



6104 Willow St.

Real Estate Proposal  
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<b>Executive Summary</b>	<b>3</b>
<b>Risk &amp; Expected Return Analysis</b>	<b>4</b>
Forecasting Parameters	4
Annual Total Return on Equity	5
Internal Rate of Return Calculation	5
Risk Considerations	6
<b>Financial Feasibility Analysis</b>	<b>7</b>
Basic Financial Feasibility Model	7
<b>Property Valuation</b>	<b>8</b>
Cost Model	8
Income Model	8
Fair-Market Model	8
<b>Photographs of Property</b>	<b>9</b>
Blueprints	9
Property Map	11
Neighborhood and City Maps	12
Exterior Photographs	14
<b>Description and Analysis of Property</b>	<b>16</b>
Geographical Area	16
Neighborhood and Site Characteristics	16
Area Demographics (Master Area Survey)	16
<b>Economic Outlook</b>	<b>17</b>
Supply and Demand Analysis	17
<b>Highest and Best Use Discussion</b>	<b>18</b>
Small Residential Income Property	18
<b>Portfolio Analysis</b>	<b>19</b>
Risk Aversion	19
<b>Appendices</b>	<b>20</b>

# Executive Summary

The property at 6104 Willow is a two-unit multifamily property designed for rental use. Centrally located in Uptown New Orleans, the property shows signs of stable revenue, as well as stable appreciation. Three models have been used to value the property, and we believe that through using the income model, a purchase price of **\$319,198** should be offered for the property, given a most-likely situation. Assuming we can attain financing terms of 80/20 LTV, and no more than a 6.5% rate at 20 years, this property can be attained for an **Equity Investment** of **\$63,640**. Holding the property for seven years, we predict an average cash flow (before taxes) of **\$9,292**. In addition, the appreciation of the value should drive the value to **\$391,343**. This should generate a **Total Return on Equity** of **55.2%**, and a respective **Internal Rate of Return** of **19.98%**. For all calculations, please consult Appendices A-E.

# Risk & Expected Return Analysis

## Forecasting Parameters

In forecasting the numbers, several sources are used for information. Typical operating expenses were drawn from a small residential income property appraisal report. The appraisal’s model of fair market valuation and cost-approach valuation were used as well. Instead of using the given properties on the appraisal’s fair-market valuation, I found similarly priced comparable property sales on the market within the area using the MLS service. I could not get detailed sales information due to Deedfax’s high cost of information. Instead, I forecasted similar expenses and costs based on the appraisal.

For the sensitivity analysis, there are three scenarios; optimistic market, most likely, and a pessimistic market. All three analyses have different parameters that are chosen on the basis of growth rates of income, expenses, and appreciation. Additionally, the lending terms have changed between the scenarios to illustrate more favorable and less favorable financing. These include leverage (LTV), and changing rates. The term however, remained the same at 20-years.

The following table indicates the forecasting parameters used in each situation:

Forecasting Parameter	Optimistic	Most Likely	Pessimistic
Gross Revenue Growth Rate	5%	3%	1%
Vacancy & Credit Losses	96%	93%	87%
Operating Expenses Growth Rate	3%	3%	6%
Debt Coverage Ratio	1.3	1.2	1.15
Loan-to-Value	80/20	80/20	75/25
Lending Rate	5.5%	6.5%	7%
Property Appreciation Rate	5%	3%	1%
Ordinary Tax Rate	30%	30%	30%
Capital Gains Tax Rate	35%	35%	35%

Initial property values were determined by finding an annual debt service from a net operating income. The annual debt service would determine debt amount, and the equity amount would be based on the Loan-to-value of the given scenario. Purchase price was determined from the appreciated value at the end of year-7.

## Annual Total Return on Equity

### 7 Year Hold

Based on a seven year hold, the total return on equity in a most-likely situation is 55.20%. An optimistic market will show as high as a 74.08% Total Return on Equity, and even a pessimistic market will show a 27.01% Total Return on Equity. The following table shows the TROE calculations:

Year End:	1	2	3	4	5	6	7
Optimistic	45.67%	49.82%	54.18%	58.78%	63.62%	68.72%	74.08%
Most Likely	31.89%	35.29%	38.87%	42.64%	46.61%	50.79%	55.20%
Pessimistic	17.89%	19.28%	20.73%	22.22%	23.76%	25.36%	27.01%

## Internal Rate of Return Calculation

### 7 Year Hold

For the Internal Rate of Return Calculation, I used the Leveraged IRR approach, which takes into consideration proceeds after debt service. The initial equity amounts were determined from annual debt service and leverage terms, and the final sale price was determined from the appreciation of property based on the growth rate for the given scenario. The Internal Rates of Return for the three scenarios are as follows:

**Optimistic Market**            **IRR = 24.59%**

**Most Likely Market**        **IRR = 19.98%**

**Pessimistic Market**        **IRR = 10.27%**

### Analysis

Based on the most-likely market, this investment's internal rate of return is attractive. Even in a pessimistic market, the IRR is still attractive considering today's housing market. Rental properties in this area will remain strong due to the proximity of the universities, therefore it is an attractive investment.

## Risk Considerations

For this property, there are several risks involved though we believe that they are not substantial. For many properties in the New Orleans area, flooding is of great concern. This property is located nearby the Broadmoor neighborhood, which is known to flood easily. This property is located on higher ground however, and was not severely affected by flooding during Hurricane Katrina. Another risk with this property is the type of renter who will be renting. Mainly catering toward university students, the property bears the risk of structural damage that may be incurred from negligence. New Orleans also has a high crime-rate, though this has not affected the values of the properties along State St. and Willow Dr, therefore we do not consider that a major risk.

Other risks come from financing and vacancies. We do not foresee vacancies based on the limited supply of housing to university students, and as the current economy is driving more students back into school, we expect a 93-97% vacancy rate (based on the most-likely market and optimistic markets). New Orleans generally has an 84% vacancy rate, however we believe that housing Uptown is in higher demand. Finally, there is financing risk, which may come from inflationary markets, though the New Orleans market has been fairly stable in terms of home values, and we therefore do not consider this a major risk.

