

TUTORIAL #2 - VALUE PROJECTION (& Future Sale Analysis)

Visit www.sentravest.com to see a video demonstration of this tutorial.

This excerpt is one of three tutorials provided in the **USER MANUAL** available both within the app and on the website.

In this tutorial, we are **evaluating the future sale** of the hypothetical rental condo unit we created in Tutorial #1. We anticipate there may be rent increases over time, there will be increases in expenses, and there may be tax consequences upon completion of the sale.

This process will yield **three potential future valuations**:

- Value based on current capitalization (CAP) rate
- Value based on a potential future CAP rate
- Value based on a historically representative appreciation rate

This is a great playground for scenario testing to evaluate assumptions and performance thresholds regarding CAP rates, inflation rates, and appreciation rates.

For this example:

- You initially plan to hold the property for 5 years (although you may alter your plan based on the outcome of this analysis)
- The current CAP rate of 5.02% has been calculated internally and is shown
- You estimate that an acceptable CAP rate in the future may be 4%
- You have evidence that an appreciation rate of 5% may apply over the 5-year period
- You believe you can increase the rent 4% per year
- You anticipate an inflation rate of 1.2% per year during the hold period
- The taxable portion of any capital gain in your jurisdiction is 50%
- A marginal tax rate of 23% will apply to that amount of the projected capital gain
- The sales commission will likely be 6% on the first \$100,000 of the sale price and 3% on the balance
- A tax of 5% will be applied to the sales commission

There are several other optional costs that can be entered in this calculation but this scenario involves only the above factors.



In this hypothetical example, although the local rate of annual appreciation historically has been 6% per year over the last 40 years, you acknowledge that there are short-term increases and decreases in that average rate - so, for a 5-year hold period, you may decide to discount the projection to 5% to manage the risk of year-over-year fluctuation.

Selecting Your Saved Property

If you have just completed Scenario #1 and are still in a data entry area for **Condo1**, press the “<” button in the top left corner to return to Property Snapshot... and then press the “X” to exit to the Portfolio list of saved properties.

Select “**Condo1**” from the list of saved properties.

Select “**Value Projection - Check ROI**” from the data entry options in the ADD or MODIFY section

Data Entry

Projection Factors

Enter Year Property Owned (Projected)

- In this example, we will use **5**

Note that the Current CAP Rate is indicated at **5.02%**

- This was calculated during Scenario #1

Enter the Target Acceptable CAP Rate

- In this example, we will use **4%**

Enter the Appreciate Rate (%)

- In this example, we will use **5%**

Enter the Allowable Rate of Annual Rent/Lease Increase

- In this example, we will use **4%**

Enter the Inflation Rate (%)

- In this example, we will use **1.2%**

Future Fees

In this exercise, we are going to skip over all of the potential end-of-term expenses, , leaving them all at \$0.00

Future Capital Gains Treatment

Enter Taxable Portion of Capital Gain (%)

- In this example, we will use **50%**

Enter the Marginal Tax Rate for Taxable Portion (%)

- In this example, we will use **23%**

Depreciation

In this exercise, we are going to skip over Depreciation, leaving it at \$0.00

Sales Commission

Enter the Sales Commission details (see diagram)

- **6% on the first \$100,000** of the sale price and **3% on the balance**
- **5% sales tax** on the commissions

SALES COMMISSION

(A) Base	<input type="text" value="\$100,000.00"/>	x %	<input type="text" value="6.00 %"/>
(B) Balance		x %	<input type="text" value="3.00 %"/>

OR

Flat Fee Sales Commission (\$)

Tax Rate on Sales Commissions (%)



Fixed Percentage Commission Calculation

For some sales, a flat percentage will apply to the entire sales price.

If this is the case for you, simply enter the **same number in both % fields**.

In this case, the dollar value you type in the “Base” field will have no real effect, and can be left at “0.00” if you like.

For this tutorial example, we are demonstrating the tiered commission structure.

Then...

Press the "CHECK PROJECTED RETURN" button...

