

# REAL ESTATE INVESTMENT ANALYSIS

APRIL 13 2019

PREPARED FOR :

**McClellan Building, LLC**

McClellan Building



PREPARED BY :

**David Cook**

102 W. North Bend Way

North Bend, Washington 98045

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(425) 888-7774



Cook Real Estate Services, LLC

228 W North Bend Way  
North Bend, Washington 98045



# Executive Summary

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 4/13/2019



## Income and Expenses

<b>Gross Op. Income</b>	\$114,624.00
<b>Increase of incomes: Year 1</b>	\$212.67
<b>Vacancy and Credits</b>	- \$0.00
<b>Effective Gross Income (EGI)</b>	<b>\$114,836.67</b>
<b>Expenses</b>	\$24,265.11

## Cash Flow

Net Operating Income	\$90,571.56
Debt Service	\$0.00
<b>Cash Flow (Before Taxes)</b>	<b>\$90,571.56</b>
Total of Equity (Principal Payment)	\$0.00
<b>Cash Flow + Equity</b>	<b>\$90,571.56</b>
Appreciation	\$0.00
<b>Cash Flow + Eq. + Appreciation</b>	<b>\$90,571.56</b>

## Down Payment and Financing

<b>Down Payment</b>	<b>\$1,749,900.00</b>
<b>Mortgage # 1</b>	<b>\$0.00</b>
<b>Length</b>	300 months
<b>Interest Rate</b>	4.75 %
<b>Term</b>	120 months
<b>Payment</b>	\$0.00

## Acquisition Costs

<b>Total</b>	<b>\$1,749,900.00</b>
<b>Acquisition Fees</b>	
<b>Total - Sold Price</b>	

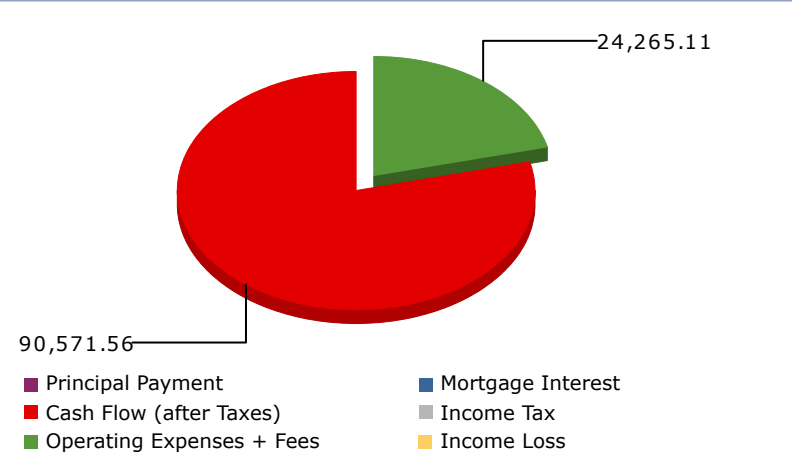
## Financial Ratios (according to Acquisition Cost)\* (after 1 year)

Gross Rent Multiplier (GRM)	15.24
Net Rent Multiplier (NRM)	19.32
Average Unit Price	\$218,737.50
Operating Expense Ratio (OER)	21.13 %
Loan to Value Ratio (LVR)	0.00 %
Debt Coverage Ratio (DCR)	0.00
Break Even Ratio	21.13 %
Capitalization Rate	5.18 %
Internal Rate of Return (year 5)	8.57 %
Annual Appreciation	0.00 %

## Cash on Cash Return\*

<b>Before Equity</b>	<b>5.18 %</b>
<b>After Equity (Principal Payment)</b>	<b>5.18 %</b>
<b>After Equity and Appreciation</b>	<b>5.18 %</b>

## Distribution of the Pot. Gross Income of \$114,836.67 (after 1 year)



The red and purple sections represent your portion of the potential incomes of the building after the first year of operations. This amount belongs to you because the expenses have been paid as well as the mortgage interests and taxes.