# Financial Feasibility Analysis

## Basic Financial Feasibility Model

The Basic Financial Feasibility Model uses a desired rate of return on equity for a year's cash flow before taxes to equity to determine a maximum equity investment. In addition to this equity is the mortgage loan amount, which is determined by dividing NOI by a given debt coverage ratio. For the three scenarios, the maximum offering prices (determinant on maximum equity investment) are as follows:

	<b>Optimistic</b>	<b>Most Likely</b>	<b>Pessimistic</b>
<b>NOI</b>	\$26,866	\$25,977	\$23,806
<b>ADS</b>	\$20,667	\$21,648	\$20,701
<b>CFBT</b>	\$6,199	\$4,329	\$3,105
<b>Desired Rate of Return on Equity</b>	20%	15%	10%
<b>Maximum Equity Contribution</b>	\$30,995	\$28,860	\$31,051
<b>Debt Amount</b>	\$264,748	\$254,558	\$235,253
<b>Maximum Purchase Price (based on Financial Feasibility Model)</b>	\$295,743	\$283,418	\$266,304

Based on the financial feasibility model, the highest we should ask for is \$283,418. This value is far lower than the value calculated from the schedule of prospective cash flow. The financial feasibility analysis is just a quick and inaccurate measure of the price to pay for a property. It only accounts for first year information, and does not regard cash flows nor property appreciation. We can offer up the \$283,418 as an offering price, however the seller will probably list higher than this price.

# Property Valuation

## Cost Model

As previously indicated, the cost approach value was determined from was an appraisal of a similar property. Using an estimated land value of \$160,000, and historical rate of 98.76, the indicated value by cost approach after depreciated improvements to the building is **\$498,350.29**. Calculations are shown in *Appendix E*.

## Income Model

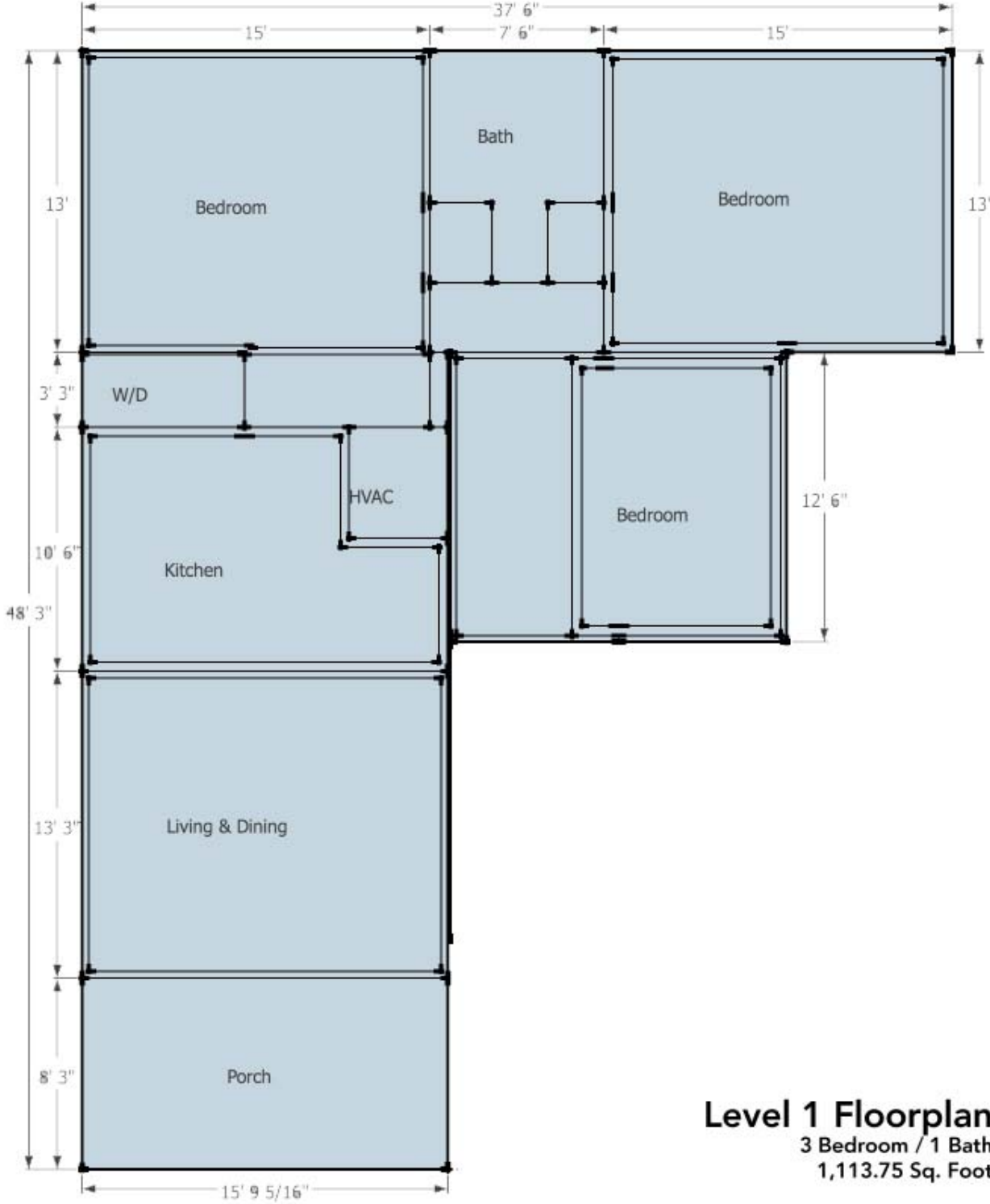
For the income model, apartments generally use a Gross Rent Multiplier to determine income. Rather than using this approach, I am using the current rent rate that I pay for my apartment, which is \$1,500 a month for a two-bedroom (option to use a third room as a bedroom). I doubled that amount (because there is an identical unit downstairs), to determine the gross revenue of the property. After projecting the vacancies and operating expenses, the net operating incomes for all three scenarios were determined. These NOIs are usually divided by a cap rate, determined by the investor, to determine the purchase or sale price (depending on which NOI is used). For the purpose of buying the property, if we assumed a cap rate of 9%, the most-likely scenario would fetch a value of  $\$25,977 \div 9\% = \mathbf{\$288,633}$  for the first year. If we determined the value at the end, in a most-likely condition the value would be  $\$35,908 \div 9\% = \mathbf{\$398,978}$ .

