

# INCOME PROPERTY ANALYSIS/VALUATION

For

12 Plex

Located at:

456 Lakeview Circle  
Madison , WI, 53713

Valuation as of: December 31 2004



## PREPARED BY

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Wisconsin Real Estate Appraisal Services LLC  
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Middleton, WI 53562  
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Report Date: September 1 2005





September 1 2005

Mr. Greg Brown, Vice President  
First National Bank  
P.O. Box 02245  
9526 Main Street  
Madison, WI 53517-2245

Dear: Mr. Brown:

Thank you for contacting us. The following is the information that you requested on the 12 Plex income property located at 456 Lakeview Circle Madison, WI 53713. Enclosed herein you will find our complete income market valuation for this investment property.

Our evaluation is based on the premise that an income property's fair market value is that price at which 1. The investors located within the market, will receive the current market rate of return for similar investments within the property's market area. 2. The spendable income stream generated from the property will be adequate to pay the structured debt service that the sale of the property would create under the current market rates and terms offered at the current market down payment percentages. 3. The spendable income stream generated from the property will be adequate to pay all of the property's expenses including a market wage, salary or fee to the property managers. As you will see in the following analysis, by using the inputted market variables listed herein, there is only ONE value at which this income property can accomplish these three criteria! This evaluation is a study that has determined that value.

We have determined the market value of this income property on the basis of a personal inspection of the subject property and the use of good, commonly accepted business and accounting practices. We also used the information contained in property financial statements and other readily available property financial information and industry standard information for similar properties of size, type and market location. Additionally, we analyzed the current market's financial variables affecting the property's current market value. We have determined that the value of the subject property is \$1,863,575.

An anticipated investment of \$372,715 would be required as a down payment to purchase this income property.

This evaluation is an accurate mathematical analysis that has determined the value necessary for this income property to be properly structured in order to meet the three criteria previously explained.

This is a sample insert for the evaluator cover letter to show the location of the insert in this sample income property analysis/valuation report.

Sincerely,

Robert Smith CVA  
President

Enclosures

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## INCOME PROPERTY VALUATION SUMMARY

Robert Smith, CVA has been asked by Mr. Nicholas Johnson to render the income property valuation described below. The following information details our assignment:

Client Name:	Nicholas Johnson
Type of Income Property:	12 Plex
Subject Property:	456 Lakeview Circle Madison, WI 53713
Valuation Prepared by:	Robert Smith
Effective Date of Appraisal:	December 31 2004
Date of Valuation:	September 1 2005
Purpose of Evaluation:	Valuation
Standard of Value:	Fair Market Value
<b>Property Value:</b>	\$1,863,575
<b>Down Payment Required:</b>	\$372,715
<b>Additional Investment Required:</b>	\$0
<b>Total Investment Anticipated:</b>	\$372,715

### Summary of Value:

We have determined that the value of the property located at 456 Lakeview Circle Madison, WI 53713 is \$1,863,575.

An anticipated investment of \$372,715 would be required as a down payment to purchase this income property.

The opinion of value is rendered given the variables listed above for the period listed above only.

## INCOME PROPERTY VALUATION SUMMARY (CONTINUED)

### **Scope and Limitations:**

In the review of all data, we have relied upon all of the referenced information without independent verification and therefore it is totally dependant upon the information provided by Nicholas Johnson. Any change in the critical information that was relied upon as part of the process of this valuation would certainly justify a reassessment of the final conclusion of the fair market value.

### **Standard of Value:**

The fair market value is defined as follows: The fair market value of a property is the value at which the business would change hands between a willing seller and a willing buyer when neither is under a compulsion and when both have reasonable knowledge of the relevant facts.

The fair market value of an income property, within its specific market, is that price at which: 1. The investors located within the market, will receive the current market rate of return for similar investments within the property's market area. 2. The spendable income stream generated from the property will be adequate to pay the structured debt service that the sale of the property would create under the current market rates and terms offered at the current market down payment percentages. 3. The spendable income stream generated from the property will be adequate to pay all of the property's expenses including a market wage, salary or fee to the property managers.

### **Summary Comments:**

This is a sample insert for the evaluator summary comments to show the location of the insert in this sample income property analysis/valuation report.

### TEST OF REASONABLENESS

To test the reasonableness of our opinion as to the fair market value of the property located at 456 Lakeview Circle Madison WI, we performed a proof of valuation analysis. This analysis includes assumptions regarding the cash down payment, the terms of the purchase notes, and the income property projected cash flows. This analysis looks at the final opinion of the fair market value and determines the functionality of the ensuing projected cash flows and anticipated financing conclusions. The assumptions regarding the terms of the hypothetical purchase are presented in the following schedule and represents the findings from our analysis.

