

Money 101 - Real Estate

11.61 Commerical Property - Analysis - CASH FLOW vs TAXABLE INCOME

ASSUMES

Cost of property with all closing costs	\$	450,000
10% Land - non depreciable	\$	45,000
Building is depreciable	\$	405,000
Depreciation is over		27.5 years
Annual depreciation	\$	14,727

The property was purchased with		
0.3 Downpayment in Cash	\$	135,000
0.7 Mortgage for 20 years at 8% interest	\$	315,000
<u>Purchase Price of Property</u>	<u>\$</u>	<u>450,000</u>

	Monthly	Annual
The Mortgage payment is	\$ 2,634.79	\$ 31,617
80% Interest portion of Mortgage (early year of mortgage)	\$ 2,107.83	\$ 25,294
20% Principal Repayment portion of mortgage	\$ 526.96	\$ 6,323

IRS schedule E

CASH FLOW

TAXABLE INCOME

	Monthly	Annual	Monthly	Annual
from the Jenkins family	\$1,900	\$22,800	\$1,900	\$22,800
from the Lewis family	\$3,100	\$37,200	\$3,100	\$37,200
Line 3 TOTAL INCOME	\$5,000	\$60,000	\$5,000	\$60,000

	Monthly	Annual	Monthly	Annual
Line 5 Advertising	\$ 60	\$ 720	\$ 60	\$ 720
Line 6 Auto and Travel	\$ -	\$ -	\$ -	\$ -
Line 7 Cleaning and Maintenance	\$ 100	\$ 1,200	\$ 100	\$ 1,200
Line 8 Commissions	\$ 50	\$ 600	\$ 50	\$ 600
Line 9 Insurance	\$ 45	\$ 540	\$ 45	\$ 540
Line 10 Legal and Accounting	\$ 50	\$ 600	\$ 50	\$ 600
Line 11 Management Fee	\$ 250	\$ 3,000	\$ 250	\$ 3,000
Line 12 Mortgage Interest	\$ 2,108	\$ 25,294	\$ 2,108	\$ 25,294
Line 14 Repairs	\$ 65	\$ 780	\$ 65	\$ 780
Line 15 Supplies	\$ 45	\$ 540	\$ 45	\$ 540
Line 16 Taxes	\$ 850	\$ 10,200	\$ 850	\$ 10,200
line 17 Utilities - oil heating	\$ 240	\$ 2,880	\$ 240	\$ 2,880
Line 18 Depreciation Expense	no cash effect		\$ 1,227	\$ 14,727
Principal Repayment - not tax deductible	\$ 527	\$ 6,323	not deductible	
	\$ 4,390	\$ 52,677	\$ 5,090	\$ 61,081
	<u>\$610</u>	<u>\$7,323</u>	<u>(\$90)</u>	<u>(\$1,081)</u>

The above illustrates that the out of pocket cash is different than the taxable net income

creates a positive cash flow

creates a TAX LOSS