

## Junior Second Unit Estimated Cash Flow and ROI

### \$50,000 Investment

Loan Parameters	Bank Loan		From Savings	
	Monthly	Annually	Monthly	Annually
Loan Amount	50,000			
Repayment Term (years)	10			
Interest Rate	6%			
<b>Income</b>				
rental income <sup>1</sup>	1,350	16,200	1,350	16,200
<b>Loan Expense</b>				
Repayment of principal <sup>2</sup>		3,764		-
<b>Tax-Deductible Out-of-Pocket Expenses</b>				
interest on bank loan <sup>3</sup>		2,898		-
additional property tax <sup>4</sup>		350		350
additional insurance <sup>5</sup>		100		100
additional maintenance		600		600
<b>Net Income before Income Taxes</b>		8,488		15,150
depreciation <sup>6</sup>		1,700		1,700
additional taxable income due to rental unit		6,788		13,450
homeowner's cumulative Fed/CA tax rate <sup>7</sup>		20%		20%
additional income taxes due to rental unit		1,358		2,690
<b>After-Tax Net Profit</b>	<b>594</b>	<b>7,130</b>	<b>1,038</b>	<b>12,460</b>

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### Return on Investment

	<i>Bank Loan</i>	<i>From Savings</i>
<b>Investment Expenses</b>		
Initial Investment	50,000	50,000
Interest over term of loan	16,612	-
<b>Years to pay back investment from ATN profit</b>	9.34	4.01

### Notes

1. We suggest charging tenants for a percentage of actual utility costs, so they are not included here as expenses.
2. The bank loan is amortized and this is the first year's principal; it will increase over the term of the loan.  
Use a loan amortization calculator to determine annual payments and interest.
3. Interest is a tax-deductible business expense, but repayment of loan principal is not. The bank loan is amortized and this is the first year's interest; it will decrease over the term of the loan.
4. Following construction, the property taxes will increase by 1% of the estimated market value of the new construction.  
That increase would be subject to annual factoring not to exceed 2%, as defined by Proposition 13. Taxes other than the basic tax may be affected by the increase as well. Marin County Assessor's Office FAQ on assessments for new construction:  
<http://www.marincounty.org/depts/ar/faqs#newconstruction>
5. The requirement for landlord insurance varies by insurance company, so talk to your agent.
6. Your tax advisor can provide an estimate for depreciation. A new room might be depreciated over 27.5 years, while windows, doors, and landscaping might be depreciated over 15 years.
7. Your tax advisor can suggest an appropriate tax rate to use.