Final determination of market value:	\$1,863,575
From normalized income statement:	
Net operating income (NPBT):	\$146,985
Balance available to retire monthly debt service:	\$10,696
Required down payment on property:	\$372,715
Required market buyer return on investment \$ (ROI) :	\$18,636

Source of Purchase Funds	Amount	Terms (yrs)	Interest	Mo. Payment
Financial Institution Financing:				
Primary Financing	\$1,437,814	20	6.00	\$10,301
Secondary Financing	\$50,000	20	6.50	\$373
Total	\$1,490,860			\$10,696

Based upon the hypothetical terms presented above, the income property's projected cash flows were estimated to ascertain whether or not they cover the hypothetical interest and principal payments. The buyer post-sale cash flow was calculated in the following manner:

1. The projected before-tax income was reduced by interest payments on hypothetical purchase notes.
2. The projected post-sale pre-tax income was reduced by an income tax factor of 0.0%.
3. All non-cash expenses were added back.
4. The principal portion of all debt instruments (re-sale and post-sale) was deducted.

**Test #1:**

Opinion of income property value:	\$1,863,575
Total Down payment + Debt:	<u>\$1,863,575</u>
Variance (Should be "0"):	\$0

**Test #2:**

Balance available to retire monthly debt Retirement:	\$12,249
Structured monthly debt service payments:	-\$10,696
Monthly cash flow before taxes (ROI):	<u>-\$1,553</u>
Variance (Should be "0"):	\$0

TEST OF REASONABLENESS (CONTINUED)

<b>Test #3:</b>	
Net operating income (NPBT):	\$146,985
Less: Balance available to retire debt service:	<u>\$128,349</u>
Amount available for buyer ROI:	\$18,636
Buyer required return on investment \$ (ROI):	\$18,636
Amount available for buyer ROI:	<u>\$18,636</u>
Variance (Should be "0"):	\$0

**Test Conclusion:**

The final opinion of value of the income property located at 456 Lakeview Circle Madison , WI passes the "test of reasonableness" because: 1) The total of all of the purchase funds created from the down payment and structured financing, equals the final opinion of value. 2. The total monthly payments of all structured financing at the hypothetical sale price, equals the total amount of the spendable cash flow available to make such payments. 3) The total amount of cash flow needed to give the investors a fair market return on their investment equals the balance of the spendable cash flow that is made available to make such a payment. 4) The integrity of the buyer's ROI is maintained because all conditions were met and therefore does not dilute the total cash flow stream structured for the buyer.

**Therefore:**

Based on the above analysis, the priced cash flows are sufficient to pay the assumed interest and principle due on the hypothetical purchase notes and it is sufficient to pay the day to day expenses of the property along with providing the investor with the required market rate of return.

SELLER PRETAX CASH POSITION

HYPOTHETICAL TERMS OF INCOME PROPERTY SALE  
AT CALCULATED MARKET VALUE

**Cash received from sale:**

Down payment from Buyer:	\$372,715
Financial Institution Financing:	
Mortgage – 1 <sup>st</sup> Position	\$1,437,814
Other Financing – 2 <sup>nd</sup> Position	\$50,000
Total Cash Received:	\$1,863,575

## EVALUATOR DATA

### APPRAISER'S INFORMATION

Name: Robert Smith  
Title: President  
Designation: (If entered) CVA  
Company: Wisconsin Real Estate Appraisal Services LLC  
Address: 636 Maple Rd.  
Suite 100  
Middleton, WI 53562  
Phone: 608 555-1234  
Email: rsmith@wreas.com  
Website: www.wreas.com  
Date of Valuation: September 1 2005  
Effective Date of Valuation: December 31 2004  
Purpose of Valuation: Valuation  
Type of Financial Statements Used: In-house

### LETTER INFORMATION

Report addressed to: Greg Brown  
Title: Vice President  
Company: First National Bank  
Address: P.O. Box 02245  
9526 Main Street  
Madison, WI53517-2245

## PROPERTY PROFILE

Property Owner:	Nicholas Johnson
Title:	Owner
Property Owner Phone:	608 555-1478
Property Owner Email:	sadams@lakeviewapts.com
Type of Income Property:	12 Plex
Property Address:	456 Lakeview Circle Madison, WI, 53713
Website:	<a href="http://www.lakeviewapts.com">www.lakeviewapts.com</a>

## MARKET VARIABLES USED IN ANALYSIS

### INVESTMENT CRITERIA

Down Payment (as a % of S/P):	20
Investor's Required Rate of Return:	5
Estimated Property Appreciation Rate (%):	3
Income Property's Market CAP Rate:	
Investor's Other Cash Investments:	
Working Capital	\$0
Other	\$0

