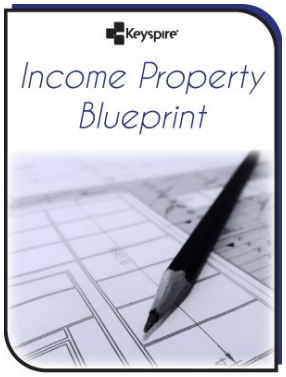
Module 4 – Lesson 5

Buy and Hold – 1 Property Per Year



RESULT

Week 46

This week, Michael walked us through a scenario that is realistic for every real estate investor: buying 1 income property each year for 5 years.

Using Michael's video walkthrough as a guide, complete the following activity to determine the 5 year financial forecast of the portfolio. An answer key is provided at the end of this document.

5 Year Financial Forecast Activity

For the next 5 years, you purchase a property a year. Here are the details for **each property**:

- Property value (PV): $500,000.00
- Down Payment: 20%
- Amortization: 30 years
- Interest rate: 3%
- Market Appreciation Rate: 3.0%

Active Appreciation (AA):

- Year 1 Active Appreciation: $10,000
- Year 2 Active Appreciation: $15,000
- Year 3 Active Appreciation: $0
- Year 4 Active Appreciation: $15,000
- Year 5 Active Appreciation: $0

- Passive Appreciation (PA) = Property Value x Market Appreciation Rate

- To calculate Principal Recapture (PR), use the following amortization calculator: https://www.ratehub.ca/mortgage-payment-calculator

- Annual Cash Flow (CF) for each property: $12,500

To fill in the table, follow the steps below.

Year	Market Value (MV) 3%	Cash Flow (CF)	Principal Recapture (PR)	Passive Appreciation (PA)	Active Appreciation (AA)	Total Wealth Increase
1	$500,000.00	$12,500	$8,377	$15,000.00	$10,000	$45,877.00
2						
3						
4						
5						
TOTALS						

STEP 1: Calculate Market Value and Passive Appreciation

- To calculate Market Value and Passive Appreciation for Year 1:
  - MV (3%) for Year 1 = Year 1 PV
    = _____
  - Calculate Year 1 PA = Year 1 PV x Market Appreciation Rate
    = _____
    = _____

- To calculate Market Value and Passive Appreciation for Year 2:
  - Calculate Year 2 MV (3%) = Year 1 PV + Year 1 PA + Year 2 PV
    = _____
    = _____
  - Calculate Year 2 PA = Year 2 MV x Market Appreciation Rate
    = _____
    = _____

- To calculate Market Value and Passive Appreciation for Year 3:
  - Calculate Year 3 MV (3%) = Year 2 MV + Year 2 PA + Year 3 PV
    = _____
    = _____
  - Calculate Year 3 PA = Year 3 MV x Market Appreciation Rate
    = _____
    = _____

- To calculate Market Value and Passive Appreciation for Year 4:
  - Calculate Year 4 MV (3%) = Year 3 MV + Year 3 PA + Year 4 PV
    = _____
    = _____
  - Calculate Year 4 PA = Year 4 MV x Market Appreciation Rate
    = _____
    = _____

- To calculate Market Value and Passive Appreciation for Year 5:
  - Calculate Year 5 MV (3%) = Year 4 MV + Year 4 PA + Year 5 PV
    = _____
    = _____

- Calculate Year 5 PA = Year 5 MV x Market Appreciation Rate
  = _____
  = _____

- Calculate the total of the Passive Appreciation column = _____

STEP 2: Calculate Principal Recapture
To Calculate Principal Recapture (PR), use the following amortization calculator:
https://www.ratehub.ca/mortgage-payment-calculator

- The Year 1 PR can be found under the "Principal Paid" column for the first year = _____
- Year 2 PR = Year 1 PR + Year 2 Principal Paid value
  = _____
  = _____
- Year 3 PR = Year 2 PR + Year 3 Principal Paid value
  = _____
  = _____
- Year 4 PR = Year 3 PR + Year 4 Principal Paid value
  = _____
  = _____
- Year 5 PR = Year 4 PR + Year 5 Principal Paid value
  = _____
  = _____
- Calculate the total of the Principal Recapture column = _____

STEP 3: Calculate Cash Flow
As noted above, the annual CF for each property is $12,500.

