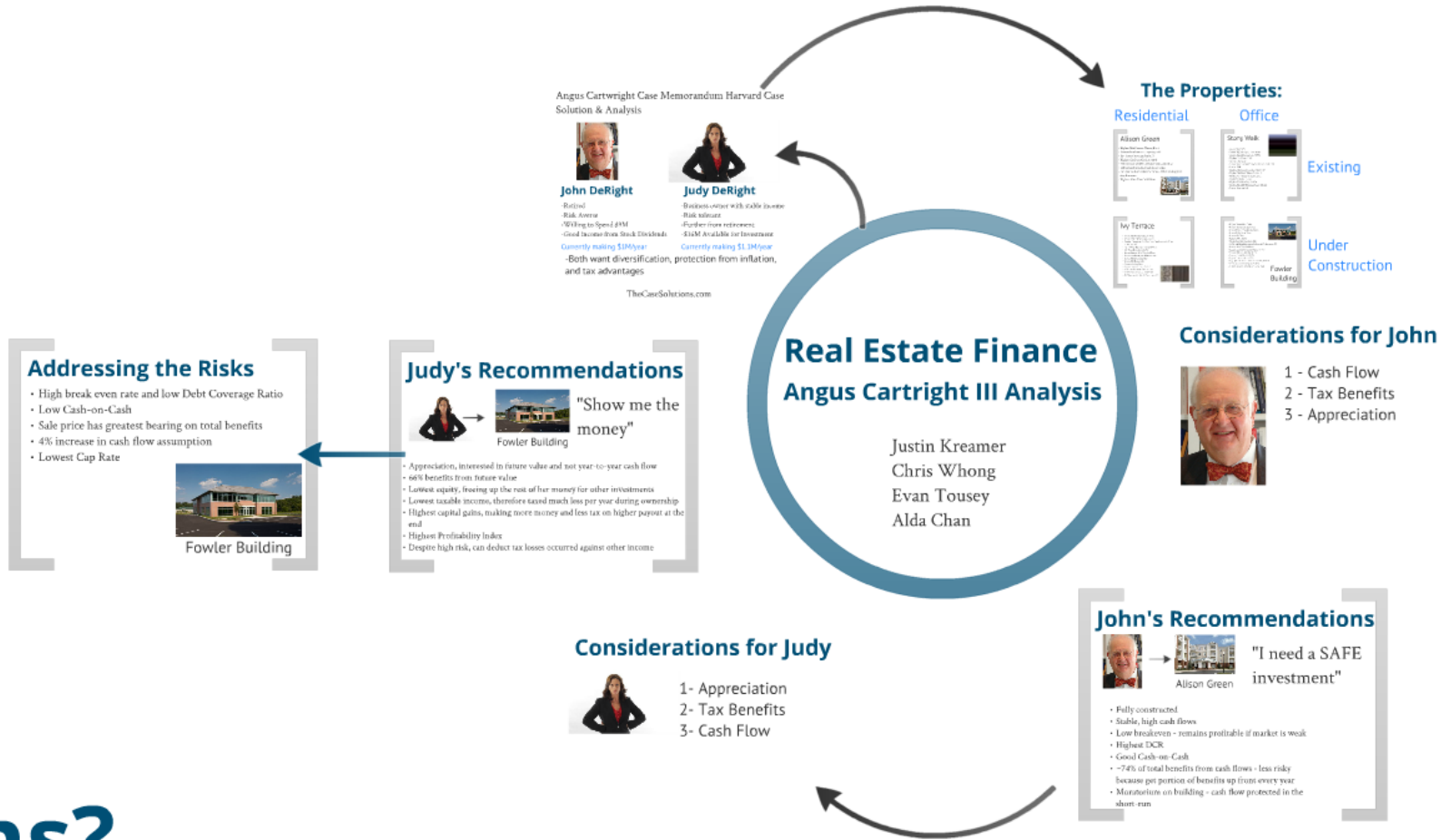


Questions?



Angus Cartwright III



Angus Cartwright Case Memorandum Harvard Case Solution & Analysis



John DeRight

- Retired
- Risk Averse
- Willing to Spend \$9M
- Good income from Stock Dividends

Currently making \$1M/year

-Both want diversification, protection from inflation, and tax advantages



Judy DeRight

- Business owner with stable income
- Risk tolerant
- Further from retirement
- \$16M Available for Investment

Currently making \$1.1M/year

The Properties:

Residential

Office

Alison Green

- Highest Net Present Value, \$734
- Lowest breakeven occupancy, 64%
- Best Debt Coverage Ratio, 2
- Highest Cash-on-Cash, 12.06%
- 74% of total benefits derived from cash flow
- 44% of total benefits from future value
- Cap rate indicates that the value of the building will stay the same
- Highest After Tax Cash Flow



Stony Walk

- Second best NPV
- Second highest equity investment
- Second highest breakeven, 75.99%
- Highest Cap Rate, 9.19%
- Cap rate increases
- 65% of Total Benefits from Cash Flow; 61% is FV
- Lowest IRR
- Highest Net Cash From Sale, \$8,347.87
- Highest Net Book Value, \$9,649.72
- Highest Amortization and Reserve
- Highest Taxable Income
- Highest Tax Benefits, -26.65%
- Highest Monthly Mortgage Rate (\$8000)
- Lowest Gain on Sale



Ivy Terrace

- Lowest Net Present Value, \$619.60
- Lowest Monthly Mortgage, \$5,500
- Greatest Increase in Cap Rate from Purchase to Sale Price, 9.12% - 9.51%
- 72% of Total Benefits from Cash Flow
- 41% Total Benefits from FV
- Second highest After Tax Cash Flow
- Lowest remaining loan balance at sale
- Lowest Net Cash from Sale
- Lowest Net Book Value
- Lowest Capital Gains
- Highest Depreciation, -\$305.45
- Lowest % of total benefit from FV
- Lowest Amortization and Reserve
- Developer guarantee of 93% occupancy



- Highest Profitability Index
- Highest Breakeven Occupancy
- Lowest Equity Investment, \$2,400
- Lowest Debt Cover Ratio
- Lowest Cap Rate
- Highest IRR, 15.38%
- Second best Net Cash from Sale
- 42.5% total benefits from cash flow ; 66% value from FV
- Lowest After Tax Cash Flow
- Highest Increase in Capital Value, 41.49%
- Highest Gain on Sale, \$6,160.26
- Highest Capital Gains, \$3,750
- Highest Tax Benefits, -8.26%
- High percent of total benefits from FV, 65.69%
- Least amount of taxes paid per year
- Lowest Amount of Taxable Income/Year



Fowler Building

Existing

Under Construction

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Fowler Building

Considerations for John



- 1 - Cash Flow
- 2 - Tax Benefits
- 3 - Appreciation