\* Not considering non-financed acq. fees nor fixed expenses

# Descriptive Card

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98045

Pot. Gr. Income	Oper. Expenses	Net Op. Income
\$114,624.00	\$24,265.11	\$90,358.89

List Price	Payment Type	Balance
<b>\$1,749,900.00</b>		No

## Property information

Year Built	1918 Approx.
Property Type	Concrete
Total Units	8
Nb of Levels Above Ground	2
Nb of Basement Levels	0
Zoning Type	Residential

Nominal Roll  
Registration Division  
Lot  
Certificate of Localisation

Building Dimensions	0.00 x 0.00
Building Area	
Lot Dimensions	0.00 x 0.00
Lot Area	

Municipal Assessment	2019
Land	\$92,800.00
Building	\$295,464.00
Total	\$388,264.00

Owner McClellan Building, LLC

## Property Details

Foundation	Poured Foundation/Slab
Frame	2x4 & 2x6
Roofing	Commercial Vinyl
Windows	Vinyl & Wood
Water	Public
Floors	Concrete / Wood
Walls	Concrete / Wood
Hot-Water Tank	Natural Gas
Laundry Hookup	Yes
Fire Protection	No
Laundry	No
Parking	0 Int. 6 Ext.
Outdoor outlets	No
Heating paid by	Tenant and Owner
Activities	Office Commercial Residential Services Sale Other
Commercial Type	Bakery Various Retailer Convenience Store Furnitures Pharmacy Hardware

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McClellan Building, LLC

Contact Broker  
Cook Real Estate Services, LLC

Information and Appointment  
David Cook

# Descriptive Card (Continued)

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	Restaurant
	Other
Conveniences	Television Cable
	Other
Elements	Building
	Land
Energy	Electricity
	Natural Gas
Heating	Other
Outdoor Finishing	Concrete
	Brick
	Stucco
	Other
Parking	Gravel Alley
	Outdoor
Sewer	Public
Site Influence	Proximity of Recreative Activities
	Of level
	Highway Proximity
	School Proximity
	Services Proximity
	Public Transport Proximity
	Railroad



# Pictures

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4/13/2019



8/1/2018  
DSC\_0269



8/1/2018  
DSC\_0298 (2)



8/1/2018  
DSC\_0266



8/1/2018  
DSC\_0292



8/1/2018  
DSC\_0302



8/1/2018  
DSC\_0280



**8/1/2018**  
DSC\_0274

# Leases Terms and Conditions



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Apt	Size	Included Services											End of Lease	Vacant	Renewed Lease	Occ. Owner	Tenant / Comment	Rent		
		Other 1	Heating	Electricity	Hot Water	Water Tax	Laundry	Parking	Furnished	Half Furnished	Garage	Other 2						Monthly	Yearly	
1	Studio	-	x	x	x	-	-	x	-	-	-	-	-	-	-	-	-	Carrie R Tobel 228 W North Bend Way, #1, North Bend, WA 98045	\$750.00	\$9,000.00
2	Studio	-	x	x	x	-	-	x	-	-	-	-	-	-	-	-	-	Ronald J Merritt 228 W North Bend Way, #2, North Bend, WA 98045	\$800.00	\$9,600.00
3	Studio	-	x	x	x	-	-	-	-	-	-	-	-	-	-	-	-	Marek L Brandon 228 W North Bend Way, #3, North Bend, WA 98045	\$750.00	\$9,000.00
4	Studio	-	x	x	x	-	-	x	-	-	-	-	-	-	-	-	-	Joshua B Tanner 228 W North Bend Way, #4, North Bend, WA 98045	\$900.00	\$10,800.00
5	Studio	-	x	x	x	-	-	x	-	-	-	-	-	-	-	-	-	Robert I Bladino 228 W North Bend Way, #5, North Bend, WA 98045	\$800.00	\$9,600.00
6	Studio	-	x	x	x	-	-	x	-	-	-	-	-	-	-	-	-	Jacob S Liikala 228 W North Bend Way, #6, North Bend, WA 98045	\$900.00	\$10,800.00
A	1,407 Sq. Ft.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5/31/2024 Boxley's Place, LLC 228 W North Bend Way, Suite A, North Bend, WA 98045 dba Jazz Clubs NW	\$1,876.00	\$22,512.00
B	1,276 Sq. Ft.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5/31/2022 Sip & Fit Collaborations, LLC 228 W North Bend Way, Suite B, North Bend, WA 98045 dba Wildflower Bistro	\$1,489.00	\$17,868.00
																		<b>\$8,265.00</b>	<b>\$99,180.00</b>	



