

CRE Proforma – After Tax Proforma

Change the Lease detail figures to those noted below. Check Figure – ATCF in Year 3 should be \$428,201.

| Year/ Suite | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
|----------------|---|---|---|---|----|----|----|---|---|----|----|
| A | 2 | 2 | 2 | 2 | 30 | 8 | 8 | 8 | 8 | 8 | 8 |
| B | 4 | 4 | 4 | 4 | 4 | 4 | 30 | 8 | 8 | 8 | 8 |
| C | 3 | 3 | 3 | 3 | 3 | 40 | 8 | 8 | 8 | 8 | 8 |
| D | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |

For all Suites use a 2.5% Cost Growth Rate. Change the size of Suite A and Suite B to 25000 sq.ft.

Suite A: \$18 Contract Rent, \$0 Expense Stop, 3% Rental Growth Rate.

Suite B: \$28 Contract Rent, \$7 Expense Stop, 0% Rental Growth Rate, \$33 Rental Rate starting year 7.

Suite C: \$15 Contract Rent, \$0 Expense Stop, 3% Rental Growth Rate, 4.5% Sales Growth Rate, 3% of Sales above \$3,000,000. Initial Sales estimated at \$4,500,000.

Suite D: \$30 Contract Rent, \$99 Expense Stop, 0% Rental Growth Rate, 15000 Misc. Income.

Use the following input assumptions

CRE Proforma

Input Data

| | |
|-----------------------------|------------|
| Going Out Cap Rate | 8.0% |
| Selling Expense | 7.0% |
| 7-yr Building Improvement % | 14% |
| 15-yr Land Improvements | 500,000 |
| Purchase Price | 15,000,000 |
| Acquisition Costs | 45,000 |
| Land Value | 2,500,000 |
| Marginal Tax Bracket | 35.0% |
| Depn Recapture Rate | 35.0% |
| Capital Gain Rate | 15.0% |
| Equity Hurdle Rate | 15.0% |
| Depreciation Period | 39 |
| Mortgage LTV | 65.0% |
| Amort Term (Years) | 25 |
| Maturity (Years) | 10 |
| Rate | 6.000% |
| Points | 2.00% |
| Prepay Penalty (%) | 0.00% |

Purchased Real Estate

Assignment: After completing the after tax proforma, construct two graphs as noted below. Using the base case assumptions stated here should give you the check figure noted above. Assume you have PIGS to offset any losses you may have (i.e. you do not need to suspend any losses).

1. Show the effect of Depreciation Recapture Tax. Plot the After Tax IRR as a function of Depreciation Recapture Tax Rate. Use rates of 15, 20, 25, 30, 35 percent.
2. Show the effect of leverage on effective tax rate. Use LTV of 0, 10, 20, . . . 70, 80, 90, 95 percent. How does leverage lower the effective tax rate?