## Fair-Market Model

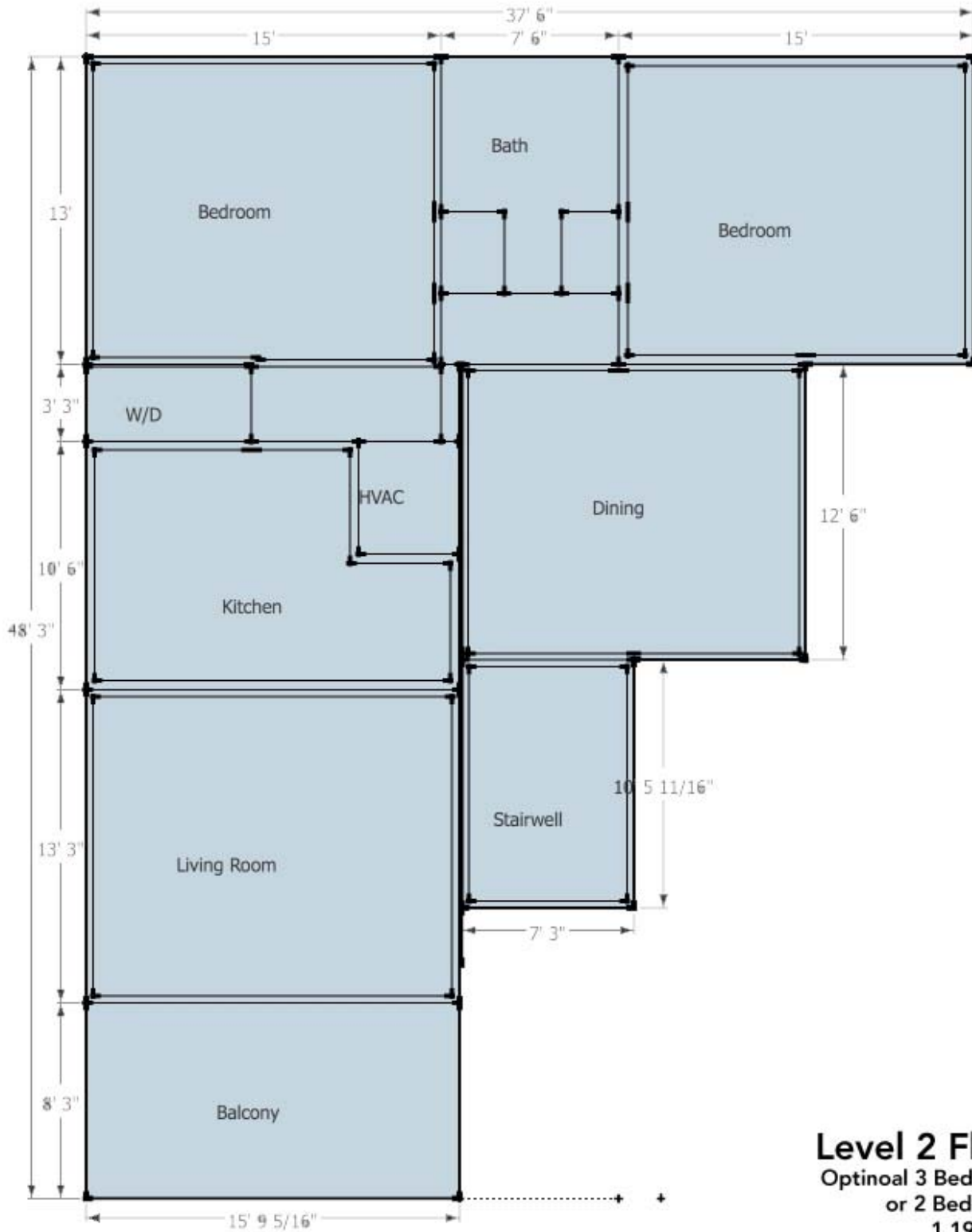
For the fair-market model, I used the appraisal as a guide for predicting adjustments. The comparable sales that I found came directly from MLS listing service. The three properties all had two units with at least one three-bedroom unit, and the other units varying in bedroom amount. The respective adjusted values of the neighboring properties were \$450,000, \$380,000, and \$310,000. Using a value per unit and value per gross building area cost, I determined the fair-market value of the property to be **\$380,000**.