# Financial Analysis

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Income	Monthly	Annually
Storage Unit Rental	\$85.00	\$1,020.00
Expense Reimbursement (59.42%)	\$1,202.00	\$14,424.00
2 x Commercial - Rent Income	\$3,365.00	\$40,380.00
6 x Studio	\$4,900.00	\$58,800.00
<b>Potential Gross Income (PGI)</b>	<b><u>\$9,552.00</u></b>	<b><u>\$114,624.00</u></b>

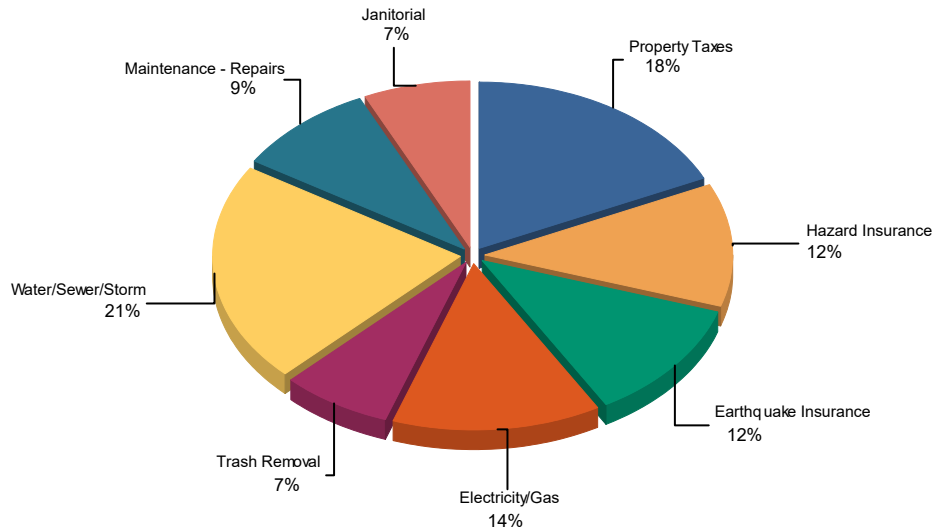
Expenses	% of EGI	Monthly	Annually
Property Taxes	3.84 %	\$366.74	\$4,400.83
Hazard Insurance	2.52 %	\$240.92	\$2,891.00
Earthquake Insurance	2.47 %	\$236.11	\$2,833.28
Electricity/Gas	2.88 %	\$275.00	\$3,300.00
Trash Removal	1.53 %	\$145.83	\$1,750.00
Water/Sewer/Storm	4.54 %	\$433.33	\$5,200.00
Maintenance - Repairs	1.93 %	\$184.17	\$2,210.00
Janitorial	1.47 %	\$140.00	\$1,680.00
<b>Total of Expenses</b>	<b><u>21.17 %</u></b>	<b><u>\$2,022.09</u></b>	<b><u>\$24,265.11</u></b>

Cash Flow	Annually
Net Operating Income	\$90,358.89
Debt Service	- \$0.00
<b>Cash Flow (Before Taxes)</b>	<b><u>\$90,358.89</u></b>
Total of Equity (Principal Payment)	+ \$0.00
<b>Cash Flow + Equity</b>	<b><u>\$90,358.89</u></b>
Appreciation	+ \$0.00
<b>Cash Flow + Eq. + Appreciation</b>	<b><u>\$90,358.89</u></b>

