

Condo Conversion Analysis

By: Kupono Liu



Contents

1. Qualitative Analysis	2
2. Condo Conversion Costs	6
3. Amortization Table	7
a. Amortization (Buy & Hold)	7
b. Amortization (Conversion)	8
4. Back of the Envelope	9
5. Scenario: Buy and Hold for 7 Years	10
6. Scenario: Condo Conversion in Year 3	11

5. Scenario: Buy and Hold for 7 Years

On a total and annualized basis, the developer earns a greater return than the first-round investors. The developer's total percentage return on equity of 369.92% (52.8% annualized return) is greater than the first-round investor's total percentage return on equity of 109.99% (15.7% annualized return) by 259.93% (37.1% annualized difference).

The developer should earn a higher return since he is exposed to more risk. The developer has to acquire the proper debt and equity partners, redevelop the building, coordinate contractors, pass inspections and sell the building. Although equity partners invest more equity, developers exert more time and effort trying to finish the building project.

***Calculations

Difference in Total Percentage Return on Equity (Between Developer and Investor)
 369.92% (Developer Total % ROE) - 109.99% (Initial Round Investor's % ROE) = +259.93%

Difference in Annualized Return (Between Developer and Investor)
 52.8% (Developer Annualized ROE) - 15.7% (Initial Round Investor's ROE) = +37.1%

Buy and Hold for 7 Years								
Investment Returns Analysis (before Tax)								
Projected Cash Flow								
	0	1	2	3	4	5	6	7
Potential Gross Income		\$196,566	\$199,711	\$202,906	\$206,152	\$209,451	\$212,802	\$216,207
- Vacancy		\$3,931	\$3,994	\$4,058	\$4,123	\$4,189	\$4,256	\$4,324
Effective Gross Income		\$192,634	\$195,716	\$198,848	\$202,029	\$205,262	\$208,546	\$211,883
- Operating Expenses		\$91,491	\$93,321	\$95,187	\$97,091	\$99,033	\$101,013	\$103,034
Net Operating Income		\$101,143	\$102,396	\$103,661	\$104,938	\$106,229	\$107,533	\$108,849
- Debt Service		\$82,596	\$82,596	\$82,596	\$82,596	\$82,596	\$82,596	\$82,596
Before Tax Cash Flow		\$18,548	\$19,800	\$21,065	\$22,343	\$23,633	\$24,937	\$26,253
Sales Price								\$1,976,495
- Transaction Costs (Broker Commission)								\$98,825
- Mortgage Balance								\$1,011,825
Net Cash From Sale								\$865,845
Equity								
Initial Round Investors (excluding Developer)	\$375,000							
Developer	\$50,000							
Total Equity	\$425,000							
	0	1	2	3	4	5	6	7
Before Tax Cash Flows from Condo Conversion	(\$425,000)	\$18,548	\$19,800	\$21,065	\$22,343	\$23,633	\$24,937	\$892,098
IRR (before tax)	14.6%							
Cash Available for Distribution (CAD)	\$1,022,424							
-Total Equity	\$425,000							
Cash After Return on Equity	\$597,424							
Preferred Return Distribution (10%)								
Initial Round Investors excluding Developer (7yrs @10%)	\$262,500							
Developer (7yrs @10%)	\$35,000							
Cash After Preferred Return Distribution	\$299,924							
Profit Distribution								
Initial Round Investors excluding Developer	\$149,962							
Developer	\$149,962							
	Equity Input	Equity Payout	Pct Return on Equity	Annualized Return				
Initial Round Investors (excluding Developer)	\$375,000	\$412,462	109.99%	15.7%				
Developer	\$50,000	\$184,962	369.92%	52.8%				

6. Scenario: Condo Conversion in Year 3

In comparison to the buy and hold option, the condo conversion increases both the initial round investors' and developer's total and annualized returns. The developer's total percentage return on equity increased from 369.92% (52.80% annually) to 953.20% (317.70% annually). The initial round investor's total percentage return on equity increased from 109.99% (15.7% annually) to 153.09% (51% annually).

Under this scenario, the developer's returns also increased more than the initial round investors'. Going from the buy and hold scenario to the condo conversion scenario, the developer's increase in total percentage return on equity (+583.28%) is greater than the initial round investors' increase in total percentage return on equity (+43.10%). The developer's increase in annualized return on equity (+264.90%) is greater than the initial round investors' increase (+35.30%).

***Calculations

Developer's Increase in Total Percentage Return on Equity

953.20% (Condo Conversion) - 369.92% (Buy and Hold) = +583.28%

Initial Round Investor's Increase in Total Percentage Return on Equity

153.09% (Condo Conversion) - 109.99% (Buy and Hold) = +43.10%

Developer's Increase in Annualized Return on Equity

317.70% (Condo Conversion) - 52.80% (Buy and Hold) = +264.90%

Initial Round Investor's Increase in Annualized Return on Equity

51.0% (Condo Conversion) - 15.70% (Buy and Hold) = +35.30%

Year 3 Condominium Conversion					
Investment Returns Analysis (before Tax)					
Projected Cash Flow					
	0	1	2 (Full)	2 (Half)	3
Potential Gross Income		\$196,566	\$199,711	\$99,855	
- Vacancy		\$3,931	\$3,994	\$1,997	
Effective Gross Income		\$192,634	\$195,716	\$97,858	
- Operating Expenses		\$91,491	\$93,321	\$46,660	
Net Operating Income		\$101,143	\$102,396	\$51,198	
- Debt Service		\$247,971	\$247,971	\$123,985	
Before Tax Cash Flow		-\$146,828	-\$145,575	-\$72,788	
Sales Price					\$5,231,200
- Transaction Costs (Broker Commission)					\$261,560
- Mortgage Balance					\$2,739,599
Net Cash From Sale					\$2,230,041
Equity					
Initial Round Investors (excluding Developer)	\$375,000				
Developer	\$50,000				
Second Round Investors	\$387,000				
Total Equity	\$812,000				
	0	1	2	3	
Before Tax Cash Flows from Condo Conversion	(\$812,000)	-\$146,828	-\$72,788	\$2,230,041	
IRR (before tax)	32.2%				
Cash Available for Distribution (CAD)	\$2,010,426				
-Total Equity	\$812,000				
Cash After Return on Equity	\$1,198,426				
Preferred Return Distribution (10%)					
Initial Round Investors excluding Developer (3yrs @10%)	\$112,500				
Developer (3yrs @10%)	\$15,000				
Conversion Investor Group (14mos @ 10%)	\$45,150				
Cash After Preferred Return Distribution	\$1,025,776				
Profit Distribution					
Initial Round Investors excluding Developer	\$461,599				
Conversion Investor Group (Second Round Investors)	\$102,578				
Developer	\$461,599				
	Equity Input	Equity Payout	Pct Return on Equity	Annualized Return	
Initial Round Investors (excluding Developer)	\$375,000	\$574,099	153.09%	51.0%	
Second Round Investors	\$387,000	\$147,728	38.17%	32.7%	
Developer	\$50,000	\$476,599	953.20%	317.7%	