

What If/Sensitivity Analysis of Hold vs. Exchange Options for taking advantage of the California Bubble

Key Assumptions & Property Financials vary per Individual Investor.

Pro Forma 5 Year Projection

Client: Joe Example

Year	2022	2023	2024	2025	2026
Gross Scheduled Income (GSI)	106,000	109,180	112,455	115,829	119,304
Vacancy 5.0%	(5,300)	(5,459)	(5,623)	(5,791)	(5,965)
Operating Income	100,700	103,721	106,833	110,038	113,339
OPERATING EXPENSES					
Taxes	-	-	-	-	-
Insurance	-	-	-	-	-
Utilities	-	-	-	-	-
Trash	-	-	-	-	-
Gardner	-	-	-	-	-
Pest	-	-	-	-	-
Supplies	-	-	-	-	-
R&M	-	-	-	-	-
Water and Sewer	-	-	-	-	-
Other	-	-	-	-	-
Total Assumption 40.0%	42,400	45,792	47,272	48,695	50,156
Total OP Expenses	42,400	45,792	47,272	48,695	50,156
Net Operating Income (NOI)	58,300	57,929	59,561	61,342	63,182
DEBT SERVICE					
	15,839	15,839	15,839	15,839	15,839
Cash Flow Before Tax	42,461	42,090	43,722	45,503	47,343
<i>Cash Flow Before Tax by Debt</i>					
+ Principal Payments	5,975	6,280	6,602	6,939	7,294
- Depreciation	(7,091)	(7,091)	(7,091)	(7,091)	(7,091)
TAXABLE INCOME	41,345	41,279	43,233	45,352	47,547
Tax Rate 35.0%					
Tax Savings (Expense)	(14,471)	(14,448)	(15,131)	(15,873)	(16,641)
CASH FLOW AFTER TAX (Annual)	27,990	27,642	28,591	29,630	30,702
CF on Equity After Tax	2.0%	2.0%	2.1%	2.1%	2.2%
CASH FLOW AFTER TAX (Monthly)	2,333	2,304	2,383	2,469	2,559

EQUITY VALUES: (YEAR END)	
Property Value	5.50 \$1,148,771
Loan Balance	(\$166,910)
Equity	\$981,861
Estimated Tax	\$0
Estimated Net Equity	\$981,861

IRR (pre-tax)	Hold IRR	-4.16
	Hold IRR (w/ Gain Tax)	-4.16
	Hold Accum. Wealth	1,094,027
Accum. Wealth (post-tax)		

Investor Property Data & Assumptions

Current Value	\$1,590,000
Current Equity	\$1,390,000
% Equity	87.4%
Purchase Date	2005
Purchase Price	\$300,000
Mortgage	\$200,000
Interest Rate	5.000%
Loan Payment	\$1,320
Original Purchase	\$300,000
Cost Basis	\$207,818
Year Built	1990
1031 EXCH. ANALYSIS	
Gross Rent Mult.	15.00
GSI Growth	3.0%
Vacancy Factor	5.0%
Exp Growth	5.0%
Op. Exp. Ratio	40.0%
Tax Rate	35.0%
Int Rate (Year 5)	5.0%
IRR - Hold	-4.2%
IRR - Hold	10.0%
Est. Int in 5 yrs	5.00%
Current Cap Rate	3.67
Upleg Cash Flow	4.70%
Est. Cost Basis	\$207,818
Estimated Gain	\$1,103,647
Estimated Tax	\$0

Cash Flow per Month \$5,444

Target IRR	10.0%
Accum. Wealth @ 10%	\$2,512,306

INTRINSIC VALUE	
LOAN	\$200,000
INTRINSIC EQUITY	

NOTE: This analysis is for convenience only. Pro Forma information is based on information gathered from various sources assumed to be accurate, however we makes no representations on the accuracy of data used herein. Further, we make no assurance as to specific performance and pro forma results. All assumptions of should be reviewed thoroughly by client, legal and accounting council. WRG, Inc. does not provide accounting or legal advice.