### FINANCING:

Year of Financials Analyzed	2004
Ending Month of Fiscal Year Analyzed	December

### LOANS:

#### Primary Financing

Source of Funding	Bank
Mortgage – 1 <sup>st</sup> Position	Real Estate
Term Length (Years)	20
Interest Rate %	6.00

#### Other Financing – 2<sup>nd</sup> Mortgage

Type	2nd mortgage on real estate
Source	Seller
Amount to Finance	\$50,000
Term Length (Years)	20
Interest Rate %	6.50

INCOME STATEMENT ADJUSTMENTS SUMMARY

	%	Actual Year Ending 12-31-2004	Adjustment Year Ending 12-31-2004	%	Adjusted Year Ending 12-31-2004
<b>INCOME:</b>					
Scheduled Rental Income	99.40	\$207,600	\$0	99.40	\$207,600
Other	0.60	\$1,260	\$0	0.60	\$1,260
Total Effective Rental Income	100	\$208,860	\$0	100	\$208,860
<b>Direct Costs:</b>					
Vacancy	4.60	\$9,600	\$0	4.60	\$9,600
Credit Loss	0.29	\$600	\$0	0.29	\$600
Total Direct Cost	4.88	\$10,200	\$0	4.88	\$10,200
<b>GROSS PROFIT</b>	<b>95.12</b>	<b>\$198,660</b>	<b>\$0</b>	<b>95.12</b>	<b>\$198,660</b>
<b>LESS: OPERATING COSTS</b>					
<b>Variable Costs</b>					
Total Variable Costs (See detail schedule on next page)	0.78	\$1,619	(\$201)	0.68	\$1,418
<b>Fixed Costs:</b>					
Total Fixed Costs (See detail schedule on next page)	47.38	\$98,950	(\$48,693)	24.06	\$50,257
Total Operating Expenses	48.15	\$100,569	(\$48,894)	24.74	\$51,675
Operating Income (Loss) Before Taxes	12.91	\$26,963	\$120,022	70.37	\$146,985
<b>Other Income (Expenses):</b>					
Total Other Income (Expense) (See detail schedule on next page)	-34.06	(\$71,128)	\$71,128	0.00	\$0
Net Operating Income (Loss) (NPBT) (Before Debt Service)	12.91	\$26,963	\$120,022	70.37	\$146,985
Less: Annual Debt Service					\$128,349
Cash Flow After Debt Service (ROI Before Taxes) (Return on Investment – ROI)				5.00	\$18,636
1 <sup>st</sup> Yr. - Cash + Principal Reduction + Appreciation.				30.66	\$114,274
Debt Service Coverage Ratio (DSCR)					1.15

INCOME STATEMENT ADJUSTMENTS DETAIL

(ANNUAL PROPERTY OPERATING DATA)

		Actual Year Ending 12-31-2004	Adjustment Year Ending 12-31-2004		Adjusted Year Ending 12-31-2004
	%			%	
Variable Costs:					
Advertising & Promotion	0.33	\$680	\$0	0.33	\$680
Bank Charges	0.04	\$75	\$0	0.04	\$75
License & Permits	0.03	\$60	\$0	0.03	\$60
Office Supplies	0.34	\$720	(\$201)	0.25	\$519
Supplies - Other	0.04	\$84	\$0	0.04	\$84
Total Variable Costs	0.78	\$1,619	(\$201)	0.68	\$1,418
Fixed Costs:					
Depreciation	23.36	\$48,790	(\$48,790)	0.00	\$0
Insurance - Property	0.66	\$1,378	\$97	0.71	\$1,475
Payroll, Resident Manager	1.15	\$2,400	\$0	1.15	\$2,400
Postage, Mailings	0.06	\$126	\$0	0.06	\$126
Professional Fees - Accounting	0.23	\$475	\$0	0.23	\$475
Property Taxes	19.17	\$40,043	\$0	19.17	\$40,043
Repairs & Maintenance	1.95	\$4,080	\$0	1.95	\$4,080
Rubbish Removal	0.50	\$1,040	\$0	0.50	\$1,040
Utilities	0.30	\$618	\$0	0.30	\$618
Total Fixed Costs	47.38	\$98,950	(\$48,693)	24.06	\$50,257
Total Operating Costs	48.15	\$100,569	(\$48,894)	24.74	\$51,675
Other Income (Expenses):					
Other Expense - Interest	34.06	\$71,128	(\$71,128)	0.00	\$0
Total Other Income (Expenses)	-34.06	(\$71,128)	\$71,128	0.00	\$0

COMMENTS – ADJUSTMENTS TO INCOME STATEMENT

ADJUSTMENTS FOR YEAR: 2004

<u>Line Item Adjuste</u>	<u>Comments</u>
Other Rental Related Income	Coin laundry income.
Office Supplies	Adjusted to industry standard.
Depreciation	Set to "0" as part of the normalization process.
Insurance - Property	The owner received new insurance quotation.
Other Expense - Interest	Set to "0" as part of the normalization process.