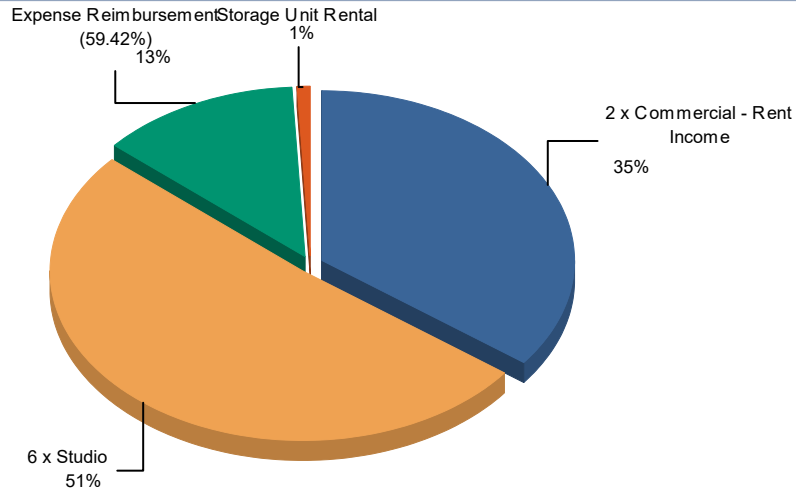
# Financial Analysis

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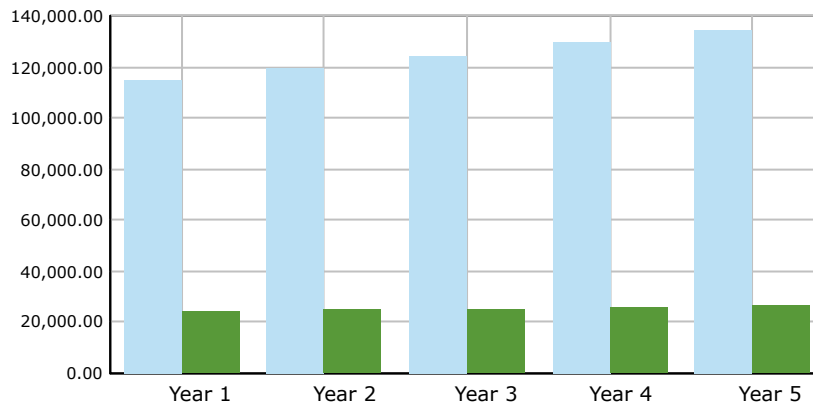
## Expenses Distribution



## Income Distribution



## Incomes, expenses and mortgage interests



This diagram helps to illustrate the available incomes following the payment of the operating expenses and the mortgage interests. These incomes are considered as profit and will serve in part to pay the income taxes.