CHECK PROJECTED RETURN

Section 1 - Future Value due to Appreciation

CHECK PROJECTED ROI	
Indicated Original Property Value	\$325,000.00
Original Mortgage (with Inclusions)	\$260,000.00
Hold Period (Years)	5
	Appreciation at 5%
Estimated Future Value	\$414,791.51
Proceeds After Selling Costs	\$398,575.58
Balance of Mortgage Principle Due	\$231,576.10
Proceeds After Repayment of Mortgage Principle	\$166,999.48
Capital Gain (Original Indicated Value less Net Proceeds)	\$73,575.58
Indicated Capital Gains Tax	\$8,461.19
Proceeds After Capital Gains Tax	\$158,538.29
Estimated Total Cash Flow over 5 years	\$25,925.00
Total Cash in Hand after 5 years	\$184,463.28
Total Invested (Original Purchase less Mortgage Principle Due)	\$93,423.90
Total Return	\$91,039.38
Total ROI	97.45 %
Annualized ROI (over 5 years)	19.49 %

scroll down...

Section 2 - Future Value using the Current CAP Rate

	Current CAP at 5.02%
Estimated Future Value	\$411,689.67
Proceeds After Selling Costs	\$395,571.44
Balance of Mortgage Principle Due	\$231,576.10
Proceeds After Repayment of Mortgage Principle	\$163,995.34
Capital Gain (Original Indicated Value less Net Proceeds)	\$70,571.44
Indicated Capital Gains Tax	\$8,115.72
Proceeds After Capital Gains Tax	\$155,879.63
Estimated Total Cash Flow over 5 years	\$25,925.00
Total Cash in Hand after 5 years	\$181,804.62
Total Invested (Original Purchase less Mortgage Principle Due)	\$93,423.90
Total Return	\$88,380.72
Total ROI	94.60 %
Annualized ROI (over 5 years)	18.92 %

Section 3 - Future Value using the Target CAP Rate

	Target CAP at 4%
Estimated Future Value	\$517,145.56
Proceeds After Selling Costs	\$497,705.47
Balance of Mortgage Principle Due	\$231,576.10
Proceeds After Repayment of Mortgage Principle	\$266,129.37
Capital Gain (Original Indicated Value less Net Proceeds)	\$172,705.47
Indicated Capital Gains Tax	\$19,861.13
Proceeds After Capital Gains Tax	\$246,268.24
Estimated Total Cash Flow over 5 years	\$25,925.00
Total Cash in Hand after 5 years	\$272,193.24
Total Invested (Original Purchase less Mortgage Principle Due)	\$93,423.90
Total Return	\$178,769.34
Total ROI	191.35 %
Annualized ROI (over 5 years)	38.27 %

Press "<" to return to the "Valuation Projection - Check ROI" data entry screen

Press "<" again to return to the "Property Snapshot"

VALUATION PROJECTION Report - In-App Version

Select “**Valuation Projection**” from the list of reports in the Property Snapshot.



Pressing the “+” will expand a section of any report
Pressing the “-” will collapse the section of any report

Some of the projected data calculations are presented in sub-tables.
You can swipe each table left or right to view the data
(may be required, depending on the screen size of your mobile device)

Expand the “**Revenue Projection Data**” section (press the “+”)

- In the top half of this section of the report, review the restatement of data you entered
- In the bottom half of this section
 - you will see the original monthly rent of \$1,800 in the first table
 - you will see the projected monthly rent of \$2,189.98 in the second table

Collapse this section by pressing “-”

Expand the “**Income Projection Data**” section (press the “+”)

- This section illustrates the following for both the first year of ownership and the projected last year of ownership (5th year in this example)
- The summary data is bolded:
 - \$3,041.42 Annual Net Income before Taxes Including mortgage payments) in Year 1
 - \$7,397.24 Annual Net Income before Taxes Including mortgage payments) in Year 5

Collapse this section by pressing “-”

Real Estate Investor provides three values - which can be referenced as a range of potential values (typically low, middle, and high) to help inform your investment decision.

Expand the “**Future Value (Appreciation)**” section (press the “+”)

- This section illustrates the potential outcome of a sale, using the value projected with appreciation value
- There’s a lot of information presented in this section, but the summary data in the report is bolded:
 - Estimated Future Appreciated Value of the Property at Time of Sale (@5% over 5 years)
 - **\$414,791.51**
 - Net Return on Investment
 - **\$99,672.22**
 - Total Yield
 - **153.34%**
 - Annualized Yield (over 5 years)
 - **30.67%**

Collapse this section by pressing “-”

