Finding the Best Deal in Real Estate Analysis

truthconcepts.com/real-estate-analysis/

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Whether you're an amateur or long-time veteran, a smart real estate deal always starts with research. So how do you properly analyze a real estate deal? Whether you're looking at a residential property, or an investment, don't go in without doing your due diligence. That's where the Real Estate Analysis calculator comes in.

Let's start with a real world example. A couple, after making some wise decisions about their financial strategy, had some available capital to do with what they liked. And when you're in a position of cash, opportunity finds you.

They had long dreamed of a vacation home, when a friend approached them with an offer. He was looking to sell his cabin in order to have money to continue investing in his business. Though the cabin was appraised at \$150,000 he was willing to sell it to friends for \$100,000 if they were able to close in ten days' time.

They'd visited, and knew the cabin was nice. In fact, \$100,000 seemed like a bargain to them.

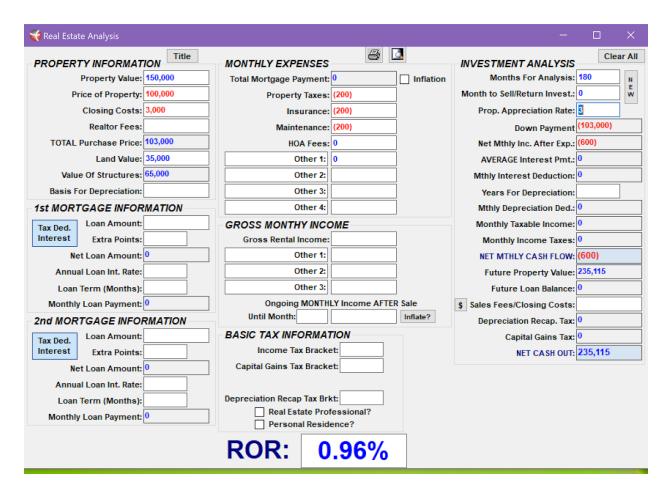
All things considered, the deal seemed like a dream. The only thing missing was certainty.

Real Estate Analysis is a tool for homeowners and investors alike to determine the viability of their purchases. This calculator is fairly straightforward, all you need are the numbers. As an advisor, this a valuable resource in helping investors and homeowners who are making big real estate decisions.

Real Estate Analysis of the Cabin

In addition to the property value and the purchasing price, the couple knew that closing costs would be 3%, or \$3,000. The land value itself was \$35,000. Monthly property taxes, maintenance, and insurance could all be priced at \$200 a month. In addition, they planned to pay for the property in cash.

Analyzed over 15 years, here's how their rate of return calculates:



Note: Expenses, or money flowing away from the client, will appear in red.

If the ROR looks low, that's because it is. Yet that's not where the story has to end. Though many would say real estate is about three things—location, location, location—there's something even more important than that. Financing.

The couple's next idea was to rent out the cabin when is wasn't in use. Their friend was using the cabin for rental income for an average of ten nights a month, all throughout the year, for \$150 per night. So in Gross Rental Income, you'd add the \$1,500. The Monthly Cash Flow will then recalculate.

Here's the result:

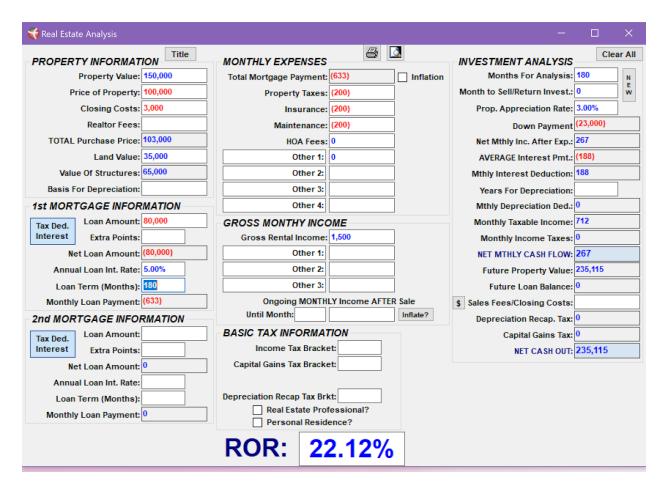
✓ Real Estate Analysis — □ X							
PROPERTY INFORMATI	Title	MONTHLY EXPENSES		1	INVESTMENT ANALYSIS Clear All		
Property Value:	150,000	Total Mortgage Payment:	0	Inflation	Months For Analysis: 180		
Price of Property:	100,000	Property Taxes:	(200)		Month to Sell/Return Invest.: 0		
Closing Costs:	3,000	Insurance:	(200)		Prop. Appreciation Rate: 3.00%		
Realtor Fees:		Maintenance:	(200)		Down Payment (103,000)		
TOTAL Purchase Price:	103,000	HOA Fees:	0		Net Mthly Inc. After Exp.: 900		
Land Value:	35,000	Other 1:	0		AVERAGE Interest Pmt.: 0		
Value Of Structures:	65,000	Other 2:			Mthly Interest Deduction: 0		
Basis For Depreciation:		Other 3:			Years For Depreciation:		
1st MORTGAGE INFOR	MATION	Other 4:			Mthly Depreciation Ded.:		
Tax Ded. Loan Amount:	0	GROSS MONTHY INCO	OME		Monthly Taxable Income: 900		
Interest Extra Points:		Gross Rental Income:	1,500		Monthly Income Taxes: 0		
Net Loan Amount:	0	Other 1:			NET MTHLY CASH FLOW: 900		
Annual Loan Int. Rate:	0.00%	Other 2:			Future Property Value: 235,115		
Loan Term (Months):	o	Other 3:			Future Loan Balance: 0		
Monthly Loan Payment:	0	Ongoing MONTHLY Income AFTER Sale			\$ Sales Fees/Closing Costs:		
2nd MORTGAGE INFORMATION		Until Month:		Inflate?	Depreciation Recap. Tax: 0		
Tax Ded. Loan Amount:		BASIC TAX INFORMATION			Capital Gains Tax: 0		
Interest Extra Points:		Income Tax Bracket:			NET CASH OUT: 235,115		
Net Loan Amount:	Net Loan Amount: 0 Capital Gains Tax Bracket:		et:				
Annual Loan Int. Rate:							
Loan Term (Months):		Depreciation Recap Tax Brkt:					
Monthly Loan Payment:	0	Real Estate Professional? Personal Residence?					
		ROR: 13	3. <mark>32</mark> %				

