Note: For those of you comfortable with spreadsheets, you may want to set up a spreadsheet to speed up the calculations. For those of you less comfortable with spreadsheets, you will probably find it’s faster to just redo the calculations using a financial calculator.

A recent flier sent out for restaurant building in the San Antonio area notes:

**Unique Net Leased Property**
The information contained herein was obtained from sources believed reliable; however, Grubb & Ellis Company makes no guarantees, warranties, or representations as to the completeness or accuracy thereof. The presentation of this property is submitted subject to errors, omissions, change of price or conditions prior to sale or lease, or withdrawal without notice.

**Features**
- Unique net leased property
  - nestled in Castle Hills, TX
- 4 Buildings:
  - 5,481 SF total
- Single tenant
- Fine dining restaurant
- Nationally acclaimed chef
- Multiple restaurant locations
- 9 year history at this location
- NOI and Lease information available
- Offered at 7% cap rate
- Sale price: $1,800,000

1. Using the data given above, what is the NOI of this property.
2. Assume you can get a 7% bullet mortgage, with 15% down and 3 points. Assume other closing costs (e.g. title insurance and escrow) are one percent of the building value. How much cash do you need to bring to closing? What is the year one DCR and Cash on Cash return? If the NOI increases at 2% per year, and you sell it after 5 years at a 7% Cap Rate, with 8% in selling expenses, what are your cash flows? What is your IRR? Redo your calculations using no mortgage. Does this investment exhibit positive, neutral, or negative leverage? If your going out cap rate is 6% rather than 7%, what is your IRR (no mortgage)? Redo your IRR calculation using a 50% mortgage. Under this revised going out cap rate scenario, does this investment exhibit positive, neutral, or negative leverage? Explain.
3. Given the current real estate market, assume the building is appraised using a 9% cap rate. What is the value of the building? Assume you may get a mortgage for 65% of the appraised value, which will have a 6.5% note rate, a 5-year term, a 25-year amortization period and 2 points. How much cash do you need to bring to closing? What is the year one DCR and Cash on Cash return? If the NOI increases at 2% per year, and you sell it after 5 years at a 7% Cap Rate with 8% in selling expenses, what are your cash flows? What is your IRR? Redo your calculations using no mortgage. Does this investment exhibit positive, neutral, or negative leverage? If the going out cap rate is 9% rather than 7%, what is your IRR (no mortgage)? What is your IRR with a 65% mortgage? For the 9% going out cap rate, does this investment exhibit positive, neutral, or negative leverage? Explain.