



IHB Fundamental Value Report

Ideal Home Broker's Opinion of Value and Comparative Market Analysis
 Evaluation criteria for a cashflow investment property.



This report represents the considered opinion of Ideal Home Brokers. This information has been obtained from sources believed reliable. We have not verified it and make no guarantee, warranty or representation about it. Any projections, opinions, assumptions or estimates used are for example only and do not represent the current or future performance of the property. This report is based on current market conditions which are subject to change. In particular, interest rates have a significant impact on fundamental valuations, and changes in interest rates can have a strong impact on home values.

228 Orange Blossom #34, Irvine, CA 92618

1 bedroom 1 bath 471 square foot attached condo home built in 1976

Asking Price	\$	130,000
Comparable Value	\$	164,700
Likely Transaction Price	\$	161,400
Capitalization Rate = Net Income / Total Cost		4.6%
Cash-On-Cash Return = Cashflow / Investment		9.6%
Years to Retire Debt at Maximum Payment		24.1
Report Date		10/5/2009



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Notes:	Rental Income	Inputs	Calculations
1	Gross Rent		\$ 1,250
2	Vacancy and Collection Loss	5.0%	\$ 63
3	Monthly Rental Income		\$ 1,188
	Operating Expenses	Terms	Calculations
4	Property Tax	1%	\$ 135
5	Special Taxes and Levies (Mello Roos)	0.00%	\$ -
6	Homeowners Insurance	0.15%	\$ 20
7	Homeowners Association Fees	\$ 240	\$ 240
8	Maintenance and Replacement Reserves	0.50%	\$ 67
9	Property Management Fees (% of Gross Rent)	6.0%	\$ 63
10	Miscellaneous Costs		\$ 50
11	Monthly Cash Expenses		\$ 574
12	Net Operating Income		\$ 613
	Financing and Taxes	Inputs	Calculations
13	Likely Transaction Price	\$ 161,400	
14	Downpayment	20.0%	\$ 32,280
15	Interest Rate	5.00%	
16	Number of Years	30	
17	Mortgage		\$ 129,120
18	Monthly Payment		\$ 693
19	Monthly Interest for 1st Payment	\$ 538	
20	Tax Savings (% of Interest and Property Tax)	35%	\$ (235)
21	Equity Hidden in Payment		\$ (155)
22	Net Cost of Financing and Taxes		\$ 303
23	Total P&L After Expenses, Debt & Taxes		\$ 310
	Cash Acquisition Demands	Terms	Calculations
24	Repairs and Preparations for Rental	2%	\$ 3,200
25	Closing Costs	2%	\$ 3,200
26	Interest Points	0%	\$ -
27	Downpayment	20%	\$ 32,280
28	Total Cash Costs		\$ 38,680