- Effective Gross Income
- Operating Expenses
- Mortgage Interest

# Profitability Analysis

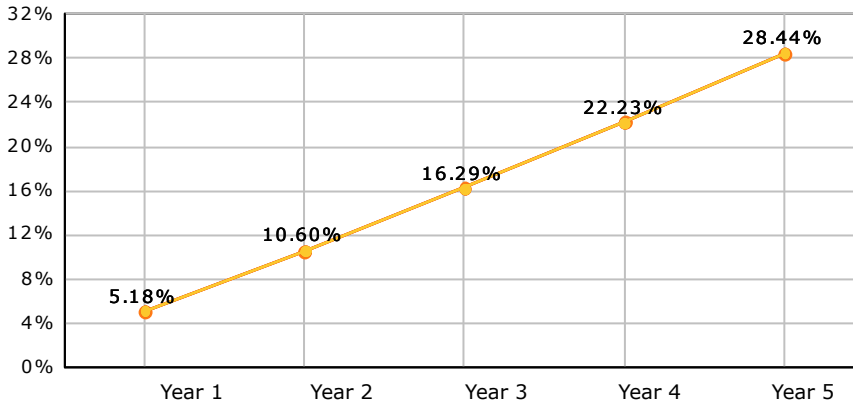


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Financial Ratios (After 1 year)*	Acquisition Cost	
Gross Rent Multiplier (GRM)	15.24	15.24
Net Rent Multiplier (NRM)	19.32	
Average Unit Price	\$218,737.50	
Operating Expense Ratio (OER)	21.13 %	
Loan to Value Ratio (LVR)	0.00 %	
Debt Coverage Ratio (DCR)	0.00	
Break Even Ratio	21.13 %	
Capitalization Rate	5.18 %	
Internal Rate of Return (year 5)	8.57 %	
<b>Cash on Cash Return</b>		
<b>Before Equity</b>	<b>5.18 %</b>	
<b>After Equity (Principal Payment)</b>	<b>5.18 %</b>	
<b>After Equity and Appreciation</b>	<b>5.18 %</b>	

Financial Ratios (At Year 0)*	Acquisition Cost	
Gross Rent Multiplier (GRM)	15.27	
Net Rent Multiplier (NRM)	19.37	
Average Unit Price	\$218,737.50	
Capitalization Rate	5.16 %	

## Cash on Cash Return\*\*



This diagram represents the portion of the initial down payment that goes back in the investor's pockets throughout the years. In other words, with this diagram it is possible to identify the moment when the investor will have entirely recovered his down payment by observing the moment when 100% is reached.

- Cash on Cash Return (Appreciation)
- Cash on Cash Return (after Equity)
- Cash on Cash Return (before Equity)

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 McClellan Building, LLC

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\*Not considering non-financed acq. fees nor fixed expenses  
 \*\*Considering non-financed acquisition fees and fixed expenses.

# Ratios Definition



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## Definitions and Formulas

### **Gross Rent Multiplier (GRM):**

This ratio shows how many times the gross income represents the value of the property.

$$\frac{\text{Value of the property}}{\text{Gross Income}}$$

### **Net Rent Multiplier (NRM):**

This ratio shows how many times the net operating income represents the value of the property.

$$\frac{\text{Value of the property}}{\text{Net Operating Income}}$$

### **Unit Price**

Average unit price.

$$\frac{\text{Value of the property}}{\text{Number of units}}$$

### **Operating Expense Ratio (OER)**

This ratio gives the gross effective income that is used by operating expenses.

$$\frac{\text{Operating Expenses}}{\text{Gross Effective Income}}$$

### **Loan to Value Ratio (LVR)**

This ratio gives the value of the property proportion that comes from external creditors.

$$\frac{\text{Mortgage Balance}}{\text{Value of the property}}$$

### **Debt Coverage Ratio (DCR)**

Measures the extent to which net operating income can cover the debt service.

$$\frac{\text{Net Operating Income}}{\text{Financing Cost}}$$

### **Break Even Ratio**

This ratio gives the minimal occupancy rate for which expenses are covered by gross income.

$$\frac{\text{Expenses} + \text{Financing Cost}}{\text{Gross Potential Income}}$$

### **Capitalization Rate (Cap. Rate)**

It's a measure of the ratio between the cash flow produced by a property and its capital cost (the original price paid) or alternatively its current market value. (Net operating income / value (or selling price) = Capitalization Rate).

$$\frac{\text{Net Operating Income}}{\text{Value of the property}}$$

### **Cash return on Cash (ConC):**

This ratio represents the equity return rate of the owner based on his personal tax rate if a tax rate has been specified. The mentioned equity return illustrates the return rate before and after capitalization following the first year of acquisition. (See financial Forecasts for the following years).

$$\frac{\text{Cash Flow before and after Capitalization}}{\text{Down Payment}}$$

### **Internal Rate of Return**

Discount rate for which the actualized liquidity values generated by the property are equal to the actualized withdrawal values necessary to carry out this investment.