- Year 1 CF = $12,500
- Year 2 CF = Year 1 CF + $12,500
  = _____
  = _____
- Year 3 CF = Year 2 CF + $12,500
  = _____
  = _____
- Year 4 CF = Year 3 CF + $12,500
  = _____
  = _____
- Year 5 CF = Year 4 CF + $12,500
  = _____

= _____

- Calculate the total of the Cash Flow column = _____

STEP 4: Enter Active Appreciation Values

As noted above, the Active Appreciation (AA) for each year is as follows:

- Year 1 AA = 10,000
- Year 2 AA: $15,000
- Year 3 AA: $0
- Year 4 AA: $15,000
- Year 5 AA: $0.00
- Calculate the total of the Active Appreciation column = _____

STEP 5: Calculate Total Wealth Increase

- Year 1 Total Wealth Increase = Year 1 CF + Year 1 PR + Year 1 PA + Year 1 AA
  = _____
  = _____
- Year 2 Total Wealth Increase = Year 2 CF + Year 2 PR + Year 2 PA + Year 2 AA
  = _____
  = _____
- Year 3 Total Wealth Increase = Year 3 CF + Year 3 PR + Year 3 PA + Year 3 AA
  = _____
  = _____
- Year 4 Total Wealth Increase = Year 4 CF + Year 4 PR + Year 4 PA + Year 4 AA
  = _____
  = _____
- Year 5 Total Wealth Increase = Year 5 CF + Year 5 PR + Year 5 PA + Year 5 AA
  = _____
  = _____
- Calculate the total of the Total Wealth Increase column = _____

Share with the community!

Share your answers with the community and ask for help when you need it!
For many of us, our community is the Income Property Labs Facebook Group Community. To access the IPL members only Facebook group CLICK HERE. Not a member of Income Property Labs? CLICK HERE to claim your 30-Day Free Trial!

Answer Key

Fill in the Table:

Year	Market Value (MV) 3%	Cash Flow (CF)	Principal Recapture (PR)	Passive Appreciation (PA)	Active Appreciation (AA)	Total Wealth Increase
1	$500,000.00	$12,500	$8,377	$15,000.00	$10,000	$45,877.00
2	$1,015,000.00	$25,000	$17,007	$30,450.00	$15,000	$87,457.00
3	$1,545,450.00	$37,500	$25,898	$46,363.50	$0	$109,761.50
4	$2,091,813.50	$50,000	$35,058	$62,754.41	$15,000	$162,812.41
5	$2,654,567.91	$62,500	$44,495	$79,637.04	$0	$186,632.04
TOTALS		**$187,500**	**$130,835**	**$234,204.95**	**$40,000**	**$592,539.95**

STEP 1: Calculate Market Value and Passive Appreciation

- To calculate Market Value and Passive Appreciation for Year 1:
  - MV (3%) for Year 1 = Year 1 PV
    = $500,000
  - Calculate Year 1 PA = Year 1 PV x Market Appreciation Rate
    = $500,000 x 3%
    = $15,000

- To calculate Market Value and Passive Appreciation for Year 2:
  - Calculate Year 2 MV (3%) = Year 1 PV + Year 1 PA + Year 2 PV
    = $500,000 + $15,000 + $500,000
    = $1,015,000

  - Calculate Year 2 PA = Year 2 MV x Market Appreciation Rate
    = $1,015,000 x 3%
    = $30,450

- To calculate Market Value and Passive Appreciation for Year 3:
  - Calculate Year 3 MV (3%) = Year 2 MV + Year 2 PA + Year 3 PV
    = $1,015,000 + $30,450 + $500,000
    = $1,545,450
  - Calculate Year 3 PA = Year 3 MV x Market Appreciation Rate
    = $1,545,450 x 3%
    = $46,363.50