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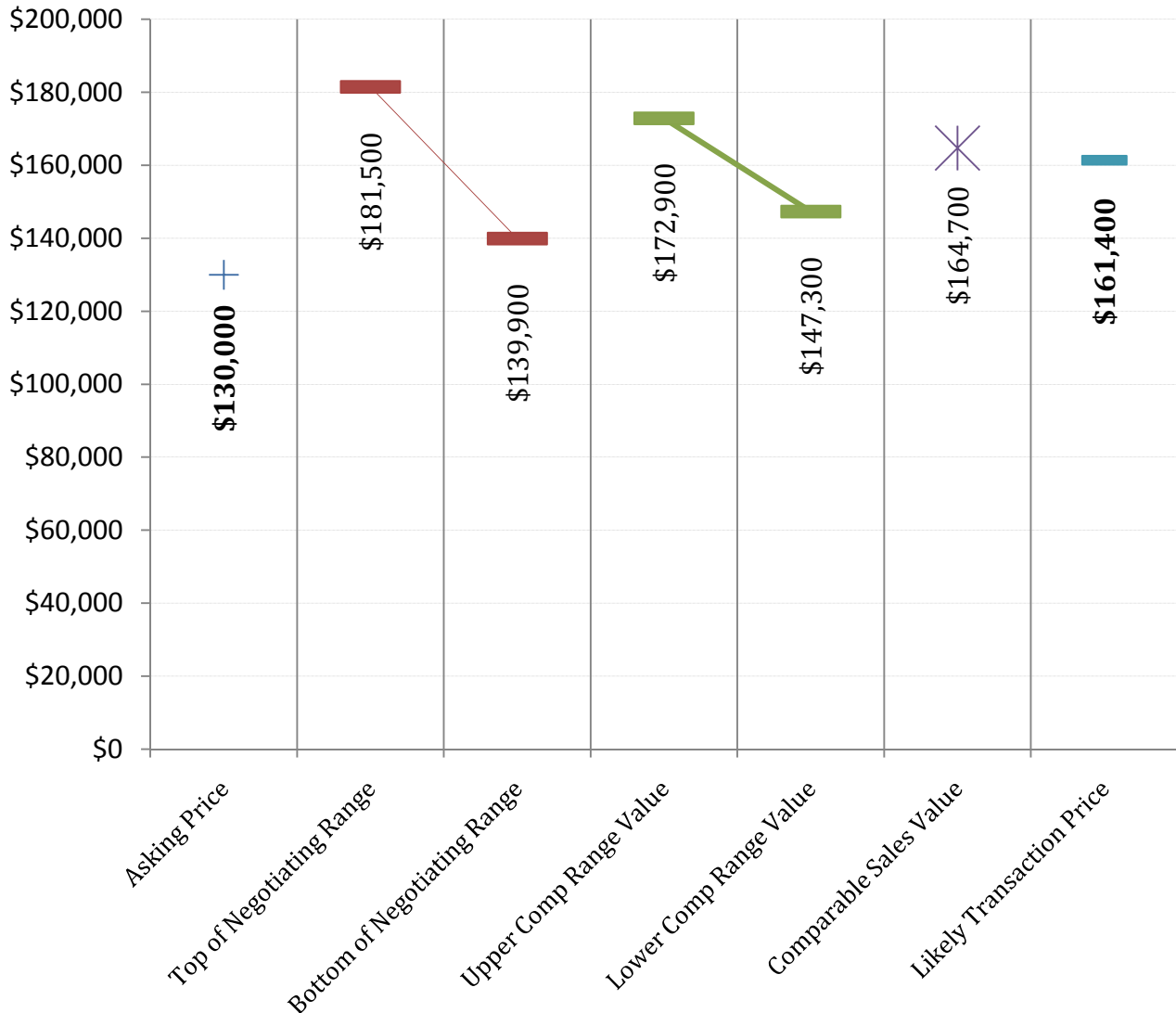
Notes:

29 Likely Transaction Price \$ 161,400

Comparative Sales Value & Negotiating Range

30	Top of Negotiating Range	\$	181,500
31	Upper Comp Range Value	\$	172,900
32	Comparable Sales Value	\$	164,700
33	Lower Comp Range Value	\$	147,300
34	Bottom of Negotiating Range	\$	139,900
	Short Term Direction of Prices a Weak Downtrend		
	Likely Transaction Price	\$	161,400