# Photographs of Property

## Blueprints



**Level 1 Floorplan**  
3 Bedroom / 1 Bath  
1,113.75 Sq. Foot



**Level 2 Floorplan**  
 Optinoal 3 Bedroom / 1 Bath  
 or 2 Bedroom / 1 Bath  
 1,195.65 Sq. Foot

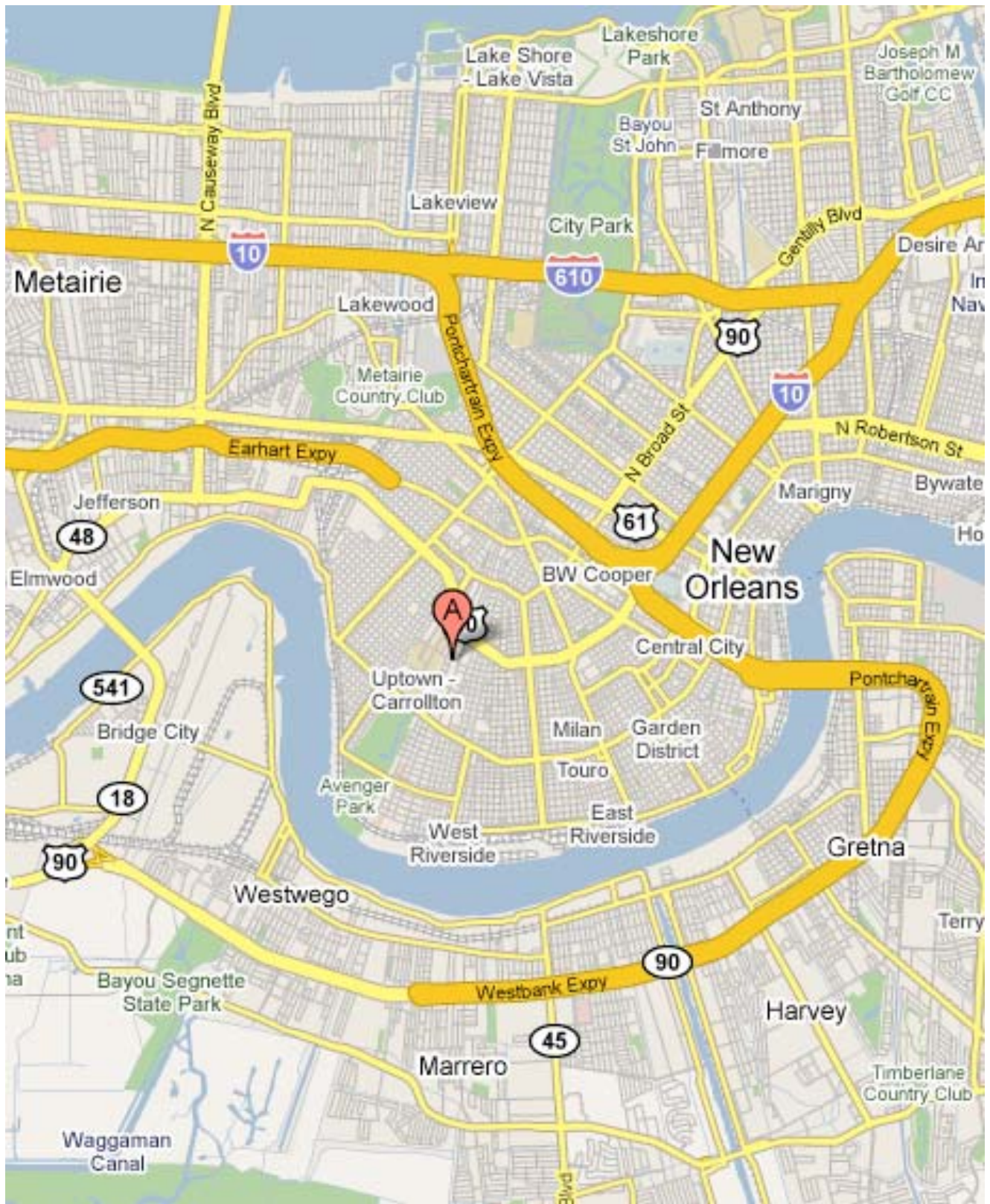
# Property Map



**State St.**

# Neighborhood and City Maps





# Exterior Photographs

View from Street



Front View



Side View



View of Driveway



# Description and Analysis of Property

## Geographical Area

6104 Willow is located in the heart of Uptown New Orleans. It is easily accessible to Claiborne Ave. and St. Charles Ave., and is a ten-minute drive to the New Orleans CBD. Being uptown, it is located nearby nationally ranked Tulane and Loyola Universities. It is a five minute drive to the Earhart Expressway, and is therefore easily accessible to Metairie, Harahan, and Kenner. In terms of New Orleans' Economic Development, shipping, tourism, and mineral refinery are the current top industries. Uptown New Orleans is centrally located among the centers of all three industries.

## Neighborhood and Site Characteristics

Uptown New Orleans, more specifically the University areas are nestled among oak trees, and are generally comprised of historic homes dating back to the early 1900's. Typical homes in this area range from \$100,000 well into the million-dollar range. The presence of high-value homes has helped relative properties to appreciate in value. In addition to property appreciation, there are many amenities located nearby the property. There are grocery stores within a three minute drive, ample amounts of shopping, dining, and recreation nearby. In addition, there are top schools in the area, among which include Isidore Newman, De La Salle, Loyola University, Tulane University and many more. Most of the individuals living in the area are working professionals, and within Orleans Parish, it is considered a more affluent neighborhood.

## Area Demographics (Master Area Survey)

The Uptown-University area of New Orleans has a population density of 10-16 people per acre. The most recent census information (2000) shows an equal split between males and females. The median age is 31.4, indicating a large amount of young professionals living in the area. In 2006, median household income was only \$28,000, however in the past few years, New Orleans has redeveloped, and more and more professionals have been moving to the area.

# Economic Outlook

## Supply and Demand Analysis

For current supply and demand, I was most concerned with the marketability of the property. Attached is a table of similar properties and the rents that they are fetching. This data was obtained via the Craigslist apartment and rental listings within the University area.

	<b>Bed</b>	<b>Bath</b>	<b>Rate</b>	<b>Rate/Room</b>	<b>Rank</b>
<b>7737 Zimple St.</b>	3	1	\$1,100	\$366.67	1
<b>2108 Broadway</b>	3	1	\$1,195	\$398.33	2
<b>Palmer Ave @ Barnett</b>	3	1	\$1,375	\$458.33	3
<b>7026 S. Claiborne</b>	3	1	\$1,395	\$465	4
<b>6104 Willow St.</b>	3	1	\$1,500	\$500	5
<b>2035 Adams St.</b>	4	2	\$2,000	\$500	6
<b>Cohn @ Carrollton</b>	3	1	\$1,695	\$565	7
<b>2404 Pine St.</b>	3	2	\$1,700	\$566.67	8
<b>3809 State St.</b>	3	1.5	\$1,950	\$650	9
<b>1829 Joseph St.</b>	3	2	\$2,100	\$700	10

6104 Willow is ranked in the middle, and we believe that in a market of high demand, this property will be attractive toward graduate students. As previously indicated, the main draw of this location is its proximity to universities. Tulane University is a two block walk from this location, Loyola University is four blocks away, and there are many forms of dining and entertainment that normally attracts young professionals located nearby the area.

# Highest and Best Use Discussion

## Small Residential Income Property

The highest and best use of a property according to The Appraisal of Real Estate, *The Twelfth Edition*, is: *“The reasonably probably and legal use of vacant land or an improved property that is physically possible, legally permissible, appropriate supported, financially feasible and results in the highest value.”*

6104 Willow St. is located in the heart of the University area of Uptown New Orleans. It is within walking distance of both Tulane and Loyola Universities, and is located in a neighborhood mixed with students and non-academic residents. 6104 Willow is located at the intersection of Willow and State St. Homes on the respective block of State St. are generally rented out to University students. Believing that our property is of higher quality than several of the other properties aimed toward university students, we believe that we can attract a draw of law, business, or medical graduate students. The property will continue to appreciate, and in a good market with high turnaround, we hope to grow the rental cost. This area of New Orleans already has high rental rates, but we believe that increased demand in higher education will stabilize the demand for rental. The property is zoned as RD-2, which is designed for use as a two family residential district. Re-zoning is very difficult and may not be cost-effective, despite its proximity to major roads and walking paths that access the university.

