

Comprehensive Valuation

A cross asset class evaluation of equities, fixed income and real estate reveals the high dependence on capital gains in real estate and equities. Rough assumptions were made, but the main point is the relatively small range for principal appreciation with fixed income as it will always revert back to par come maturity. Also, the actual payout to investors in the form of dividends for equities may be rather slim, with a low payout ratio, especially if it is a growing company, which will pay itself back with a higher exit price. Real estate has higher margins and higher payout ratios, especially with REITS, which is mandated to remit 90% of earnings. However, relative to the price/cash flow, it is much higher than fixed income, so there is less bang for the buck.

If there is a way to create a hybrid security which matches fixed income cash flow, and the capital gains for an equity or real estate, then it would combine 1) high, dependable cash flow with 2) higher range for capital gains.

Table 1: Exit price increase flat at \$1,000

	Equities		Real Estate		Fixed Income	
Operating Statement	Revenue	1,000.00	Base Rental Revenue	350.00	Coupon	100.00
	Cost of Goods	500.00	Concessions	17.50		
	Gross Margin	500.00	Effective Gross Income	332.50	Gross Margin	-
	Opex	200.00	Opex	262.50		
	EBIT	300.00	Net Operating Income	70.00	EBIT	-
	Interest Expense	-	Interest Expense	-	Interest Expense	-
	Taxes	105.00	Taxes	28.00	Taxes	-
	Net Income	195.00	Net Income	30.00	Net Income	100.00
Periodic Payment	Periodic payout to investor	39.00	Periodic payout to investor	27.00	Periodic payout to investor	100.00
	After Tax Cash flow to Investor	33.15	After Tax Cash flow to Investor	22.95	After Tax Cash flow to Investor	85.00
Asset Specific Adjustments	Payout Ratio	20.00%	Payout Ratio	90.00%	Tax Rate	15.00%
	Corporate Tax Rate	35.00%	RE Entity Tax Rate	40.00%		
	Dividend Tax Rate	15.00%	Distribution Tax Rate	15.00%	Coupon Rate	10.00%
	P/R Multiple	1.00	Cap Rate	7.00%		
	GM Margin	50.00%	NOI Margin	20.00%		
	EBIT Margin	30.00%	Concession/Vacancy	5.00%		
	Interest Rate on debt	5.00%	Interest Rate on debt	5.00%		
Gain on disposition	Total Capital Invested	1,000.00	Total Capital Invested	1,000.00	Total Capital Invested	1,000.00
	Equity	1,000.00	Equity	1,000.00	Equity	1,000.00
	Debt	-	Debt	-	Debt	-
	Entry Price	1,000.00	Entry Price	1,000.00	Entry Price	1,000.00
	Exit Price	1,000.00	Exit Price	1,000.00	Exit Price	1,000.00
	Nominal Gain	-	Nominal Gain	-	Nominal Gain	-
	Return on Total capital	0.00%	Return on Total capital	0.00%	Return on Total capital	0.00%
	Return on Equity	0.00%	Return on Equity	0.00%	Return on Equity	0.00%
Total Cash flow to investor in 5 years	Periodic cash flow	33.15	Periodic cash flow	22.95	Periodic cash flow	85.00
	5 Year Cash flow	165.75	5 Year Cash flow	114.75	5 Year Cash flow	425.00
	Gain on disposition	-	Gain on disposition	-	Gain on disposition	-
	Total cash flow	165.75	Total cash flow	114.75	Total cash flow	425.00
	Return on Investment	16.58%	Return on Investment	11.48%	Return on Investment	42.50%
	Return on Equity	16.58%	Return on Equity	11.48%	Return on Equity	42.50%
	Price/Net Income	5.13	Price/Net Income	33.33	Price/Net Income	10.00
	Price/After tax Cash flow to Invest	30.17	Price/After tax Cash flow to Invest	43.57	Price/After tax Cash flow to Invest	11.76
	IRR on total investment	3.32%	IRR on total investment	2.30%	IRR on total investment	8.50%
Cash flow time table	Investment	- 1,000.00	Investment	- 1,000.00	Investment	- 1,000.00
	Year 1	33.15	Year 1	22.95	Year 1	85.00
	Year 2	33.15	Year 2	22.95	Year 2	85.00
	Year 3	33.15	Year 3	22.95	Year 3	85.00
	Year 4	33.15	Year 4	22.95	Year 4	85.00
	Year 5	1,033.15	Year 5	1,022.95	Year 5	1,085.00

