

# Angus Cartwright Case Memorandum

Charlotte Brutton, Rachel Forray, Dave Poncia, Alex Rapeport

## The Investors

### John DeRight

- retired
- plans to live off of 750K of stock dividends, and 250k other income
- sold business for \$35 mm of company's stock
  - plans to sell half of stock (\$17.5 mm) to reinvest in RE and more
- wants to diversify and capitalize on 20% capital gains tax rate
- more risk averse

### Judy DeRight

- owns small chemical company
  - wants to continue to grow company internally
- \$45 mm invested in stocks, bonds, and short-term securities
  - available for outside investment
- wants to diversify
- more risk tolerant

#### Investor Considerations

- diversification of assets
- tax benefits
- cash flow
- property appreciation
- low involvement/management
- leveraged return of 10% after tax

## The Properties

### Apartment

**Alison Green**

1000 sq ft, 2 bedrooms, 1 bathroom, fully furnished, pet friendly, close to transit, shopping, and dining.

**Ivy Terrace**

1200 sq ft, 3 bedrooms, 2 bathrooms, fully furnished, pet friendly, close to transit, shopping, and dining.

**Financial Analysis**

APR 15.00% | LTV 80.00% | GPM 12.50%

### Office

**800 Stony Walk**

1000 sq ft, 2 bedrooms, 1 bathroom, fully furnished, pet friendly, close to transit, shopping, and dining.

**The Fowler Building**

1200 sq ft, 3 bedrooms, 2 bathrooms, fully furnished, pet friendly, close to transit, shopping, and dining.

**Financial Analysis**

APR 15.00% | LTV 80.00% | GPM 12.50%

Existing

Under Construction

## Recommendations

**John DeRight**

Alison Green ✓  
 Here's Why:  
 - Great location, walking to transit and shopping.  
 - Low maintenance costs.  
 - High rental income potential.  
 - Fully furnished and ready to move in.

**Judy DeRight**

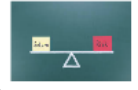
The Fowler Building ✓  
 Here's Why:  
 - Full appreciation for future value.  
 - High rental income potential.  
 - Fully furnished and ready to move in.

**Both**

Ivy Terrace ✓  
 Here's Why:  
 - High rental income potential.  
 - Fully furnished and ready to move in.

## Mitigating Risk

- not guaranteed 93%
- collateral
- escrow account in buying it
- higher than expected construction
  - acquire a property with lower LTV
  - leave room for additional financing
- unanticipated maintenance and repairs
  - conservative annual reserves
  - higher reserves during most profitable years



Questions?

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## The Properties

### Apartment

**Allison Green**

1000 sq ft, 2 bedrooms, 2 bathrooms, central air conditioning, hardwood floors, granite countertops, stainless steel appliances, walk-in closet, parking space, close to schools and shopping.

**Ivy Terrace**

1200 sq ft, 3 bedrooms, 2 bathrooms, central air conditioning, hardwood floors, granite countertops, stainless steel appliances, walk-in closet, parking space, close to schools and shopping.

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Existing

Under Construction

## Recommendations

**John DeRight**

**Allison Green** ✓

**Here's Why:**

- Great location, spacing of 20% occupancy
- High cash flow, low risk
- High return on investment (ROI)
- High net operating income (NOI)
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**Judy DeRight**

**The Fowler Building** ✓

**Here's Why:**

- High appreciation for future value
- High net operating income (NOI)
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**Both**

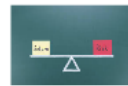
**Ivy Terrace** ✓✓

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## *Investor Considerations*

- diversification of assets
- tax benefits
- cash flow
- property appreciation
- low involvement/management
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# The Properties

## Apartment

### Alison Green

- 100 unit garden apartment in Montgomery County, Maryland
- completed in 2009, operating at 95% occupancy
- asking price= \$21 mm
- mortgage= \$14 mm, 4% interest rate, 30 year amortization period
- estimated sales price= \$24 mm
- CF before debt= \$1.45 mm
- RE taxes = 12% of gross rental income