# Portfolio Analysis

## Risk Aversion

Generally a well-diversified portfolio will have properties with varied yields bearing varying respective levels of risk. This property is seen as being less risky, yet with a better than average return in terms of appreciation. Adding this property to your portfolio will greatly hedge the amount of risk you are bearing with several of your other properties. As the retail market is being hit hard, and as homes are increasingly foreclosing, the demand for rentals is remaining stable if not increasing in certain areas. Many investors are hesitant to enter rental properties due to the high amount of property management involved. This property is fairly easy to manage, and will generate an acceptable NOI. The main draw to this property for investors will be the steady amount of appreciation, as well as the steady income, as other properties may be hit.

# Appendices

Appendix A - Schedule of Prospective Cash Flows (Optimistic Market)

Appendix B - Schedule of Prospective Cash Flows (Most Likely)

Appendix C - Schedule of Prospective Cash Flows (Pessimistic Market)

Appendix D - Fair Market Valuation

Appendix E - Cost Approach Valuation

# Schedule of Prospective Cash Flow (Optimistic Market)

6104 Willow St. New Orleans, LA 70118

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
For the Year Ending:	June-10	June-11	June-12	June-13	June-14	June-15	June-16
Square Footage - Unit 1	1114	1114	1114	1114	1114	1114	1114
Square Footage - Unit 2	1195	1195	1195	1195	1195	1195	1195
Rental Rate 1 (Per Sq. Ft.)	\$16.16	\$16.97	\$17.81	\$18.70	\$19.64	\$20.62	\$21.65
Rental Rate 2 (Per Sq. Ft.)	\$15.06	\$15.82	\$16.61	\$17.44	\$18.31	\$19.22	\$20.19
Potential Gross Revenue (Optimistic - 5% growth)	\$36,000	\$37,800	\$39,690	\$41,675	\$43,758	\$45,946	\$48,243
Vacancy (96%) & Credit Losses	(\$1,440.00)	(\$1,512.00)	(\$1,587.60)	(\$1,666.98)	(\$1,750.33)	(\$1,837.85)	(\$1,929.74)
Effective Rental Income	\$34,560.00	\$36,288.00	\$38,102.40	\$40,007.52	\$42,007.90	\$44,108.29	\$46,313.71
Other Income	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Gross Operating Income	\$34,560.00	\$36,288.00	\$38,102.40	\$40,007.52	\$42,007.90	\$44,108.29	\$46,313.71
Operating Expenses (3% Growth)							
Utilities	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Water	\$721	\$743	\$765	\$788	\$811	\$836	\$861
Pest Control	\$155	\$159	\$164	\$169	\$174	\$179	\$184
Taxes (Property)	\$4,964	\$5,113	\$5,266	\$5,424	\$5,587	\$5,755	\$5,927
Casual Labor	\$103	\$106	\$109	\$113	\$116	\$119	\$123
General Maintenance	\$515	\$530	\$546	\$563	\$580	\$597	\$615
Management Expenses	Owner - \$0	Owner - \$0	Owner - \$0	Owner - \$0	Owner - \$0	Owner - \$0	Owner - \$0
Replacement Reserves	\$1,236	\$1,273	\$1,311	\$1,351	\$1,391	\$1,433	\$1,476
Total Operating Expenses	\$7,694	\$7,924	\$8,162	\$8,407	\$8,659	\$8,919	\$9,186
<b>Net Operating Income</b>	<b>\$26,866</b>	<b>\$28,364</b>	<b>\$29,940</b>	<b>\$31,601</b>	<b>\$33,349</b>	<b>\$35,189</b>	<b>\$37,127</b>
Debt Coverage Ratio	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Annual Debt Service	\$20,667	\$20,667	\$20,667	\$20,667	\$20,667	\$20,667	\$20,667
<b>Cash Flow Before Taxes</b>	<b>\$6,200</b>	<b>\$7,697</b>	<b>\$9,274</b>	<b>\$10,934</b>	<b>\$12,682</b>	<b>\$14,523</b>	<b>\$16,461</b>

Debt Terms:	80/20 LTV	20-year	5.5%	MDS - \$1,821,154	PV (Loan) =	264747.82
	Debt:	\$264,748	Equity:	\$66,187	<b>Total Value:</b>	<b>\$330,935</b>

NOI	\$26,866	\$28,364	\$29,940	\$31,601	\$33,349	\$35,189	\$37,127
Less: Interest Expense	\$14,374	\$13,953	\$13,507	\$13,036	\$12,539	\$12,013	\$11,458
Less: Depreciation	\$12,034	\$12,034	\$12,034	\$12,034	\$12,034	\$12,034	\$12,034
Taxable Income	\$458	\$2,377	\$4,400	\$6,531	\$8,776	\$11,142	\$13,635
Ordinary Income Tax Rate	30%	30%	30%	30%	30%	30%	30%
Tax	\$137	\$713	\$1,320	\$1,959	\$2,633	\$3,343	\$4,091
Cash Flow Before Tax	\$6,200	\$7,697	\$9,274	\$10,934	\$12,682	\$14,523	\$16,461
Less: Tax	\$137	\$713	\$1,320	\$1,959	\$2,633	\$3,343	\$4,091
<b>Cash Flow After Tax</b>	<b>\$6,063</b>	<b>\$6,984</b>	<b>\$7,954</b>	<b>\$8,975</b>	<b>\$10,049</b>	<b>\$11,180</b>	<b>\$12,370</b>

Property Value (5% Appreciation) [Original = \$330,933]	\$347,482	\$364,856	\$383,098	\$402,253	\$422,366	\$443,484	\$465,658
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Cash Flow Before Tax	\$6,200	\$7,697	\$9,274	\$10,934	\$12,682	\$14,523	\$16,461
Principle Paydown	\$7,479	\$7,901	\$8,347	\$8,818	\$9,315	\$9,840	\$10,395
Appreciation	\$16,547	\$17,374	\$18,243	\$19,155	\$20,113	\$21,118	\$22,174
Equity	\$66,187	\$66,187	\$66,187	\$66,187	\$66,187	\$66,187	\$66,187
<b>Total Return on Equity</b>	<b>45.67%</b>	<b>49.82%</b>	<b>54.18%</b>	<b>58.78%</b>	<b>63.62%</b>	<b>68.72%</b>	<b>74.08%</b>

