

Proforma Income Statement

123 Main Street Salem, OR 97302

	EOY1	EOY2	EOY3	EOY4	EOY5	EOY6	EOY7	EOY8	EOY9	EOY10
Income										
Gross Scheduled Income	90,000	91,800	93,636	95,509	97,419	99,367	101,355	103,382	105,449	107,558
Less: Vacancy Allowance	9,000	4,590	4,682	4,775	4,871	4,968	5,068	5,169	5,272	5,378
Effective Gross Income	81,000	87,210	88,954	90,733	92,548	94,399	96,287	98,213	100,177	102,180
Plus: Other Income	1,200	1,224	1,248	1,273	1,299	1,325	1,351	1,378	1,406	1,434
Gross Operating Income	82,200	88,434	90,203	92,007	93,847	95,724	97,638	99,591	101,583	103,615
Less: Operating Expenses	33,752	34,765	35,807	36,882	37,988	39,128	40,302	41,511	42,756	44,039
Net Operating Income	48,448	53,669	54,395	55,125	55,859	56,596	57,337	58,080	58,827	59,576
Less: Debt Service	31,538	31,538	31,538	31,538	31,538	31,538	31,538	31,538	31,538	31,538
Less: Upgrades	8,000									
Cash Flow Before Tax (CFBT)	8,910	22,131	22,857	23,587	24,321	25,058	25,799	26,542	27,289	28,038
Taxable Income										
Taxable Revenues	82,200	88,434	90,203	92,007	93,847	95,724	97,638	99,591	101,583	103,615
Less: Deducted Expenses	30,752	31,675	32,625	33,604	34,612	35,650	36,719	37,821	38,956	40,124
Less: Interest Expense	26,255	25,927	25,578	25,207	24,813	24,395	23,950	23,478	22,976	22,443
Less: Amortized Points	140	140	140	140	140	140	140	140	140	140
Less: Depreciation	14,867	15,562	15,562	15,562	15,562	15,562	15,562	15,562	15,562	15,562
Ordinary Income	10,186	15,131	16,298	17,494	18,720	19,977	21,267	22,590	23,949	25,345
Taxable Income	10,186	15,131	16,298	17,494	18,720	19,977	21,267	22,590	23,949	25,345
Taxes Due (-=Savings)	2,852	4,237	4,563	4,898	5,242	5,594	5,955	6,325	6,706	7,097
Cash Flow After Tax (CFAT)	6,058	17,895	18,294	18,689	19,079	19,464	19,844	20,217	20,583	20,941
Purchase Analysis:										
Capitalization Rate	8.07%	8.94%	9.07%	9.19%	9.31%	9.43%	9.56%	9.68%	9.80%	9.93%
Gross Rent Multiplier	6.67	6.54	6.41	6.28	6.16	6.04	5.92	5.80	5.69	5.58
Net Income Multiplier	12.38	11.18	11.03	10.88	10.74	10.60	10.46	10.33	10.20	10.07
Operating Expense Ratio	41.06%	39.31%	39.70%	40.09%	40.48%	40.88%	41.28%	41.68%	42.09%	42.50%
Loan to Value	72.50%	71.62%	70.68%	69.69%	68.64%	67.51%	66.32%	65.06%	63.72%	62.29%
Debt Coverage Ratio	1.54	1.70	1.72	1.75	1.77	1.79	1.82	1.84	1.87	1.89
Break-Even Ratio	79.43%	74.97%	74.66%	74.36%	74.08%	73.82%	73.58%	73.35%	73.14%	72.94%
Cash-on-Cash Before Tax	5.09%	12.63%	13.05%	13.46%	13.88%	14.30%	14.73%	15.15%	15.58%	16.00%
Cash on Cash After Tax	3.46%	10.21%	10.44%	10.67%	10.89%	11.11%	11.33%	11.54%	11.75%	11.95%

Report Assumptions:

Annual periods are end of year 1 January to 31 December. Purchase of property is assumed to be on 1 January in Year 1. Deducted Expenses exclude Replacement Reserve.