Important Financial Metrics:

Capex	1.00
Operating Exp	1.00
RE Tax	1.00
Debt Service	1.00
CF Before Debt	1.45
CF After Debt	0.45
NOI	1.45
NOI/Price	6.9%
Cap Rate	6.9%
Yield	6.9%
IRR	10.0%
Payback	10.0%
NPV	10.0%
NPV/Price	10.0%
NPV/NOI	10.0%
NPV/CF	10.0%
NPV/Debt	10.0%
NPV/Equity	10.0%
NPV/Total	10.0%

### Ivy Terrace

- 75 unit garden apartment, located in Arlington, Virginia
- under construction, guaranteed cash flow assuming 93% occupancy
- asking purchase price= \$11.2 mm
- mortgage= \$7 mm, 4.25% interest rate, 30 year amortization period
- estimated sales price= \$14 mm
- NOI= \$900,000
- RE taxes= 10% of gross rental income

Important Financial Metrics:

Capex	1.00
Operating Exp	1.00
RE Tax	1.00
Debt Service	1.00
CF Before Debt	0.90
CF After Debt	0.90
NOI	0.90
NOI/Price	8.0%
Cap Rate	8.0%
Yield	8.0%
IRR	10.0%
Payback	10.0%
NPV	10.0%
NPV/Price	10.0%
NPV/NOI	10.0%
NPV/CF	10.0%
NPV/Debt	10.0%
NPV/Equity	10.0%
NPV/Total	10.0%

## Office

### 900 Stony Walk

- 5 story, 80,000 SF office building in Montgomery County, Maryland
- 67,000 rentable SF
- completed in 2010, operating at 95% occupancy
- asking price=\$15.5 mm
- mortgage= \$12.25 mm, 4.75% interest rate, 25 year amortization period
  - CMBS backed loan--> Non-recourse!
- CF before debt= \$1.05 mm
- RE taxes= 12% of gross rental income
- estimated sales price= \$17 mm

Important Financial Metrics:

Capex	1.00
Operating Exp	1.00
RE Tax	1.00
Debt Service	1.00
CF Before Debt	1.05
CF After Debt	0.05
NOI	1.05
NOI/Price	6.8%
Cap Rate	6.8%
Yield	6.8%
IRR	10.0%
Payback	10.0%
NPV	10.0%
NPV/Price	10.0%
NPV/NOI	10.0%
NPV/CF	10.0%
NPV/Debt	10.0%
NPV/Equity	10.0%
NPV/Total	10.0%

### The Fowler Building

- 2 story, 135,000 SF office in Arlington, Virginia
- 110,000 rentable SF
- under construction, guaranteed cash flow assuming 93% occupancy
- asking purchase price=\$28 mm
- mortgage= \$21 mm, 4.5% interest rate, 25 year amortization period
- NOI=\$1.865mm
- estimated sales price= \$34.5 mm
- RE taxes=10% of gross rental income

Important Financial Metrics:

Capex	1.00
Operating Exp	1.00
RE Tax	1.00
Debt Service	1.00
CF Before Debt	1.865
CF After Debt	0.865
NOI	1.865
NOI/Price	6.6%
Cap Rate	6.6%
Yield	6.6%
IRR	10.0%
Payback	10.0%
NPV	10.0%
NPV/Price	10.0%
NPV/NOI	10.0%
NPV/CF	10.0%
NPV/Debt	10.0%
NPV/Equity	10.0%
NPV/Total	10.0%