Mortgage Balance: \$202,640

Proceeds from Sales Calculation		Leveraged Internal Rate of Return		Total Cash Flow
Basis at Acquisition	\$330,933	Cash Flow Year 0	(\$66,187)	-\$66,187
Depreciation Taken	\$84,237	Cash Flow Year 1	\$6,063	\$6,063
Adjusted Basis	\$246,696	Cash Flow Year 2	\$6,984	\$6,984
Sale Price	\$465,658	Cash Flow Year 3	\$7,954	\$7,954
Less: Adjusted Basis	\$246,696	Cash Flow Year 4	\$8,975	\$8,975
<b>Indicated Gain:</b>	<b>\$218,963</b>	Cash Flow Year 5	\$10,049	\$10,049
Sale Price	\$465,658	Cash Flow Year 6	\$11,180	\$11,180
Less: Mortgage Balance	\$202,640	Cash Flow Year 7	\$12,370	\$198,751
Sales Proceed Before Tax	\$263,018			
Tax on Capital Gains	\$76,637.03	<b>Leveraged Internal Rate of Return</b>	<b>24.59%</b>	
<b>Sales Proceeds After Tax</b>	<b>\$186,381.26</b>			

# Schedule of Prospective Cash Flow (Most Likely)

## 6104 Willow St. New Orleans, LA 70118

For the Year Ending:	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
	June-10	June-11	June-12	June-13	June-14	June-15	June-16
Square Footage - Unit 1	1114	1114	1114	1114	1114	1114	1114
Square Footage - Unit 2	1195	1195	1195	1195	1195	1195	1195
Rental Rate 1 (Per Sq. Ft.)	\$16.16	\$16.64	\$17.14	\$17.66	\$18.19	\$18.73	\$19.29
Rental Rate 2 (Per Sq. Ft.)	\$15.06	\$15.51	\$15.98	\$16.46	\$16.95	\$17.46	\$17.99
Potential Gross Revenue (Most Likely - 3% growth)	\$36,000	\$37,080	\$38,192	\$39,338	\$40,518	\$41,734	\$42,986
Vacancy (93%) & Credit Losses	(\$2,520.00)	(\$2,646.00)	(\$2,778.30)	(\$2,917.22)	(\$3,063.08)	(\$3,216.23)	(\$3,377.04)
Effective Rental Income	\$33,480.00	\$35,154.00	\$36,911.70	\$38,757.29	\$40,695.15	\$42,729.91	\$44,866.40
Other Income	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Gross Operating Income	\$33,480.00	\$35,154.00	\$36,911.70	\$38,757.29	\$40,695.15	\$42,729.91	\$44,866.40
Operating Expenses (3% Growth)							
Utilities	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Water	\$721	\$743	\$765	\$788	\$811	\$836	\$861
Pest Control	\$155	\$159	\$164	\$169	\$174	\$179	\$184
Taxes (Property)	\$4,773	\$4,916	\$5,064	\$5,216	\$5,372	\$5,533	\$5,699
Casual Labor	\$103	\$106	\$109	\$113	\$116	\$119	\$123
General Maintenance	\$515	\$530	\$546	\$563	\$580	\$597	\$615
Management Expenses	Owner - \$0	Owner - \$0	Owner - \$0	Owner - \$0	Owner - \$0	Owner - \$0	Owner - \$0
Replacement Reserves	\$1,236	\$1,273	\$1,311	\$1,351	\$1,391	\$1,433	\$1,476
Total Operating Expenses	\$7,502	\$7,728	\$7,959	\$8,198	\$8,444	\$8,697	\$8,958
<b>Net Operating Income</b>	<b>\$25,977.53</b>	<b>\$27,426.46</b>	<b>\$28,952.33</b>	<b>\$30,559.13</b>	<b>\$32,251.05</b>	<b>\$34,032.49</b>	<b>\$35,908.06</b>
Debt Coverage Ratio	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Annual Debt Service	\$21,647.94	\$21,647.94	\$21,647.94	\$21,647.94	\$21,647.94	\$21,647.94	\$21,647.94
<b>Cash Flow Before Taxes</b>	<b>\$4,329.59</b>	<b>\$5,778.51</b>	<b>\$7,304.39</b>	<b>\$8,911.19</b>	<b>\$10,603.11</b>	<b>\$12,384.55</b>	<b>\$14,260.12</b>

Debt Terms:	80/20 LTV	20-year	6.5%	MDS - \$1,897,917	PV (Loan) =	254558.0811
	Debt:	\$254,558	Equity:	\$63,640	<b>Total Value:</b>	<b>\$318,198</b>

NOI	\$25,978	\$27,426	\$28,952	\$30,559	\$32,251	\$34,032	\$35,908
Less: Interest Expense	\$16,357	\$15,928	\$15,469	\$14,980	\$14,458	\$13,901	\$13,306
Less: Depreciation	\$11,571	\$11,571	\$11,571	\$11,571	\$11,571	\$11,571	\$11,571
Taxable Income	-\$1,951	-\$72	\$1,913	\$4,009	\$6,223	\$8,561	\$11,031
Ordinary Income Tax Rate	30%	30%	30%	30%	30%	30%	30%
Tax	-\$585	-\$22	\$574	\$1,203	\$1,867	\$2,568	\$3,309
Cash Flow Before Tax	\$4,330	\$5,779	\$7,304	\$8,911	\$10,603	\$12,385	\$14,260
Less: Tax	\$0	-\$22	\$574	\$1,203	\$1,867	\$2,568	\$3,309
<b>Cash Flow After Tax</b>	<b>\$4,330</b>	<b>\$5,800</b>	<b>\$6,731</b>	<b>\$7,709</b>	<b>\$8,736</b>	<b>\$9,816</b>	<b>\$10,951</b>
Property Value (3% Appreciation) [Original = \$330,933]	\$327,744	\$337,576	\$347,703	\$358,134	\$368,878	\$379,945	\$391,343
Cash Flow Before Tax	\$4,330	\$5,779	\$7,304	\$8,911	\$10,603	\$12,385	\$14,260
Principle Paydown	\$6,418	\$6,847	\$7,306	\$7,795	\$8,317	\$8,874	\$9,469
Appreciation	\$9,546	\$9,832	\$10,127	\$10,431	\$10,744	\$11,066	\$11,398
Equity	\$63,640	\$63,640	\$63,640	\$63,640	\$63,640	\$63,640	\$63,640
<b>Total Return on Equity</b>	<b>31.89%</b>	<b>35.29%</b>	<b>38.87%</b>	<b>42.64%</b>	<b>46.61%</b>	<b>50.79%</b>	<b>55.20%</b>

