Case Study #1: Mr. and Mrs. Ott

Rev. 10/4/2020/on demand course

- are considering the purchase of a condo at 111 Condo Drive.
- are willing to pay $175,000 for the condo.
- will pay $3,500 in closing costs.
- are advised by their tax advisor to attribute 80% of the purchase price and closing costs to the improvement (building) and 20% of the purchase price to the land.
- taking out a first mortgage of $122,500 @ 5% for 30 years (30% down). They will pay approximately $6,125 yearly interest on the loan and approximately $1,766 yearly toward principal each year in the early years of the loan. They will not have any other financing on this property.
- estimate the following expenses for this condo:
    - Monthly rent (potential): $1,200
    - Vacancy allowance: 8%
    - Property taxes: $2,600 yearly
    - Insurance: $200 (just for the interior) Utilities: paid by tenants
    - Maintenance/Assessments: $1,800 yearly (including exterior insurance, water, etc.)
- are in the 24% tax bracket.
- plan to hold on to this investment for 5 years.
- expect that the property will appreciate by 3% each year.
- expect that selling expenses (commissions, etc.) five years from now will be 6% of the sales price.
- think that they can find an alternative investment yielding a before-tax investment rate of 3% (for example, a taxable bond) right now.
- are advised that their capital gains tax rate is 15%.
- calculate that the mortgage balance will be $112,490 in five years.