### Financial Analysis

<p>Exhibit 1-List of Salient Facts</p> <table border="1"> <tr><td>Property</td><td>Alison Green</td></tr> <tr><td>Location</td><td>Montgomery County, MD</td></tr> <tr><td>Year Built</td><td>2009</td></tr> <tr><td>Units</td><td>100</td></tr> <tr><td>Occupancy</td><td>95%</td></tr> <tr><td>Asking Price</td><td>\$21 mm</td></tr> <tr><td>Mortgage</td><td>\$14 mm</td></tr> <tr><td>Interest Rate</td><td>4%</td></tr> <tr><td>Term</td><td>30 years</td></tr> <tr><td>Amortization</td><td>30 years</td></tr> <tr><td>CF Before Debt</td><td>\$1.45 mm</td></tr> <tr><td>CF After Debt</td><td>\$0.45 mm</td></tr> <tr><td>NOI</td><td>\$1.45 mm</td></tr> <tr><td>NOI/Price</td><td>6.9%</td></tr> <tr><td>Cap Rate</td><td>6.9%</td></tr> <tr><td>Yield</td><td>6.9%</td></tr> <tr><td>IRR</td><td>10.0%</td></tr> <tr><td>Payback</td><td>10.0%</td></tr> <tr><td>NPV</td><td>10.0%</td></tr> <tr><td>NPV/Price</td><td>10.0%</td></tr> <tr><td>NPV/NOI</td><td>10.0%</td></tr> <tr><td>NPV/CF</td><td>10.0%</td></tr> <tr><td>NPV/Debt</td><td>10.0%</td></tr> <tr><td>NPV/Equity</td><td>10.0%</td></tr> <tr><td>NPV/Total</td><td>10.0%</td></tr> </table>	Property	Alison Green	Location	Montgomery County, MD	Year Built	2009	Units	100	Occupancy	95%	Asking Price	\$21 mm	Mortgage	\$14 mm	Interest Rate	4%	Term	30 years	Amortization	30 years	CF Before Debt	\$1.45 mm	CF After Debt	\$0.45 mm	NOI	\$1.45 mm	NOI/Price	6.9%	Cap Rate	6.9%	Yield	6.9%	IRR	10.0%	Payback	10.0%	NPV	10.0%	NPV/Price	10.0%	NPV/NOI	10.0%	NPV/CF	10.0%	NPV/Debt	10.0%	NPV/Equity	10.0%	NPV/Total	10.0%	<p>Exhibit 2-First Year Project Setups</p> <table border="1"> <tr><td>Property</td><td>Alison Green</td></tr> <tr><td>Location</td><td>Montgomery County, MD</td></tr> <tr><td>Year Built</td><td>2009</td></tr> <tr><td>Units</td><td>100</td></tr> <tr><td>Occupancy</td><td>95%</td></tr> <tr><td>Asking Price</td><td>\$21 mm</td></tr> <tr><td>Mortgage</td><td>\$14 mm</td></tr> <tr><td>Interest Rate</td><td>4%</td></tr> <tr><td>Term</td><td>30 years</td></tr> <tr><td>Amortization</td><td>30 years</td></tr> <tr><td>CF Before Debt</td><td>\$1.45 mm</td></tr> <tr><td>CF After Debt</td><td>\$0.45 mm</td></tr> <tr><td>NOI</td><td>\$1.45 mm</td></tr> <tr><td>NOI/Price</td><td>6.9%</td></tr> <tr><td>Cap Rate</td><td>6.9%</td></tr> <tr><td>Yield</td><td>6.9%</td></tr> <tr><td>IRR</td><td>10.0%</td></tr> <tr><td>Payback</td><td>10.0%</td></tr> <tr><td>NPV</td><td>10.0%</td></tr> <tr><td>NPV/Price</td><td>10.0%</td></tr> <tr><td>NPV/NOI</td><td>10.0%</td></tr> <tr><td>NPV/CF</td><td>10.0%</td></tr> <tr><td>NPV/Debt</td><td>10.0%</td></tr> <tr><td>NPV/Equity</td><td>10.0%</td></tr> <tr><td>NPV/Total</td><td>10.0%</td></tr> </table>	Property	Alison Green	Location	Montgomery County, MD	Year Built	2009	Units	100	Occupancy	95%	Asking Price	\$21 mm	Mortgage	\$14 mm	Interest Rate	4%	Term	30 years	Amortization	30 years	CF Before Debt	\$1.45 mm	CF After Debt	\$0.45 mm	NOI	\$1.45 mm	NOI/Price	6.9%	Cap Rate	6.9%	Yield	6.9%	IRR	10.0%	Payback	10.0%	NPV	10.0%	NPV/Price	10.0%	NPV/NOI	10.0%	NPV/CF	10.0%	NPV/Debt	10.0%	NPV/Equity	10.0%	NPV/Total	10.0%
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Existing