- To calculate Market Value and Passive Appreciation for Year 4:
  - Calculate Year 4 MV (3%) = Year 3 MV + Year 3 PA + Year 4 PV
    = $1,545,450 + $46,363.50 + $500,000
    = $2,091,813.50
  - Calculate Year 4 PA = Year 4 MV x Market Appreciation Rate
    = $2,091,813.50 x 3%
    = $62,754.41

- To calculate Market Value and Passive Appreciation for Year 5:
  - Calculate Year 5 MV (3%) = Year 4 MV + Year 4 PA + Year 5 PV
    = $2,091,813.50 + $62,754.41 + $500,000
    = $2,654,567.91
  - Calculate Year 5 PA = Year 5 MV x Market Appreciation Rate
    = $2,654,567.91 x 3%
    = $79,637.04

- Calculate the total of the Passive Appreciation column = $234,204.95

STEP 2: Calculate Principal Recapture
To Calculate Principal Recapture (PR), use the following amortization calculator:
https://www.ratehub.ca/mortgage-payment-calculator

- The Year 1 PR can be found under the "Principal Paid" column for the first year = $8,377
- Year 2 PR = Year 1 PR + Year 2 Principal Paid value
  = $8,377 + $8,630
  = $17,007
- Year 3 PR = Year 2 PR + Year 3 Principal Paid value
  = $17,007 + $8,891
  = $25,898
- Year 4 PR = Year 3 PR + Year 4 Principal Paid value
  = $25,898 + $9,160
  = $35,058
- Year 5 PR = Year 4 PR + Year 5 Principal Paid value
  = $35,058 + $9,437
  = $44,495
- Calculate the total of the Principal Recapture column = $130,835

STEP 3: Calculate Cash Flow
As noted above, the annual CF for each property is $12,500.

- Year 1 CF = $12,500
- Year 2 CF = Year 1 CF + $12,500
  = $12,500 + $12,500
  = $25,000
- Year 3 CF = Year 2 CF + $12,500
  = $25,000 + $12,500
  = $37,500
- Year 4 CF = Year 3 CF + $12,500
  = $37,500 + $12,500
  = $50,000
- Year 5 CF = Year 4 CF + $12,500
  = $50,000 + $12,500
  = $62,500
- Calculate the total of the Cash Flow column = $187,500

STEP 4: Enter Active Appreciation Values
As noted above, the Active Appreciation (AA) for each year is as follows:

- Year 1 AA = 10,000
- Year 2 AA: $15,000
- Year 3 AA: $0
- Year 4 AA: $15,000
- Year 5 AA: $0.00
- Calculate the total of the Active Appreciation column = $40,000

STEP 5: Calculate Total Wealth Increase

- Year 1 Total Wealth Increase = Year 1 CF + Year 1 PR + Year 1 PA + Year 1 AA
  = $12,500 + $8,377 + $15,000.00 + $10,000
  = $45,877.00
- Year 2 Total Wealth Increase = Year 2 CF + Year 2 PR + Year 2 PA + Year 2 AA
  = $25,000 + $17,007 + $30,450.00 + $15,000
  = $87,457.00
- Year 3 Total Wealth Increase = Year 3 CF + Year 3 PR + Year 3 PA + Year 3 AA
  = $37,500 + $25,898 + $46,363.50 + $0
  = $109,761.50
- Year 4 Total Wealth Increase = Year 4 CF + Year 4 PR + Year 4 PA + Year 4 AA
  = $50,000 + $35,058 + $62,754.41 + $15,000
  = $162,812.41
- Year 5 Total Wealth Increase = Year 5 CF + Year 5 PR + Year 5 PA + Year 5 AA
  = $62,500 + $44,495 + $79,637.04 + $0

= $186,632.04

- Calculate the total of the Total Wealth Increase column = $592,539.95