Mortgage Balance: \$199,530.69

Proceeds from Sales Calculation		Internal Rate of Return Calculation		Total Cash Flow
Basis at Acquisition	\$318,198	Cash Flow Year 0	(\$63,640)	-\$63,640
Depreciation Taken	\$80,996	Cash Flow Year 1	\$4,330	\$4,330
Adjusted Basis	\$237,202	Cash Flow Year 2	\$5,800	\$5,800
Sale Price	\$391,343	Cash Flow Year 3	\$6,731	\$6,731
Less: Adjusted Basis	\$237,202	Cash Flow Year 4	\$7,709	\$7,709
<b>Indicated Gain:</b>	<b>\$154,141</b>	Cash Flow Year 5	\$8,736	\$8,736
Sale Price	\$391,343	Cash Flow Year 6	\$9,816	\$9,816
Less: Mortgage Balance	\$199,531	Cash Flow Year 7	\$10,951	\$137,862.85
Sales Proceed Before Tax	\$191,812	<b>Internal Rate of Return</b>	<b>19.98%</b>	
Tax on Capital Gains	\$53,949.37			
<b>Sales Proceeds After Tax</b>	<b>\$137,862.85</b>			

# Schedule of Prospective Cash Flow (Pessimistic Market)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
For the Year Ending:	June-10	June-11	June-12	June-13	June-14	June-15	June-16
Square Footage - Unit 1	1114	1114	1114	1114	1114	1114	1114
Square Footage - Unit 2	1195	1195	1195	1195	1195	1195	1195
Rental Rate 1 (Per Sq. Ft.)	\$16.16	\$16.32	\$16.48	\$16.65	\$16.81	\$16.98	\$17.15
Rental Rate 2 (Per Sq. Ft.)	\$15.06	\$15.21	\$15.37	\$15.52	\$15.67	\$15.83	\$15.99
Potential Gross Revenue (Pessimistic 1% growth)	\$36,000	\$36,360	\$36,724	\$37,091	\$37,462	\$37,836	\$38,215
Vacancy (87%) & Credit Losses	(\$4,680.00)	(\$4,820.40)	(\$4,965.01)	(\$5,113.96)	(\$5,267.38)	(\$5,425.40)	(\$5,588.16)
Effective Rental Income	\$31,320.00	\$32,259.60	\$33,227.39	\$34,224.21	\$35,250.94	\$36,308.46	\$37,397.72
Other Income	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Gross Operating Income	\$31,320.00	\$32,259.60	\$33,227.39	\$34,224.21	\$35,250.94	\$36,308.46	\$37,397.72
Operating Expenses (6% Growth)							
Utilities	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Water	\$742	\$787	\$834	\$884	\$937	\$993	\$1,053
Pest Control	\$159	\$169	\$179	\$189	\$201	\$213	\$226
Taxes (Property)	\$4,705	\$4,987	\$5,287	\$5,604	\$5,940	\$6,296	\$6,674
Casual Labor	\$106	\$112	\$119	\$126	\$134	\$142	\$150
General Maintenance	\$530	\$562	\$596	\$631	\$669	\$709	\$752
Management Expenses	Owner - \$0	Owner - \$0	Owner - \$0	Owner - \$0	Owner - \$0	Owner - \$0	Owner - \$0
Replacement Reserves	\$1,272	\$1,348	\$1,429	\$1,515	\$1,606	\$1,702	\$1,804
Total Operating Expenses	\$7,514	\$7,965	\$8,443	\$8,949	\$9,486	\$10,056	\$10,659
<b>Net Operating Income</b>	<b>\$23,805.94</b>	<b>\$24,294.69</b>	<b>\$24,784.58</b>	<b>\$25,274.84</b>	<b>\$25,764.60</b>	<b>\$26,252.95</b>	<b>\$26,738.87</b>
Debt Coverage Ratio	1.15	1.15	1.15	1.15	1.15	1.15	1.15
Annual Debt Service	\$20,700.81	\$20,700.81	\$20,700.81	\$20,700.81	\$20,700.81	\$20,700.81	\$20,700.81
<b>Cash Flow Before Taxes</b>	<b>\$3,105.12</b>	<b>\$3,593.88</b>	<b>\$4,083.77</b>	<b>\$4,574.02</b>	<b>\$5,063.79</b>	<b>\$5,552.14</b>	<b>\$6,038.06</b>

Debt Terms:	75/25 LTV	20-year	7.0%	MDS - \$1823.913	PV (Loan) =	235252.9134
	Debt:	\$235,253	Equity:	\$78,418	<b>Total Value:</b>	<b>\$313,671</b>

NOI	\$23,806	\$24,295	\$24,785	\$25,275	\$25,765	\$26,253	\$26,739
Less: Interest Expense	\$16,290	\$15,886	\$15,452	\$14,987	\$14,488	\$13,953	\$13,380
Less: Depreciation	\$11,406	\$11,406	\$11,406	\$11,406	\$11,406	\$11,406	\$11,406
Taxable Income	-\$3,891	-\$2,997	-\$2,074	-\$1,118	-\$130	\$894	\$1,953
Ordinary Income Tax Rate	30%	30%	30%	30%	30%	30%	30%
Tax (Savings)	-\$1,167	-\$899	-\$622	-\$335	-\$39	\$268	\$586
Cash Flow Before Tax	\$3,105	\$3,594	\$4,084	\$4,574	\$5,064	\$5,552	\$6,038
Less: Tax	\$0	\$0	\$0	-\$335	-\$39	\$268	\$586
<b>Cash Flow After Tax</b>	<b>\$3,105</b>	<b>\$3,594</b>	<b>\$4,084</b>	<b>\$4,909</b>	<b>\$5,103</b>	<b>\$5,284</b>	<b>\$5,452</b>
Property Value (1% Appreciation) [Original = \$330,933]	\$316,807	\$319,975	\$323,175	\$326,407	\$329,671	\$332,968	\$336,297
Cash Flow Before Tax	\$3,105	\$3,594	\$4,084	\$4,574	\$5,064	\$5,552	\$6,038
Principle Paydown	\$5,597	\$6,001	\$6,435	\$6,900	\$7,399	\$7,934	\$8,507
Appreciation	\$3,137	\$3,168	\$3,200	\$3,232	\$3,264	\$3,297	\$3,330
Equity	\$66,187	\$66,187	\$66,187	\$66,187	\$66,187	\$66,187	\$66,187
<b>Total Return on Equity</b>	<b>17.89%</b>	<b>19.28%</b>	<b>20.73%</b>	<b>22.22%</b>	<b>23.76%</b>	<b>25.36%</b>	<b>27.01%</b>