Expand the **“Future Sale using Projection Data and Current Cap Rate”**

- This section illustrates the potential outcome of a sale, using the value projected at the current CAP rate
- There’s a lot of information presented in this section, but the summary data in the report is bolded:
 - Estimated Future Value of the Property at Time of Sale in 5 years at current Cap Rate
 - **\$411,689.67**
 - Net Return on Investment
 - **\$96,668.08**
 - Total Yield
 - **148.72%**
 - Annualized Yield (over 5 years)
 - **29.74%**

Collapse this section by pressing “-”

Expand the **“Future Sale using Projection Data and Target/Acceptable Cap Rate”**

- This section illustrates the potential outcome of a sale, using the value projected at the target/acceptable CAP rate
- There’s a lot of information presented in this section, but the summary data in the report is bolded:
 - Estimated Future Appreciated Value of the Property at Time of Sale (@5% over 5 years)
 - **\$517,145.56**
 - Net Return on Investment
 - **\$198,802.112**
 - Total Yield
 - **305.85%**
 - Annualized Yield (over 5 years)
 - **61.17%**

Collapse this section by pressing “-”


This space intentionally left blank


VALUATION PROJECTION Report - Shareable PDF Version

You can view this (and any) report in **two formats**:

- the in-app version of the report (with drop-down menu sections)
- the formal PDF version suitable for viewing on your device, printing, etc. using device capabilities

The formal PDF version of this report is automatically created when the report is selected.

Press the  and then select your on-device option to “send” it to:

 a PDF - the PDF version of the report can be viewed on your device

- a printer
- an email
- a text
- etc.

This space intentionally left blank

The key portion of the **CHECK PROJECTED RETURN** pop-up is the following three “future value” sections that provide comparable valuations based on the information you have provided for CAP rates and appreciation rates.

Section 1

- **Summary of original value, original mortgage, and hold period**
- **“Future Value using Projection Data and Appreciated Value Estimate”**

Section 2

- **“Future Value using Projection Data and Current CAP Rate”**

Section 3

- **“Future Value using Projection Data and Target/Acceptable CAP Rate”**



These valuation projections are estimates, of course. Each projection factors in the information regarding inflation (expenses) and allowable rent increases (revenue). Significantly, each projection is better suited to a specific type of property and is subject to the real estate market and other external influencing factors.

Some properties, such as residential rental properties are influenced more by the rate of appreciation than by the CAP rate. On the other hand, a pure commercial property is more likely to be affected by the prevailing competitive CAP rate at the time of sale.

Comparable long-term investment returns, say in the bond market, will determine how attractive your projected “acceptable CAP rate” will be in the future.

Real Estate Investor provides all three values - which can be referenced as a range of potential values (typically low, middle, and high) to help inform your investment decision.



Your analysis and use of this information will be based on your personal circumstances, the accuracy of your projections, external market forces in play at the time of sale, and the nature of the property in question.

In this example, given that we are evaluating a “Condo” - a residential property - the **CAP** rate valuations may be less likely to apply than the appreciation valuation. Therefore, based on the information you provided in this illustration, you may choose to expect a potential future value, at the end of 5 years, somewhere between \$410,000 and \$415,000.

Summary



The key portion of this report is the following three “future value” sections that provide comparable valuations based on the information you have provided for CAP rates and appreciation rates.

- “Future Sale using Projection Data and Appreciated Value Estimate”
- “Future Sale using Projection Data and Current CAP Rate”
- “Future Sale using Projection Data and Target/Acceptable CAP Rate”

These valuation projections are estimates, of course. Each projection factors in the information regarding inflation (expenses) and allowable rent increases (revenue). Significantly, each projection is better suited to a specific type of property and is subject to the real estate market and other external influencing factors.

Comparable long-term investment returns, say in the bond market, will determine how attractive your projected “acceptable CAP rate” will be in the future.

Some properties, such as residential rental properties are influenced more by the rate of appreciation than by the CAP rate. On the other hand, a pure commercial property is more likely to be affected by the prevailing competitive CAP rate at the time of sale.



Your analysis and use of this **VALUATION PROJECTION** report will be based on your personal circumstances, the accuracy of your projections, external market forces in play at the time of sale, and the nature of the property in question.

In this example, given that we are evaluating a “Condo” - a residential property - the **CAP** rate valuations may be less likely to apply than the appreciation valuation.

If you feel this is true, based on the information you provided in this illustration, you may choose to expect a potential future value somewhere between \$410,000 and \$415,000.

--- End of TUTORIAL #2 ---