Real Estate

Vocab:

Rental Property - something that you own that you allow someone else to use for a fee.

Rent - the fee for using someone else's property.

LESSON 12.8

EXAMPLE 1

Nadine Hobart purchased an older, two-bedroom, one-bath home for $87,500. She made a $27,500 down payment and mortgaged the rest. Her annual expenses for mortgage interest, taxes, repairs, insurance, and depreciation totaled $6,490. Nadine rented the house for $795 a month. What is the annual net income? What is the annual yield?

$(795 \cdot 12) - 6490 = 9540 - 6490 = \$3050$

$\frac{\$3050}{27500} = 0.1109 = 11.09\%$

Complete the problems and then check your answers in the back of the book. Determine (a) the annual net income and (b) the annual yield.

1. Bev Ray bought a vacation condominium as a real estate rental property for $345,900. After a $100,000 down payment, she mortgaged the rest. Her annual expenses totaled $28,760 and she rented the condo for $3,975 per month.

a) $(12 \cdot 3975) - 28760 = \$18,940$

b) $\frac{18940}{100,000} = 0.18940 = 18.94\%$

Complete the problems and then check your answers in the back of the book. Determine (a) the annual net income and (b) the annual yield.

2. Daryl Mattingly bought a vacation cottage as a real estate rental property for $185,900. After a $40,000 down payment, he mortgaged the rest. His annual expenses totaled $19,850 and he rented the condo for $3,875 per month for 6 months.

$(6 \cdot 3875) - 19850 = \$3400$

b) $\frac{3400}{40000} = 0.085 = 8.5\%$

LESSON 12.8

EXAMPLE 2

If Nadine in **Example 1** desired a 15% annual yield, rather than the 11.09% she is now getting, what monthly rent would she have to charge?

$$\cancel{(27500)}\frac{(x\cdot 12)-6490}{\cancel{27,500}} = 0.15(27500)$$

$$12x - 6490 = 4125$$
$$+6490 \quad +6490$$
$$\frac{12x}{12} = \frac{10615}{12}$$
$$x = \$884.58$$

Complete the problems. Check your answers in the back of the book.

3. If Bev Ray in Problem 1 wanted an annual yield of 25%, what monthly rent would she have to charge?

down: #100,000

cost: 28760

$$\frac{12x - 28760}{100000} = 0.25(100000)$$

$$12x - 28760 = 25000$$

$$+28760 \quad +28760$$

$$\frac{12x}{12} = \frac{53760}{12}$$

$$x = \$4480$$

Complete the problems. Check your answers in the back of the book.

4. If Bev Ray in Problem 1 wanted an annual yield of 20%, what monthly rent would she have to charge?

$$\frac{12x - 28760}{100000} = 0.20(100000)$$

$$12x - 28760 = 20000$$

$$+28760 \quad +28760$$

$$\frac{12x}{12} = \frac{48760}{12}$$

$$x = 4063.33$$

	Purchase Price	Cash Invested	Monthly Rent	Annual Expenses	Annual Rental Income	Annual Net Income	Annual Yield
5.	$ 89,700	$ 10,000	$ 450	$ 4,500	$5,400	$900	a.

5a) $\frac{900}{10000} = 0.09 = 9\%$

LESSON 12.9 Retirement Investments

Vocab:

Individual Retirement Account - IRA - A fund to save for retirement. Max deposit, on the market, penalties for early withdraw, for misuse of funds, and for not taking the RMD. Can use for first home, higher-ed

Roth IRA - Just like a normal IRA but you pay taxes up front instead of on your distributions.
No RMD

Required Minimum Distribution - $70\frac{1}{2}$ must take out a portion of your IRA or lose half in penalties.

Table of Life Expectancy			
Age	Life Expectancy Factor	Age	Life Expectancy Factor
70	27.4	76	22.0
71	26.5	77	21.2
72	25.6	78	20.3
73	24.7	79	19.5
74	23.8	80	18.7
75	22.9		

LESSON 12.9

EXAMPLE

Bob Bains had saved $2,000.00 per year in his IRA for 35 years. At age 70, the fair market value of his IRA was $256,202.89. Using the uniform lifetime table, what is his required minimum distribution? What penalty would he pay if he did not take the distribution? If Bob had withdrawn $25,000.00 at age 50 for vacation purposes, what would have been his penalty? What if he had used the $25,000.00 for his children's college expenses?

RMD = $\frac{256{,}202.89}{27.4}$

= $9350.47

0.50(9350.47) = $4,675.24

0.10(25000) = $2,500

Table of Life Expectancy			
Age	Life Expectancy Factor	Age	Life Expectancy Factor
70	27.4	76	22.0
71	26.5	77	21.2
72	25.6	78	20.3
73	24.7	79	19.5
74	23.8	80	18.7
75	22.9		

$0

LESSON 12.9

Complete the problems. Check your answers in the back of the book.

1. May Kawasaki is 72 and has an IRA with a fair market value of $98,000. Use the uniform lifetime table to determine her required minimum distribution. What penalty would she incur if she failed to take the distribution? What penalty would she have paid if she had made an early withdrawal of $10,000 to take a vacation?

RMD = $\frac{98000}{25.6} = \$3828.13$

$= 0.5(3828.13) = \$1914.06$

$= 0.10(10000) = \$1000$

Table of Life Expectancy			
Age	Life Expectancy Factor	Age	Life Expectancy Factor
70	27.4	76	22.0
71	26.5	77	21.2
72	25.6	78	20.3
73	24.7	79	19.5
74	23.8	80	18.7
75	22.9		

LESSON 12.9

Complete the problems. Check your answers in the back of the book.

2. Amir Bahoud is 70 and has a Roth IRA with a fair market value of $156,800. Use the uniform lifetime table to determine his required minimum distribution. What penalty would he pay if he failed to take the distribution? What penalty would he have incurred if he had made an early withdrawal of $20,000 to pay for his grandchildren's college education?

No RMD

No penalty

$0

Table of Life Expectancy			
Age	Life Expectancy Factor	Age	Life Expectancy Factor
70	27.4	76	22.0
71	26.5	77	21.2
72	25.6	78	20.3
73	24.7	79	19.5
74	23.8	80	18.7
75	22.9		

LESSON 12.9

Complete the table.

	IRA Fair Market Value	Amount Withdrawn at Age 55	Penalty for Early Withdrawal	Age	Required Minimum Distribution	Penalty If Not Withdrawn
3.	$260,000	$50,000	$5,000	73	a.	b.

a) $\frac{260000}{24.7} = \$10,526.32$

b) $\frac{10526.32}{2} = \$5263.16$

Table of Life Expectancy			
Age	Life Expectancy Factor	Age	Life Expectancy Factor
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71	26.5	77	21.2
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