Just by adding in some rental income, the ROR bounces up to 13.32%. And the couple would still have a getaway cabin for 20 days out of the month. They'd also receive a nice income of \$900 each month. The couple could have stopped here, and decided that the deal was worth it for them...yet there's more to consider.

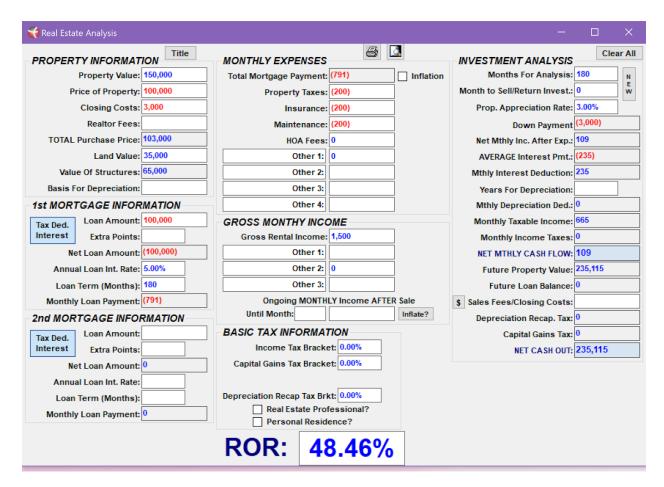
To take it further, it's important to consider exactly how the cabin is being financed—not just through rental income. Is paying cash for the cabin really the best option? Many Real Estate Investors know the importance of using "other people's money," yet still pay for their properties in cash.

So is paying cash the best method?

Instead of paying in cash, what if the couple focused instead on a 20% down payment? They could likely get an institutional loan of \$80,000 at about 5%. Over that same time frame of 15 years, here's what their ROR would look like:



Now this couple has cash value life insurance, with cash value well over \$100,000. What if they were to take a loan against their own policy? And instead of using their own cash for the down payment, they used their policy loan for the whole mortgage?



Now their ROR is is 48.46%, which is the best ROR they've seen. Yet their monthly cash flow is only \$109. They were really looking forward to having more cash at the end of the month. Life insurance, however, gives them more control and leverage in the deal. Maybe the bank would only approve a 15-year mortgage, yet with life insurance, they can set the amortization schedule.

What if the couple, in order to keep their cabin dreams alive, chose to pay their policy loan back over 30 years instead?