STRUCTURED FINANCING SUMMARY

Source of Purchase Funds	Amount	Terms (yrs)	Interest	Mo. Payment
Primary Financing	\$1,437,814	20	6.00	\$10,301
Secondary Financing	\$50,000	20	6.50	\$373
Total	\$1,490,860			\$10,696

## DEFINITION OF MARKET VALUE

The “market value” is the most probable price that an income property should bring in a competitive and open market under all conditions necessary for a fair sale presuming the buyer and seller each act prudently, knowledgeably, and assuming the price is not affected by undue stimuli. Implicit in this definition the consummation of a sale as of a specified date and the title from seller to buyer under condition by:

1. Buyer and seller are typically motivated.
2. Both parties are well informed or well advised and each of them is acting in what one considers one’s own best interests.
3. A reasonable time is allowed for exposure in the open market
4. Payment is made in terms of cash of the same currency which the income property has adopted as their accounting standard or in terms of financial arrangements comparable thereto.
5. The price represents the normal consideration for the income property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

A fair market transaction must be a “win-win” for all parties concerned. The fair market value of an “active” income property, in its specific market, is that price at which:

1. The investors located within the market, will receive the current market rate of return for similar investments within the property’s market area.
2. The spendable income stream generated from the property will be adequate to pay the structured debt service that the sale of the property would create under the current market rates and terms offered at the current market down payment percentages.
3. The spendable income stream generated from the property will be adequate to pay all of the property’s expenses including a market wage, salary or fee to the property managers.

### STATEMENT OF LIMITING CONDITIONS

1. The establishing of the fair market value of this income property is not based in whole or in part upon: the race, color, sex or national origin of the prospective owners or occupants of the business evaluated; or upon the race, color, sex or national origin of the present owners or occupants of the businesses in the vicinity of the property evaluated.
2. The evaluator has personally inspected the income property, both inside and out.
3. To the best of the evaluator's knowledge and belief, all statements and information in this report are true and correct and the evaluator has not knowingly withheld any significant information.
4. This evaluation has been made in conformity with the use of good, common accepted business and accounting practices.
5. The evaluator has relied upon the representations made to him/her by the owners and/or management of the subject property. All information, where possible, has been verified by the evaluator. The information, although not guaranteed by the evaluator, has been compiled from sources we believe reliable.
6. The evaluator has used financial sources such as the property's tax forms to assure the accuracy of this report. These forms are signed by the owner and/or management of the income property certifying to the government that it is a true and accurate representation of the financial condition of the income property.
7. The evaluator has mathematically compiled the final opinion of value through the use of commonly accepted accounting practices. The evaluator assumes no liability in the determining of this value.
8. This analysis cannot be duplicated or otherwise copied in whole or in part without the permission of the evaluator.
9. It is understood that the evaluator is not required to give testimony or appear in court because of having made this evaluation with reference to the income property in question, unless arrangements have been previously made.
10. This is a sample insert for the evaluator limiting conditions to show the location of the insert in this sample income property analysis/valuation report.

## EVALUATOR'S COMMENTS

The income property valuation in this study is an evaluation of the subject property when it is used as a viable rental property only.

Our evaluation is based on the premise that an income property's fair market value is that price at which 1. The investors located within the market, will receive the current market rate of return for similar investments within the property's market area. 2. The spendable income stream generated from the property will be adequate to pay the structured debt service that the sale of the property would create under the current market rates and terms offered at the current market down payment percentages. 3. The spendable income stream generated from the property will be adequate to pay all of the property's expenses including a market wage, salary or fee to the property managers. This evaluation is a study that has determined that price.

This evaluation considered all of the above criteria using the listed existing market variables of interest rates, loan terms, rent factors, wage rates and other factors as listed under the attached schedule entitled "Market Variables Used in Analysis".

Mathematically, under these existing variables, there is only ONE income property value that will allow the income property to meet these listed criteria. This evaluation is a study that calculates that value.

This is a sample insert for the evaluator comments to show the location of the insert in this sample income property analysis/valuation report.

# APPENDICES

# TAX FORMS

# FINANCIAL STATEMENTS

# MISCELLANEOUS SUPPORTING DOCUMENTATION

12 Plex  
Valuation  
December 31 2004



**OFFERED AT: \$1,863,575**

**Type of Property:** 12 Plex

**Property Location:** 456 Lakeview Circle Madison WI

**Property Profile:**

This is a sample insert for the investment property profile to show the location of the insert in this sample income property analysis/valuation report.

12 Plex  
Valuation  
December 31 2004



**12 Plex**  
**456 Lakeview Circle**  
**Madison, WI 53713**