You have an opportunity to purchase a mixed use retail (on the ground floor) and office (on the second floor) property for $500,000. After checking with your banker you learn you can get a loan for 70% of the value at 8% interest. Payments will be monthly, based on a 25 year amortization period, but a balloon payment of the outstanding balance will be due after 5 years. Leases on the retail portion were signed two years ago and run for 5 more years. The office portion lease has just been renewed for 5 more years, though two months of free rent were given to the tenants as signing bonuses. Because the leases are carefully written, and each tenant has corporate backing, the vacancy and collection losses can be assumed to be near enough to zero that no adjustment for this need be made for the duration of the current leases. There is no non rental income potential at this site. Operating costs (projected to be $25,000 over the next year) are assigned according to the amount of rentable space the tenant occupies. The CPI is projected to be 4% each year over the next 5 years, and operating costs are projected to increase at 5% each year.

Assumptions:

**Office space:** Gross area = 3250 sq. ft. of which 250 sq. ft. is vertical penetrations and utilities spaces. 250 sq.ft. is used as common areas
Contract rent on office space = $10/sq. ft., and increases at 1/2 of the CPI rate.
Expense stop for office space = $4.00/sq. ft.

**Retail space:** Gross area = 3800 sq. ft. of which 300 sq. ft. is vertical penetrations and utility spaces. 300 sq.ft. is taken up in common areas
Base rent on retail = $8/sq. ft. fixed over life of lease.
Overage rent = 5% of sales in excess of $400,000
Expense stop for retail space = $3.00/sq. ft.

<table>
<thead>
<tr>
<th>Probability</th>
<th>Sales</th>
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<tbody>
<tr>
<td>0.3</td>
<td>$300,000</td>
</tr>
<tr>
<td>0.4</td>
<td>500,000</td>
</tr>
<tr>
<td>0.3</td>
<td>700,000</td>
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1. What is the expected total annual rent from the retail space in the first year? in the 5th year? (ignore any tenant reimbursements for this question) [yr1= 34500 yr5=37982.10]
2. What is the effective rent for the office space? (use a 10% discount rate) [$6.01/ft²]
3. What is the going in cap rate on this building? [7.49%]
4. What is the cash on cash return for this building? [3.36%]
5. What is the first year DCR? [1.16]
6. Does this building exhibit positive or negative leverage? (Support your answer). {5}
7. Assuming the building appreciates at the rate of inflation, what is the (before tax) cash flow from disposition (5 yr from now) if selling expenses are 5% of the sales price? [254951.33]
8. Do you expect the Year 6 NOI to be higher or lower than the Year 5 NOI?