✓ Real Estate Analysis — □ X							
PROPERTY INFORMATION	ON Title	MONTHLY EXPENSES		1	INVESTMENT ANALYSISClear All		
Property Value: 1	50,000	Total Mortgage Payment:	(537)	Inflation	Months For Analysis: 180		
Price of Property: 1	00,000	Property Taxes:	(200)		Month to Sell/Return Invest.: 0		
Closing Costs: 3	,000	Insurance:	(200)		Prop. Appreciation Rate: 3.00%		
Realtor Fees:		Maintenance:	(200)		Down Payment (3,000)		
TOTAL Purchase Price: 1	03,000	HOA Fees:	0		Net Mthly Inc. After Exp.: 363		
Land Value: 3	5,000	Other 1:	0		AVERAGE Interest Pmt.: (358)		
Value Of Structures: 6	5,000	Other 2:			Mthly Interest Deduction: 358		
Basis For Depreciation:		Other 3:			Years For Depreciation:		
1st MORTGAGE INFORM	MATION	Other 4:			Mthly Depreciation Ded.: 0		
Tax Ded. Loan Amount: 1	00,000	GROSS MONTHY INCO	OME		Monthly Taxable Income: 542		
Interest Extra Points:		Gross Rental Income:	1,500		Monthly Income Taxes: 0		
Net Loan Amount: (1	100,000)	Other 1:			NET MTHLY CASH FLOW: 363		
Annual Loan Int. Rate: 5	5.00%	Other 2:			Future Property Value: 235,115		
Loan Term (Months): 3	60	Other 3:			Future Loan Balance: (67,884)		
Monthly Loan Payment: (5	537)	Ongoing MONTHLY Income AFTER Sale			\$ Sales Fees/Closing Costs:		
2nd MORTGAGE INFORMATION		Until Month:		Inflate?	Depreciation Recap. Tax: 0		
Tax Ded. Loan Amount:		BASIC TAX INFORMATION			Capital Gains Tax: 0		
Interest Extra Points:		Income Tax Bracket:			NET CASH OUT: 167,231		
Net Loan Amount: 0	Net Loan Amount: 0 Capital Gains Tax Bracket:						
Annual Loan Int. Rate:							
Loan Term (Months): Depreciation Recap Tax Brkt:							
Monthly Loan Payment: 0		Real Estate Professional? Personal Residence?					
		ROR: 16	5.28 %				

Suddenly, their ROR skyrockets to 165.28%, and they're anticipating a positive cash flow of \$363 a month. Taking a longer amortization period, on top of rental income, provides them with greater cash flow without the obligation to pay \$103,000 in cash up front. And not only is the cash flow positive, it's better than what they would have gotten in an 80% loan from the bank.

All Done?

We'd be remiss if we didn't cover taxes. So how do the couple's taxes affect this real estate deal?

For the sake of ease, let's say they're in the 25% tax bracket, their capital gains are 20%, and the Depreciation Recapture tax bracket is 25%. Add those in, located in the center column, and their ROR is back down at 38.12%.

✓ Real Estate Analysis — □ X							
PROPERTY INFORMATION	ON Title	MONTHLY EXPENSES		3	INVESTMENT ANALYSIS Clear All		
Property Value:	150,000	Total Mortgage Payment:	(537)	Inflation	Months For Analysis: 180		
Price of Property:	100,000	Property Taxes:	(200)		Month to Sell/Return Invest.: 0		
Closing Costs:	3,000	Insurance:	(200)		Prop. Appreciation Rate: 3.00%		
Realtor Fees:		Maintenance:	(200)		Down Payment (3,000)		
TOTAL Purchase Price:	103,000	HOA Fees:	0		Net Mthly Inc. After Exp.: 363		
Land Value:	35,000	Other 1:	0		AVERAGE Interest Pmt.: (358)		
Value Of Structures:	65,000	Other 2:			Mthly Interest Deduction: 358		
Basis For Depreciation:		Other 3:			Years For Depreciation:		
1st MORTGAGE INFORM	MATION	Other 4:			Mthly Depreciation Ded.: 0		
Tax Ded. Loan Amount:	100,000	GROSS MONTHY INCO	OME		Monthly Taxable Income: 542		
Interest Extra Points:		Gross Rental Income:	1,500		Monthly Income Taxes: (135)		
Net Loan Amount:	(100,000)	Other 1:			NET MTHLY CASH FLOW: 228		
Annual Loan Int. Rate:	5.00%	Other 2:	0		Future Property Value: 235,115		
Loan Term (Months):	360	Other 3:			Future Loan Balance: (67,884)		
Monthly Loan Payment: ((537)	Ongoing MONTH	LY Income AFTER	\$ Sales Fees/Closing Costs:			
2nd MORTGAGE INFOR	RMATION	Until Month:		Inflate?	Depreciation Recap. Tax: 0		
Tax Ded. Loan Amount:		BASIC TAX INFORMATION			Capital Gains Tax: (27,023)		
Interest Extra Points:		Income Tax Bracket: 25.00%			NET CASH OUT: 140,208		
Net Loan Amount:	0	Capital Gains Tax Bracket: 20.00%					
Annual Loan Int. Rate:							
Loan Term (Months):							
Monthly Loan Payment:	0	Real Estate Professional? Personal Residence?					
		ROR: 10	4.75%				

Although taxes reduce the ROR, 104.75% a fine rate of return. While there may be some deductions available, it's important to consider the impact of taxes on any purchase. Without the proper understanding of them, expectations can be unrealistic—and it's a good idea to cover the possible impact with clients, so they're not blindsided. Any deductions available down the road will make the impact of the deal even better.

Try Real Estate Analysis for Yourself

The above example shows an overarching use of the Real Estate Analysis Calculator. Whether for a personal purchase, and investment property, or something in between, this calculator can show you the advantages and disadvantages of different deal structures.

You can also add a second mortgage, or include other costs associated with a property. Overall, this calculator and case study are meant to give you the tools needed to guide your clients to the best possible deal for their desires.

To try Real Estate Analysis for yourself, start your free 10-day trial of Truth Concepts 360 today.



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