

Junior Second Unit Estimated Cash Flow and ROI

\$8,000 Investment

	MHA Rehab Loan		Bank Loan		From Savings	
Loan Parameters						
Loan Amount	8,000		8,000			
Repayment Term (years)	15		10			
Interest Rate	5%		6%			
	Monthly	Annually	Monthly	Annually	Monthly	Annually
Income						
rental income ¹	1,350	16,200	1,350	16,200	1,350	16,200
Loan Expense						
Repayment of principal ²		533		602		-
Tax-Deductible Out-of-Pocket Expenses						
interest on MHA loan payment ³		373		-		-
interest on bank loan ³		-		464		-
additional property tax ⁴		200		200		200
additional insurance ⁵		100		100		100
additional maintenance		600		600		600
Net Income before Income Taxes		14,393		14,234		15,300
depreciation ⁶		350		350		350
additional taxable income due to rental unit		14,043		13,884		14,950
homeowner's cumulative Fed/CA tax rate ⁷		20%		20%		20%
additional income taxes due to rental unit		2,809		2,777		2,990
After-Tax Net Profit	965	11,585	955	11,457	1,026	12,310

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Return on Investment

	<i>MHA Rehab Loan</i>	<i>Bank Loan</i>	<i>From Savings</i>
Investment Expenses			
Initial Investment	8,000	8,000	8,000
Interest over term of loan	2,800	2,658	-
Years to pay back investment from ATN profit	0.93	0.93	0.65

Notes

1. We suggest charging tenants for a percentage of actual utility costs, so they are not included here as expenses.
2. MHA loan is simple interest. 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.