Mortgage Balance: \$186,480

Proceeds from Sales Calculation		Internal Rate of Return Calculation		Total Cash Flow
Basis at Acquisition	\$313,671	Cash Flow Year 0	(\$78,418)	-\$78,418
Depreciation Taken	\$79,843	Cash Flow Year 1	\$3,105	\$3,105
Adjusted Basis	\$233,827	Cash Flow Year 2	\$3,594	\$3,594
Sale Price	\$336,297	Cash Flow Year 3	\$4,084	\$4,084
Less: Adjusted Basis	\$233,827	Cash Flow Year 4	\$4,909	\$4,909
<b>Indicated Gain:</b>	<b>\$102,470</b>	Cash Flow Year 5	\$5,103	\$5,103
Sale Price	\$336,297	Cash Flow Year 6	\$5,284	\$5,284
Less: Mortgage Balance	\$186,480	Cash Flow Year 7	\$5,452	\$113,952.66
Sales Proceed Before Tax	\$149,817	<b>Internal Rate of Return</b>	<b>10.27%</b>	
Tax on Capital Gains	\$35,864.55			
<b>Sales Proceeds After Tax</b>	<b>\$113,952.66</b>			

# Fair Market Value Assessment

6104 Willow St.

Comparable Sale #1

Comparable Sale #2

Comparable Sale #3

<b>Address:</b> 6104 Willow St. New Orleans, LA 70118	<b>Address:</b> 2508 State St. New Orleans, LA 70118	<b>Address:</b> 6215 Clara St. New Orleans, LA 70118	<b>Address:</b> 3105 Nashville Ave. New Orleans, LA 70118
<b>Proximity to Subject:</b>	<b>Proximity to Subject:</b> Two Blocks North	<b>Proximity to Subject:</b> Two Blocks S.W.	<b>Proximity to Subject:</b> Six Blocks N.W.
<b>Sale Price:</b>	<b>Sale Price:</b> \$430,000	<b>Sale Price:</b> \$359,000	<b>Sale Price:</b> \$290,000
<b>Sale Price/Gross Bldg. Area</b>	<b>Sale Price/Gross Bldg. Area</b> \$115.68	<b>Sale Price/Gross Bldg. Area</b> 117.57	<b>Sale Price/Gross Bldg. Area</b> 147.358
<b>Price Per Unit</b>	<b>Price Per Unit</b> 215000	<b>Price Per Unit</b> 179500	<b>Price Per Unit</b> 145000
<b>Design (Style)</b>	<b>Design (Style)</b> Duplex	<b>Design (Style)</b> Duplex	<b>Design (Style)</b> Duplex
<b>Quality of Construction</b>	<b>Quality of Construction</b> Average	<b>Quality of Construction</b> Average	<b>Quality of Construction</b> Average
<b>Actual Age</b>	<b>Actual Age</b> 1905 +/-	<b>Actual Age</b> 1906 +/-	<b>Actual Age</b> 1945 +/-
<b>Gross Building Area</b>	<b>Gross Building Area</b> 3890	<b>Gross Building Area</b> 3700	<b>Gross Building Area</b> 3875
<b>Unit Breakdown:</b>	<b>Unit Breakdown:</b>	<b>Unit Breakdown:</b>	<b>Unit Breakdown:</b>
<i>Unit 1</i>	<i>Unit 1</i> 3 bed 1.5 Bath	<i>Unit 1</i> 3 Bed 2 Bath	<i>Unit 1</i> 3 Bed 1 Bath
<i>Unit 2</i>	<i>Unit 2</i> 3 Bed 1 Bath	<i>Unit 2</i> 2 Bed 1 Bath	<i>Unit 2</i> 1 Bed 1 Bath
<b>Heating/Cooling</b>	<b>Heating/Cooling</b> F. Air/Central	<b>Heating/Cooling</b> F. Air/Central	<b>Heating/Cooling</b> Units
<b>Parking</b>	<b>Parking</b> Off-Street	<b>Parking</b> Off-Street	<b>Parking</b> Off-Street
<b>Porch/Patio/Deck</b>	<b>Porch/Patio/Deck</b> Porch, Patio	<b>Porch/Patio/Deck</b> Porch, Patio	<b>Porch/Patio/Deck</b> Porch, Patio
<i>Adjusted price per unit</i>	<i>Adjusted price per unit</i> \$225,000	<i>Adjusted price per unit</i> \$190,000	<i>Adjusted price per unit</i> \$155,000
<b>Adjusted Sales Price</b>	<b>Adjusted Sales Price</b> \$450,000	<b>Adjusted Sales Price</b> \$380,000	<b>Adjusted Sales Price</b> \$310,000

Value Per GBA	\$125	2310	\$288,750
Value Per Unit	\$190,000	2	\$380,000
<b>Indicated Value by Sales Comparison Approach</b>			<b>\$380,000</b>

*Note: Sales Prices were acquired from MLS. All other cost adjustments are projections based on an appraisal of similar property.*

# Cost Approach Value Assessment

6104 Willow St.

Opinion of Site Value			\$160,000
		<i>Historical Rate</i>	
Dwelling	1114 Sq. Ft @ \$	98.76	\$110,019
	1297 Sq. Ft @ \$	98.76	\$128,092
		<i>Subtotal:</i>	\$238,110
Porch Patio			\$11,750
<b>Total Estimate</b>			<b>\$409,860</b>
Less			
Depreciation	\$74,520.07		\$74,520.07
Depreciated Cost of Improvements			\$335,340.29
"As-is" Value of Site Improvements			\$3,000.00
Land Value			\$160,000
Building Value			\$335,340.29
<b>Indicated Value by Cost Approach</b>			<b>\$498,340.29</b>