$ _____ x _____ % = \$ _____
 Building value \$ _____ x _____ % = \$ _____
 Land improvement value \$ _____ x _____ % = \$ _____
 Total depreciation \$ _____

Annual rent 43320 Less vacancy _____ = Gross operating income _____
 Annual operating expenses
 Real estate tax _____
 Repairs _____
 Association dues _____
 Management _____
 Miscellaneous _____
 Insurance _____
 Utilities _____
 Advertising _____
 Supplies _____
 Miscellaneous _____
 Total operating expenses \$ 15624

I. Gross operating income \$ 41154
 Minus: operating expenses _____
 Equals: net operating income _____
 Minus: annual debt service (monthly P&I x 12) \$ 22680
 Equals: cash flow before tax _____
 II. Annual debt service \$ 22680
 Minus: interest _____
 Equals: principal reduction _____
 III. Net operating income \$ 25530
 Minus: interest _____
 Minus: total depreciation _____
 Equals: taxable income _____
 Multiplied by tax bracket x _____ %
 Equals: tax paid or saved _____
 IV. Appreciation (estimate) \$ _____

Return on investment with appreciation
 Cash flow before tax + Principal reduction + Tax saved + Appreciation = _____ %
 Cash invested

Return on investment without appreciation
 Cash flow before tax + Principal reduction + Tax saved = _____ %
 Cash invested

Capitalization rate
 Net operating income = _____ %
 Purchase cost

Cash on cash
 Cash flow before tax = _____ %
 Cash invested

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II. Passive Loss Rules

A. Current rules (began in 1987):



B. Exception (began in 1994):