



How to Use the Selling Options Evaluation Calculator

Table of Contents

Introduction	1
What is a 1031 Exchange?	1
What is a Lease Option?	2
What is Seller Financing?	2
An Explanation of the Inputs	2
An Explanation of the Outputs	3
Conclusion	3
Further Reading	3

Introduction

The Selling Options Evaluation Calculator is a tool I use to:

- estimate my net return from selling a property (after capital gain tax),
- estimate my gross return that can be used for a 1031 exchange,
- estimate the return from a lease option, and
- estimate the return from seller financing.

What is a 1031 Exchange?

A 1031 exchange allows you to sell a property and then use the funds from the sale to purchase another property. By using a 1031 exchange, you can avoid paying capital gain and depreciation recapture taxes. Specific rules must be followed exactly to qualify for these tax benefits. Initiating a 1031 exchange is straightforward, but always begin by consulting professional help from your tax advisor.

What is a Lease Option?

A lease option refers to a lease agreement that includes a purchase option clause. This clause gives your tenant the option to purchase the property at the end of the lease. Lease options usually include:

- a rent credit, which increases the monthly rental rate, and
- a lease option rate, a one-time payment made at closing.

What is Seller Financing?

Seller financing occurs when you act as the lender for the buyer of your property. Typically, this option is viable only if you own the property free and clear.

An Explanation of the Inputs

Inputs are highlighted in light green in the Estimator sheet.

General Input Info:

- **Purchase Price:** The amount paid to acquire the property.
- **Purchase Closing Costs:** Expenses incurred during the property's acquisition.
- **Sales Price:** The expected selling price of your property.
- **Loan Balance:** The remaining balance owed to the lender, as shown on your mortgage statement.
- **Depreciation Claimed:** The total depreciation expense claimed while operating the property, used for calculating depreciation recapture tax.
- **Carryover Losses:** Accumulated losses that can reduce future capital gain tax.
- **Agent Commissions:** Fees for employing a real estate agent to sell your property.
- **Sales Closing Costs:** Expenses agreed upon for selling your property.
- **Repair Expenses:** Costs for property repairs before sale.
- **Cleaning Expenses:** Costs for cleaning the property before sale.
- **Appraisal Fee:** The price of property appraisal.
- **Staging:** Costs for staging the property for sale.
- **Other Selling Expenses:** Miscellaneous tax-allowable expenses not previously listed.
- **Utilities:** Utility costs accrued during the selling process.

Lease Option Inputs:

- **Rent Credit:** The rent credit specified in your lease option contract.
- **Lease Option Rate:** The rate defined in your lease option contract.
- **Rental Rate:** The property's rental price.

Seller Financing Inputs:

- **Interest Rate:** The mortgage interest rate you offer to the buyer.
- **Loan Term:** The length of the mortgage, typically 15, 20, or 30 years.
- **Loan-to-Value Ratio:** The required ratio for the loan amount compared to the property's value.
- **Originating Fees:** The charge for creating the loan.

An Explanation of the Outputs

Outputs, highlighted in light blue, are derived from the inputs in the Estimator sheet:

- **Invested Funds:** The total funds invested in the property's purchase.
- **Cost Basis:** The initial cost of the property plus purchase closing costs.
- **Adjusted Cost Basis:** The cost basis adjusted for depreciation and selling expenses.
- **Gross Profit:** Profit before capital gain and depreciation recapture taxes.
- **Capital Gain:** Profit subject to capital gains tax.
- **Long-Term Capital Gain Tax:** Tax on profits from assets held for more than one year.
- **Depreciation Recapture Tax:** Tax on depreciation benefits upon property sale.
- **Total Tax:** An estimate of total taxes from selling without a 1031 exchange.
- **Net Profit:** Profit after all expenses.
- **ROI:** The return-on-investment. I use the ROI to compare options.

1031 Exchange:

- **Funds to Reinvest:** An estimate of funds available for reinvestment following a 1031 exchange.

Lease Option:

- **Rent Credit Received:** The total rent credit, which is additional to your monthly rental income.
- **Lease Option Fee:** A one-time payment received at closing.
- **Total Sales' Profit:** The total profit from selling your property via a lease option.

Seller Financing:

- **P&I Payment:** The monthly principal and interest payment your buyer will pay.
- **Originating Fee:** A one-time fee charged for loan processing.
- **Total Funds Received:** The total amount repaid over the life of the loan.

Conclusion

The Selling Options Evaluation Calculator helps me assess the best method for selling a rental property. If you have questions or need further clarification, feel free to contact me at

scott@scottastanfield.com.

Thanks for reading,

-Scott

Further Reading

1. My book: "Passive Profits: The Turnkey Rental Investor's Guide".
<https://scottastanfield.com/book/>
2. My blog:
<https://scottastanfield.com/blog/>