Asking Price and Value Ranges

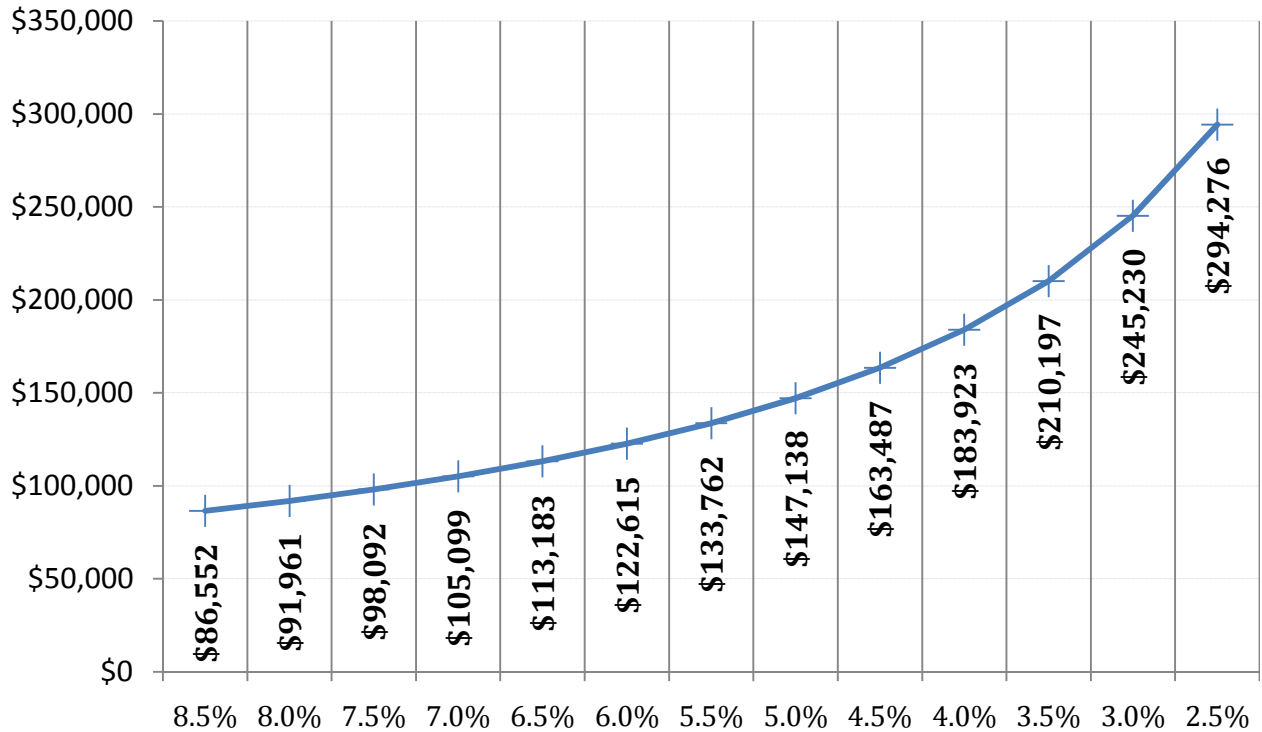




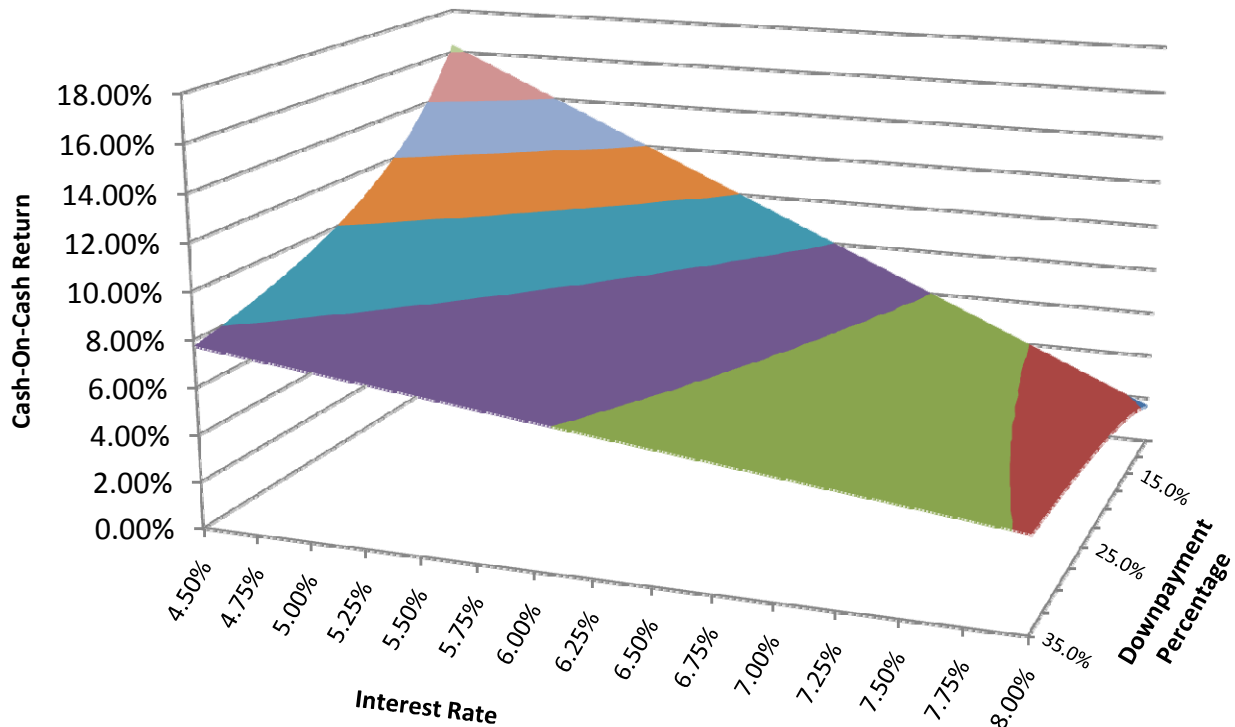
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Capitalization Rates and Property Values