Table 2: Exit price increase to \$2,000

	Equities		Real Estate		Fixed Income	
Operating Statement	Revenue	1,000.00	Base Rental Revenue	350.00	Coupon	100.00
	Cost of Goods	500.00	Concessions	17.50		
	Gross Margin	500.00	Effective Gross Income	332.50	Gross Margin	-
	Opex	200.00	Opex	262.50		
	EBIT	300.00	Net Operating Income	70.00	EBIT	-
	Interest Expense	-	Interest Expense	-	Interest Expense	-
	Taxes	105.00	Taxes	28.00	Taxes	-
	Net Income	195.00	Net Income	30.00	Net Income	100.00
Periodic Payment	Periodic payout to investor	39.00	Periodic payout to investor	27.00	Periodic payout to investor	100.00
	After Tax Cash flow to Investor	33.15	After Tax Cash flow to Investor	22.95	After Tax Cash flow to Investor	85.00
Asset Specific Adjustments	Payout Ratio	20.00%	Payout Ratio	90.00%	Tax Rate	15.00%
	Corporate Tax Rate	35.00%	RE Entity Tax Rate	40.00%		
	Dividend Tax Rate	15.00%	Distribution Tax Rate	15.00%	Coupon Rate	10.00%
	P/R Multiple	1.00	Cap Rate	7.00%		
	GM Margin	50.00%	NOI Margin	20.00%		
	EBIT Margin	30.00%	Concession/Vacancy	5.00%		
	Interest Rate on debt	5.00%	Interest Rate on debt	5.00%		
Gain on disposition	Total Capital Invested	1,000.00	Total Capital Invested	1,000.00	Total Capital Invested	1,000.00
	Equity	1,000.00	Equity	1,000.00	Equity	1,000.00
	Debt	-	Debt	-	Debt	-
	Entry Price	1,000.00	Entry Price	1,000.00	Entry Price	1,000.00
	Exit Price	2,000.00	Exit Price	2,000.00	Exit Price	1,000.00
	Nominal Gain	1,000.00	Nominal Gain	1,000.00	Nominal Gain	-
	Return on Total capital	100.00%	Return on Total capital	100.00%	Return on Total capital	0.00%
	Return on Equity	100.00%	Return on Equity	100.00%	Return on Equity	0.00%
Total Cash flow to investor in 5 years	Periodic cash flow	33.15	Periodic cash flow	22.95	Periodic cash flow	85.00
	5 Year Cash flow	165.75	5 Year Cash flow	114.75	5 Year Cash flow	425.00
	Gain on disposition	1,000.00	Gain on disposition	1,000.00	Gain on disposition	-
	Total cash flow	1,165.75	Total cash flow	1,114.75	Total cash flow	425.00
	Return on Investment	116.58%	Return on Investment	111.48%	Return on Investment	42.50%
	Return on Equity	116.58%	Return on Equity	111.48%	Return on Equity	42.50%
	Price/Net Income	5.13	Price/Net Income	33.33	Price/Net Income	10.00
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Cash flow time table	Investment	- 1,000.00	Investment	- 1,000.00	Investment	- 1,000.00
	Year 1	33.15	Year 1	22.95	Year 1	85.00
	Year 2	33.15	Year 2	22.95	Year 2	85.00
	Year 3	33.15	Year 3	22.95	Year 3	85.00
	Year 4	33.15	Year 4	22.95	Year 4	85.00
	Year 5	2,033.15	Year 5	2,022.95	Year 5	1,085.00