## Homeowner

### **Rent of Homeowner before Equity:**

Occupying owner's rent, considering the cash flow (positive or negative) generated by the property, before tax.

$$\text{Rent} - \frac{\text{Cash Flow Before Equity}}{12 \text{ months}}$$

### **Rent of Homeowner after Equity:**

Occupying owner rent, considering the capitalization and the cash flow generated by the property (rent before equity, principal payment).

$$\text{Rent Bef. Eq.} - \frac{\text{Total of Equity}}{12 \text{ months}}$$

# Financial Forecast

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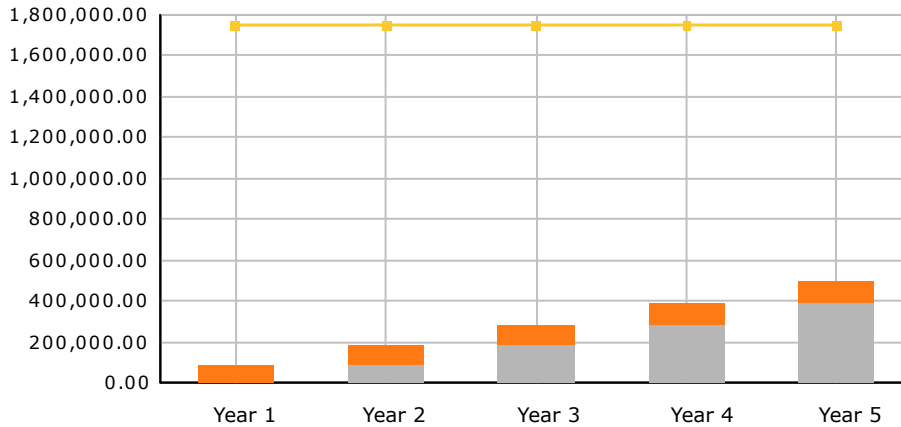
	From May 1, 2019 To Apr 30, 2020	From May 1, 2020 To Apr 30, 2021	From May 1, 2021 To Apr 30, 2022	From May 1, 2022 To Apr 30, 2023	From May 1, 2023 To Apr 30, 2024
<b>Incomes and Expenses</b>					
Potential Gross Income	\$114,836.67	\$119,743.99	\$124,718.13	\$129,761.09	\$134,886.95
Effective Gross Income	\$114,836.67	\$119,743.99	\$124,718.13	\$129,761.09	\$134,886.95
Operating Expenses	\$24,265.11	\$24,750.41	\$25,245.42	\$25,750.33	\$26,265.34
Net Operating Income	\$90,571.56	\$94,993.58	\$99,472.71	\$104,010.76	\$108,621.61
Debt Service	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Cash Flow (before Taxes)	\$90,571.56	\$94,993.58	\$99,472.71	\$104,010.76	\$108,621.61
<b>Financing</b>					
Principal Payment	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Mortgage Interest	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Mortgage Balance	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
<b>Profitability (Accord. to Market Value)</b>					
Gross Rent Multiplier (GRM)	15.24	14.61	14.03	13.49	12.97
Net Rent Multiplier (NRM)	19.32	18.42	17.59	16.82	16.11
Operating Expenses Ratio (OER)	21.13 %	20.67 %	20.24 %	19.84 %	19.47 %
Loan to Value Ratio (LVR)	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %
Debt Coverage Ratio (DCR)	0.00	0.00	0.00	0.00	0.00
Break Even Ratio (BER)	21.13 %	20.67 %	20.24 %	19.84 %	19.47 %
Capitalization Rate (Cap. Rate)	5.18 %	5.43 %	5.68 %	5.94 %	6.21 %
Market Value of Property per apartment	\$218,737.50	\$218,737.50	\$218,737.50	\$218,737.50	\$218,737.50
Net current Value of the Cash Flow	\$87,088.04	\$87,826.90	\$88,430.88	\$88,908.83	\$89,279.05
Cash on Cash Return (Before Equity)	5.18 %	5.43 %	5.68 %	5.94 %	6.21 %
Cash on Cash Return (After Equity)	5.18 %	5.43 %	5.68 %	5.94 %	6.21 %
Cash on Cash Return (Appreciation)	5.18 %	5.43 %	5.68 %	5.94 %	6.21 %
<b>Equity (cumulative)</b>					
Cash on Cash Return (Appreciation)	5.18 %	10.60 %	16.29 %	22.23 %	28.44 %
Property Value (Annual Appreciation 0.00%)	\$1,749,900.00	\$1,749,900.00	\$1,749,900.00	\$1,749,900.00	\$1,749,900.00
Appreciation (Accord. to Market Value)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Principal Payment	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Cash Flow (after Taxes)	\$90,571.56	\$185,565.14	\$285,037.85	\$389,048.60	\$497,670.22
Total Equity	\$90,571.56	\$185,565.14	\$285,037.85	\$389,048.60	\$497,670.22