Under Construction

# Alison Green

- 100 unit garden apartment in Montgomery County, Maryland
- completed in 2009, operating at 95% occupancy
- asking price= \$21 mm
- mortgage= \$14 mm, 4% interest rate, 30 year amortization period
- estimated sales price= \$24 mm
- CF before debt= \$1.45 mm
- RE taxes = 12% of gross rental income

## Important Financial Metrics:

	Alison Green
Gross Purchase Price	\$20,000,000
Depreciable Life	27.5
Estimated Sales Price	\$24,000,000
NOI	\$1,450,000
Equity Investment	\$6,000,000
Constant Loan Pmt	5.73%
Leverage (+/-)	1.52%
Price/Unit or Price/Rentable SF	200,000.00
Other Op Expenses/Gross Revenue	17%
Avg Monthly Rents/Unit or Rent/SF	\$1,875
Current or Projected Occupancy	95.00%
Added Margin	28.80%
Break-Even Occupancy	66.20%
Loan To Value	70.00%
Debt Coverage Ratio	1.81
Spread on Cap Rates	-0.63%
Cash on Cash	10.80%
Increase in Capital Value	20.00%

	Alison Green
Gross Purchase Price	\$20,000,000
Depreciable Life	27.5
Estimated Sales Price	\$24,000,000
NOI	\$1,450,000
Equity Investment	\$6,000,000
Constant Loan Pmt	5.73%
Leverage (+/-)	1.52%
Price/Unit or Price/Rentable SF	200,000.00
Other Op Expenses/Gross Revenue	17%
Avg Monthly Rents/Unit or Rent/SF	\$1,875
Current or Projected Occupancy	95.00%
Added Margin	28.80%
Break-Even Occupancy	66.20%
Loan To Value	70.00%
Debt Coverage Ratio	1.81
Spread on Cap Rates	-0.63%
Cash on Cash	10.80%
Increase in Capital Value	20.00%



# 900 Stony Walk

- 5 story, 80,000 SF office building in Montgomery County, Maryland
- 67,000 rentable SF
- completed in 2010, operating at 95% occupancy
- asking price=\$15.5 mm
- mortgage= \$12.25 mm, 4.75% interest rate, 25 year amortization period
  - CMBS backed loan--> Non-recourse!
- CF before debt= \$1.05 mm
- RE taxes= 12% of gross rental income
- estimated sales price= \$17 mm

## Important Financial Metrics:

	Stony Walk
Gross Purchase Price	\$15,000,000
Depreciable Life	39
Estimated Sales Price	\$17,000,000
NOI	\$1,050,000
Equity Investment	\$2,750,000
Constant Loan Pmt	6.84%
Leverage (+/-)	0.18%
Price/Unit or Price/Rentable SF	223.88
Other Op Expenses/Gross Revenue	22%
Avg Monthly Rents/Unit or Rent/SF	\$26
Current or Projected Occupancy	95.00%
Added Margin	12.12%
Break-Even Occupancy	82.88%
Loan To Value	81.67%
Debt Coverage Ratio	1.25
Spread on Cap Rates	-1.06%
Cash on Cash	7.71%
Increase in Capital Value	13.33%