<b>BUS-12</b>	1 Fall	2024
Instr. F	Paian	0

## Real Estate & Other Investment Alternatives

Name:		
Chapte	r 15 Worksheet	

The first two problems are taken directly from one of our previous BUS-121 textbooks. It was written in late 2004 / early 2005 while the real estate mania was raging. The last problem was conveniently omitted from the book. I took the opportunity to number it appropriately. (Note: These problems will not be on the exam.)

1. Calculating the Return on Investment without using Financial Leverage. Dave bought a rental property for \$200,000 cash. One year later, he sold it for \$240,000. What was the return on his \$200,000 investment?

2. Calculating the Return on Investment using Financial Leverage. Suppose Dave invested only \$20,000 of his own money and borrowed \$180,000 (90% financing). What was his return on investment?

666. Calculating the Return on Investment using Financial Leverage and things do not go as planned. Suppose Dave invested only \$20,000 of his own money and borrowed \$180,000 (90% financing) ... and the property value went down 20%. Now, the question is, "What is he going to tell his wife?"