# Financial Forecast

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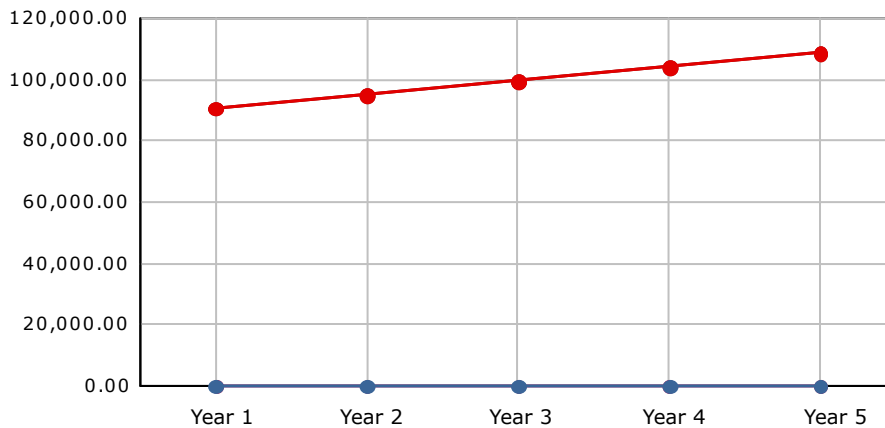
## Cumulative Equity



This diagram represents the accumulated amount throughout the years thanks to the profit generated by the building, the assets accumulated by the mortgage reimbursement and to the increase of the building's value. In other words, it is possible to identify the moment when the investor will have entirely recovered his initial down payment by observing the moment when the line, representing the down payment, is reached.

- Annual Appreciation of the Property
- Principal Payment
- Cash Flow (after Taxes)
- Down Payment
- Cumulative for the previous years

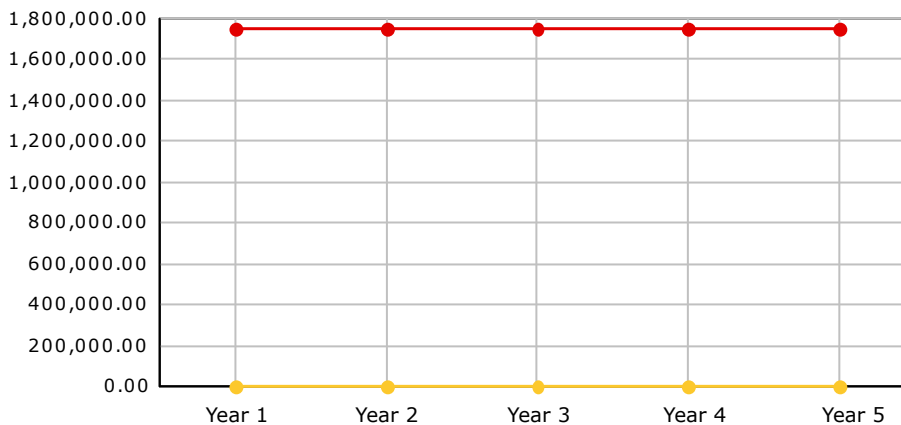
## Equity Progression



In this diagram, the evolution of the profit generated by the building by considering the taxes is illustrated. If the acquisition cost is inferior to the market value, an amount higher can be observed for the appreciation the first year because a profit is earned from the purchase.