Financing Terms and Cash-On-Cash Returns





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Comparable Sales

		Transaction Date	Amount
1	180 Orange Blossom 1 -- A 1 bed 471 SF CONDO -- 1976	8/28/2009	\$138,600
2	141 Orange Blossom 111 -- A 1 bed 650 SF CONDO -- 1976	6/11/2009	\$150,000
3	426 Orange Blossom 202 -- A 1 bed 662 SF CONDO -- 1977	8/7/2009	\$180,000
4	365 Orange Blossom 140 -- A 1 bed 814 SF CONDO -- 1977	8/17/2009	\$189,000

Comparable Rentals

		Transaction Date	Amount
1	226 Orange Blossom -- 1 bed 717 SF CONDO -- 1976	6/22/2009	\$1,200
2	506 Orange Blossom -- 1 bed 662 SF CONDO -- 1977	4/30/2009	\$1,275
3	401 Orange Blossom 126 -- 1 bed 819 SF CONDO -- 1977	9/4/2009	\$1,300
4	506 Orange Blossom -- 1 bed 700 SF CONDO -- 1977	1/26/2009	\$1,400

Comparable Sales Value and Likely Transaction Price

The final sales price the parties agree upon in a home sale will generally be close to the sales prices of similar properties in the market area. These similar properties are what is known as comparable sales, or "comps" for short. Comps serve as the basis for negotiation for two main reasons: (1) financing is limited based on comparable sales, and (2) if buyers bid too little, or if sellers ask too much, each party has better alternatives to closing the deal; sellers can wait for a better offer, and buyers can find a similar property with a more reasonable seller. Each party to the transaction must be aware of their best alternative to a negotiated agreement because they may need to pursue other prospects.

Sales prices for properties change over time. In most real estate markets, these prices go up with increases in wages among those who live in the market area. In California, we are prone to bouts with irrational exuberance and price volatility. Instead of slowly climbing prices like stable markets in the Midwest, Californians must cope with markets that can quickly move both up and down. The current trend of the market—if widely understood and accepted—distorts the perception of value and motivates buyers and sellers to stay ahead of the trend. In a rising market buyers are motivated to raise their bids and sellers are motivated to ask over comparable sales values. In declining markets, sellers (who accept reality) are motivated to lower their asking prices and buyers offer bids lower than recent comparable sales.

When we prepare a Brokers Opinion of Value, we include what we believe to be the most likely transaction price based on recent comparable sales and the trend of the market. This is our best guess at what the final sales price of this property will be.

Capitalization Rates and Cash-On-Cash Returns

The capitalization (cap) rate is the (yearly) Net Operating Income divided by the purchase price. It is the simplest measure of an investment's financial performance, and it provides a convenient comparison to competing investment alternatives. A cap rate is like an interest rate on a checking account, a mutual fund return, or a bond yield. The cap rate is inversely related to price; in other words, high cap rates are synonymous with low prices and visa versa. The cap rate an investor will accept varies from person to person. There is no single appropriate rate to apply to value. Instead, we show a range of values at different cap rates to show the current investment return someone can expect from this property.

The Cash-On-Cash Return is similar to a capitalization rate in that it shows a return on investment, but it is measured by comparing the Total Profit and Loss after Expenses, Debt and Taxes and compares that to the cash investment. This is the important rate of return for investors who are not purchasing with all cash. As long as debt is less expensive than the cap rate, the cash-on-cash returns can be magnified by increasing debt. This is an appropriate use of leverage to increase investment returns.



