

TOM LUNDSTEDT PRESENTS

# **A Four-Part online Video Series:**

## **Part 1**

# **"Real Estate Investing Made Simple, Profitable...and Fun!"**

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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. v.05152020

## Disclaimer:

The purpose of this webinar is to familiarize you with several investment issues, not turn you into an accountant or attorney!

We're going to discuss some important tax and financial issues and it's important to make it clear right up front that the presenter, Tom Lundstedt, is not engaged in rendering legal, accounting or other professional services. Everyone's situation is unique, so – before you, or your clients take any real world action – be sure to check with the proper professionals.

Keep in mind, we are not the accountants, we are not the attorneys. Leave that stuff to the professionals. But, knowing the material in this program, should help you "talk the talk." Once the attorneys and the accountants in your town realize how knowledgeable you are, it's likely you'll get some good referrals because they have clients who want and need good investment properties. A good accountant, a good attorney, and a good real estate agent – that's a great financial team!

**A rental property is a "money machine" made of three parts:**

- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_

### **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:

Depreciation rates (rounded to two decimals)

	<u>Year 1</u>	<u>Year 2</u>
Personal property:	20%	32%
Residential building	3.48%	3.64%
Non-residential building	2.46%	2.56%
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 \$ \_\_\_\_\_  
 Cash invested \$ \_\_\_\_\_  
 Financing: Amount \_\_\_\_\_ Rate \_\_\_\_\_ P&I \_\_\_\_\_ per month  
 Financing: Amount \_\_\_\_\_ Rate \_\_\_\_\_ P&I \_\_\_\_\_ per month

Land value	\$ _____		Depreciation
Personal property value	\$ _____	x _____ % =	\$ _____
Building value	\$ _____	x _____ % =	\$ _____
Land improvement value	\$ _____	x _____ % =	\$ _____
<b>Total depreciation</b>			<b>\$ _____</b>

Annual rent \_\_\_\_\_ Less vacancy \_\_\_\_\_ = Gross operating income \_\_\_\_\_

<b>Annual operating expenses</b>	
Real estate tax _____	Insurance _____
Repairs _____	Utilities _____
Association dues _____	Advertising _____
Management _____	Supplies _____
Miscellaneous _____	Miscellaneous _____
<b>Total operating expenses</b>	<b>\$ _____</b>

I. Gross operating income		\$ _____	
Minus: operating expenses	-	\$ _____	
Equals: net operating income	=	\$ _____	
Minus: annual debt service (monthly P&I x 12)	-	\$ _____	
Equals: cash flow before tax	=	\$ _____	
II. Annual debt service		\$ _____	
Minus: interest	-	\$ _____	
Equals: principal reduction	=	\$ _____	
III. Net operating income		\$ _____	
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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Purchase cost \$ \_\_\_\_\_  
 Cash invested \$ \_\_\_\_\_

Financing: Amount \_\_\_\_\_ Rate \_\_\_\_\_ P&I \_\_\_\_\_ per month  
 Financing: Amount \_\_\_\_\_ Rate \_\_\_\_\_ P&I \_\_\_\_\_ per month

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

Annual rent \_\_\_\_\_ Less vacancy \_\_\_\_\_ = Gross operating income \_\_\_\_\_

**Annual operating expenses**

Real estate tax _____	Insurance _____
Repairs _____	Utilities _____
Association dues _____	Advertising _____
Management _____	Supplies _____
Miscellaneous _____	Miscellaneous _____

Total operating expenses \$ \_\_\_\_\_

I. Gross operating income					
Minus: operating expenses	-	\$ _____			
Equals: net operating income	=	\$ _____			
Minus: annual debt service (monthly P&I x 12)	-	\$ _____			
Equals: cash flow before tax	=			\$ _____	
II. Annual debt service		\$ _____			
Minus: interest	-	\$ _____			
Equals: principal reduction	=			\$ _____	
III. Net operating income		\$ _____			
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 = \_\_\_\_\_ %  
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## Case study #1

Your brother says he found a beautiful, little 8-unit apartment building. But he's not sure if it's a good deal or not. Please calculate the first year benefits and rate of return.

Purchase cost:	\$520,000
Cash invested:	\$72,000
Financing:	\$448,000 @ 9.5% @ \$3,780 per month
Annual rent:	3 units rented for \$1,000/month 3 units rented for \$900/month 2 units rented for \$760/month
Vacancy rate:	5%
Operating expenses:	\$31,248
Tax bracket:	35% (combined State and Federal)
Land value:	\$68,600
Personal property value:	\$45,000
Building value:	\$350,000
Land improvements:	\$56,400
First year interest:	\$42,434
Purchase date:	January