**Learning Objectives: Apply IRR & NPV to evaluate a rental property investment project**

1. 1 Excel file together to show your calculation.

**Problems**

Use internet (such as realtor.com, zillow.com) to pick a house or condo that you want to invest as a rental property for 10 years. (suggested price range between $250k - $1 million)

1. (0.5 point) Estimate the annual rent, annual expenses (maintenance, property tax, insurance, etc), depreciation expense (per IRS rule, link below), closing cost, net working capital needed to run the business, future home selling price (=salvage value). Use reasonable estimates, when forecasting.

2. (0.5 point). Calculate the initial outlay using your answers from Q1.

3. (0.5 point). Calculate the annual operating cash flow for yr 1, 2, …, 10 using your answers from Q1. Explain why you do not need to include mortgage payments.

4. (0.5 point). Calculate the terminal cash flow in yr 10 your answers from Q1.

5. (1 point) Calculate the internal rate of return (IRR) using your answers from Q2-Q4.

6. (0.5 point) Estimate the cost of capital (WACC) to finance your investment. Assume 30% of investment is financed by your own equity and the other 70% is financed by a mortgage loan.

7. (1 point) Calculate the net present value (NPV) of the investment using your answers from Q2-Q4 and Q6.

8. (0.5 point) Discuss whether your rental property is a good investment or not.

**Notes**

1. The scores will be given based on your analysis not because you picked a good project.
2. For Q2-Q4, review Module 2
3. For Q5 and Q7, review Module 1
4. For Q6, review Module 5
5. Per IRS rule, one can depreciate rental property using a straight line over 27.5 years. For details:   <https://www.investopedia.com/articles/investing/060815/how-rental-property-depreciation-works.asp>