- Cash Flow (before Taxes)
- Cash Flow (after Taxes)
- Annual Appreciation of the Property
- Principal Payment

## Increase of the building value and the mortgage balance.



The space between two lines represents the amount that truly belongs to the investor since it is not detained by mortgage creditors. The building increases in value each year without additional financing being necessary.

- Property Value
- Mortgage Balance



# Sale Price Evaluation

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## Down Payment (Percentage)

Desired Rate of Return (Before Taxes and Equity)	10.00 %
Income	\$114,836.67
Expenses	\$24,265.11
<b>Net Annual Income</b>	<b>\$90,571.56</b>

## Mortgage

<b>Total Mortgage</b>	<b>\$0.00</b>
Interest Rate	4.75 %
Length	months
<b>Mortgage Payments</b>	<b>\$0.00</b>

## Evaluation

<b>Down Payment</b>	<b>\$905,715.60</b>
Down Payment (Percentage)	100.00 %
Debt Coverage Ratio	0.00
<b>Annual Profits</b>	<b>\$90,571.56</b>

**Sale's Price Evaluation** \$905,715.60

# Resale Yield (year 5)

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## Net Assets (Before Taxes)

<b>Resale Price</b>	<b>\$2,161,576.67</b>	
Resale Fees	- \$108,078.83	Brokerage Fees of 5.00 %
<b>Net Resale Price</b>	<b>\$2,053,497.84</b>	
Mortgage Balance	- \$0.00	
<b>Net Assets at Resale</b>	<b>\$2,053,497.84</b>	
Down Payment	- \$1,749,900.00	
<b>Increase of Assets (Before Taxes)</b>	<b>\$303,597.84</b>	

## Capital Gain

Net Resale Price	\$2,053,497.84	
Acquisition Cost	- \$1,749,900.00	
<b>Capital Gain</b>	<b>\$303,597.84</b>	
Capital Gain Exemption	- \$0.00	
Capital Gain Balance	\$303,597.84	
<b>Taxable Capital Gain</b>	<b>\$303,597.84</b>	Taxable portion of Capital Gain of 100.00 %

## Tax

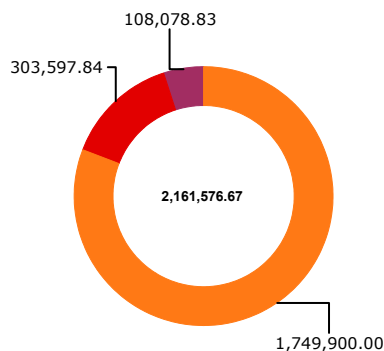
Recovered Annual Depreciation	+ \$176,392.16	
<b>Taxable Total</b>	<b>\$479,990.00</b>	
Income Taxes	\$0.00	Income Tax rate of 0.00 %

## Net Assets (After Taxes)

<b>Assets on Annual Basis</b>	<b>\$303,597.84</b>	
Income Taxes	- \$0.00	
<b>Increase of Assets (After Taxes)</b>	<b>\$303,597.84</b>	

## Yield

Assets on Annual Basis	\$55,699.40	
Average of Cash Flow (After Taxes)	+ \$99,534.04	
<b>Annual Yield</b>	<b>\$155,233.45</b>	
<b>Annual Rate Yield</b>	<b>8.87 %</b>	



This diagram illustrates what the estimated resale price will help to pay. The orange tinted sections (down payment, capital gain and recaptured capital cost) represent the amount belonging to the investor if the building is sold after 5 years of possession.

- Recovered Principal
- Capital Gain (After Taxes)
- Down Payment
- Mortgage Balance
- Resale Fees
- Income Tax