Vacancy Allowance: 10% starting Year 1, stepped to 5% starting Year 2.

Rental Income inflated 2% annually. Other Income inflated 2% annually. Operating Expenses inflated 3% annually. The investor's marginal income tax rate is 28%.

Capitalization Rate and Gross Rent Multiplier compute from original purchase price. Cash on Cash computes from initial investment. Loan to Value computes current loan balance to original purchase price.

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	EOY1	EOY2	EOY3	EOY4	EOY5	EOY6	EOY7	EOY8	EOY9	EOY10
Sale Proceeds:										
Sales Value	618,000	637,000	656,000	676,000	696,000	717,000	739,000	761,000	784,000	808,000
Less: Cost of Sale @ 6%	37,080	38,220	39,360	40,560	41,760	43,020	44,340	45,660	47,040	48,480
Less: Loan Repayment	429,717	424,106	418,145	411,814	405,089	397,945	390,357	382,297	373,734	364,639
Sales Proceeds Before Tax	151,203	174,674	198,495	223,626	249,151	276,035	304,303	333,043	363,226	394,881
Less: Taxes due (-=Savings)	-10,399	2,543	10,674	17,424	24,173	31,064	38,096	45,128	52,300	59,614
Sale Proceeds After Tax	161,602	172,131	187,821	206,202	224,978	244,971	266,207	287,916	310,926	335,267
Ratios:										
Capitalization Rate	7.84%	8.43%	8.29%	8.15%	8.03%	7.89%	7.76%	7.63%	7.50%	7.37%
Gross Rent Multiplier	6.87	6.94	7.01	7.08	7.14	7.22	7.29	7.36	7.43	7.51
Loan Replacement/Sales Value	69.53%	66.58%	63.74%	60.92%	58.20%	55.50%	52.82%	50.24%	47.67%	45.13%
Measures:										
IRR Before Debt	4.89%	8.39%	9.51%	10.05%	10.33%	10.51%	10.63%	10.69%	10.74%	10.77%
IRR Before Tax		8.56%	13.78%	16.02%	17.03%	17.52%	17.74%	17.78%	17.74%	17.65%
IRR After Tax		5.84%	9.96%	12.05%	13.10%	13.69%	14.03%	14.20%	14.27%	14.30%
NPV Before Debt @ 10%	-27,847	-16,742	-7,443	932	7,833	13,993	19,442	23,777	27,557	30,811
NPV Before Tax @ 10%	-29,643	-4,451	17,495	37,213	54,278	69,533	83,113	94,707	104,956	113,966
NPV After Tax @ 10%	-26,566	-12,807	-193	12,311	23,024	32,608	41,128	48,277	54,562	60,041
Profitability Index: Before Debt	0.95	0.97	0.99	1.00	1.01	1.02	1.03	1.04	1.05	1.05
Profitability Index: Before Tax	0.83	0.97	1.10	1.21	1.31	1.40	1.47	1.54	1.60	1.65
Profitability Index: AfterTax	0.85	0.93	1.00	1.07	1.13	1.19	1.23	1.28	1.31	1.34
Rates of Return:										
CFAT/(Sale Value-Loan Repay)	3.22%	8.41%	7.69%	7.07%	6.56%	6.10%	5.69%	5.34%	5.02%	4.72%
Return on Equity	16.75%	20.78%	17.51%	15.51%	13.66%	12.49%	11.53%	10.51%	9.87%	9.31%
AVG Return on Equity	16.75%	18.76%	18.35%	17.64%	16.84%	16.12%	15.46%	14.84%	14.29%	13.79%

Sale Assumptions:

Property value is inflated 3% annually from the date of acquisition.

Sale of property is assumed to be on 31 December for the given year. Mid-month convention applied. Sales Value is rounded to the nearest \$1,000.

Ratios & Measures:

IRR, NPV, and Profitability Index assume a sale in the given year.