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Notes:

- 1 Gross Rent is estimated from comparable rentals.
- 2 Vacancy and Collection Loss is an allowance for tenant turnover.
- 3 Monthly Rental Income is Gross Rent minus Vacancy and Collection Loss.
- 4 By Proposition 13, California property taxes are set at 1% of purchase price.
- 5 Mello Roos fees as determined by property investigation.
- 6 Estimated homeowners insurance.
- 7 Homeowners association dues from property investigation.
- 8 Maintenance and Replacement Reserves are larger for rental properties than for owner-occupied. These are higher in single-family detached homes and in older properties.
- 9 Property management fees vary, but 5% of the monthly rent is a common fee.
- 10 Miscellaneous costs always come up with rental properties.
- 11 Monthly cash outlays is the total of all monthly expenses you may be required to pay on a monthly basis. Those who do not use a impound account will not pay property taxes monthly, although these costs are still incurred.
- 12 Net Operating Income is the rental income minus the cash expenses. This figure is independent of taxes or financing which vary considerably from deal to deal. Many rental properties are purchased without debt, and the Net Operating Income is necessary to compute the Captilization Rate.
- 13 Asking price from MLS listing.
- 14 The downpayment is whatever is required for financing, typically 20%. FHA loans go as low as 3.5%. Whenever the downpayment is less than 20% private mortgage insurance is usually required.
- 15 Interest rate on mortgage note. Values are very sensitive to interest rates. Historical average of mortgage interest rates since the early 1970s is 8.0%
- 16 Amortization length on mortgage note. This is generally 30 years.
- 17 The mortgage amount is the listing price minus the downpayment.
- 18 The computed monthly payment based on loan type and length of amortization.
- 17 The amount of interest due from the first loan payment. With an amortizing loan this amount decreases, whereas in an interest-only loan, this amount is constant.
- 18 Tax savings typical run 10% less than highest marginal tax rate due to the loss of the personal exemption. The savings is measured as 25% of the property tax and interest on the debt.
- 19 If the loan is amortizing, some amount of equity is hidden in the payment.
- 20 The tax savings on investment properties can be calculated based on the highest marginal tax rate. This does not have to be adjusted down 10% to compensate for giving up the personal exemption like an owner-occupant needs to consider.
- 21 If the loan is amortizing, some amount of equity is hidden in the payment.
- 22 Total cost of ownership is the monthly cash outlays adjusted for the factors mentioned above.
- 23 Total Profit and Loss After Expenses, Debt and Taxes is what it describes. This is the total cash left over each month after all expenses have been paid. This figure is used to calculate the cash-on-cash return.
- 24 Most properties are not "ready to rent" on the day it is acquired, and it will require some amount of preparation and/or renovation to be "tenant ready."



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Notes:

- 25 There are numerous fees incurred during the escrow process that must be paid by the buyer in cash. These fees generally are not rolled up into the loan.
- 26 Buyers often prepay interest points to lower their interest rate and thereby their monthly payments.
- 27 This the downpayment as mentioned in note 2.
- 28 The total cash costs is the sum of the above cash requirements. This is the amount of money a buyer will spend in acquiring and moving in to a property.
- 29 Asking price from MLS listing.
- 30 Sales occur within a range of values tethered to comparable sales. Buyers will not pay too much because they can bid on other properties, and sellers will not lower prices too much because there are always other buyers. Transactions rarely occur at price levels more than 10% above recent comparable sales. The top of the negotiating range is calculated at 10% above the high end of the comparable value range. Asking prices above this threshold are not likely to result in a sale.
- 31 Comparable sales serve as the basis for current valuations. Depending on the properties deemed to be comps by an appraiser, the estimated comparable sales value will fall in a range. Sellers can "cherry pick" the comps at the high end while buyers can select those at the low end to justify their positions. The upper comp range is calculated by taking the average between the highest comparable property and the average comparable property.
- 32 Comparable properties values will fall within a price range. An appraiser will view each property and adjust the values accordingly with reference to the property being appraised. For a comparative market analysis, the comparable sales value is simply the average of all comparable prices with a subjective adjustment made by the broker.
- 33 The low end of the comparable sales range is calculated by averaging the lowest comparable property value with the average comparable property value.
- 34 The bottom of the negotiating range is calculated at 10% below the low end of the comparable value range. Offers below this threshold are not likely to result in a sale.
- 35 Most investors when considering a cash purchase want to know the capitalization rate the investment will yield. The numbers in this table are calculated by taking a variety of capitalization rates and applying them to the net operating income to arrive at a value.

General Disclaimer

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This report is based on current market conditions which are subject to change. In particular, interest rates have a significant impact on fundamental valuations, and changes in interest rates can have a strong impact on home values. Ideal Home Brokers is not responsible for changes in market conditions that impact this report and the information it contains. We neither encourage or discourage any party from buying or selling a home based on the data contained in this report. This report is provided for information only.