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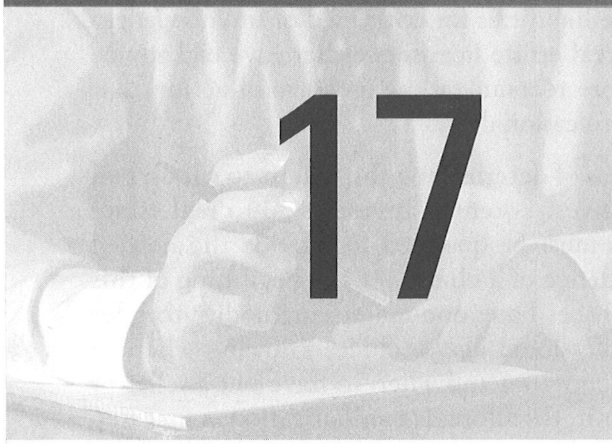

17

REAL ESTATE INVESTMENTS AND BUSINESS OPPORTUNITY BROKERAGE

LEARNING OBJECTIVES

When you have completed this unit, you will be able to accomplish the following.

- Define key investment terms and distinguish among the different types of real estate investments.
- Identify the advantages and disadvantages of investing in real estate.
- Distinguish among the various types of risk.
- Describe the similarities and differences between real estate brokerage and business brokerage.
- Describe the types of expertise business brokerage requires and distinguish among the methods of appraising businesses.
- Describe the steps in the sale of a business.

KEY TERMS

appreciation
asset
basis
capital gain (or loss)
cash flow
equity
going-concern value
goodwill
leverage
liquidation analysis
liquidity
real estate investment trust (REIT)
risk
tax shelter

INTRODUCTION

This unit is an introduction to investment real estate. Investors consider different factors in their attempt to achieve various investment objectives according to their individual financial status, income tax bracket, motives for investing, and access to credit. Different types of real estate offer various abilities to meet investor objectives.

17.1 NEED FOR REAL ESTATE INVESTMENT ANALYSIS

Knowledge of real estate investment analysis is important to a licensee in Florida because a real estate licensee is allowed to sell investment property. The public regards a real estate broker or sales associate as an expert in all types of properties. While the rewards of negotiating the purchase or sale of investment property are often greater than they are for other types of real estate, so are the liabilities for untrained or unknowledgeable people. Cases have gone to court because real estate licensees either gave bad advice or did not properly analyze an investment before recommending a course of action that could have been avoided by a knowledgeable professional.

Real estate investment analysis is the process of determining the extent to which real estate investments achieve an investor's objectives. Potential investors go to real estate professionals for help and guidance. Licensees must be qualified to provide the needed expertise when they accept the trust and confidence of a client. At the beginning of this book, the point was made that real estate licensees have one major commodity to offer the public—expertise. But part of being a professional also includes knowing when to consult a specialist (e.g., an attorney or an accountant) and when to have one's seller or buyer consult a specialist. The purpose of this unit, therefore, is familiarization, a first step toward developing expertise in real estate investment matters.

INVESTMENT TERMINOLOGY AND TYPES OF REAL ESTATE INVESTMENTS

Appreciation is the increase in property value over a period of time due to economic causes.

Assets are the entire resources of a business, including tangibles and intangibles such as accounts and notes receivable (promissory notes), cash, inventory, equipment, real estate, and goodwill. The difference between assets and liabilities is net worth.

Cash flow is the total amount of spendable income generated from an investment. It is the total amount of money remaining after all expenditures have been paid. Expenses, for example, include property taxes, operating costs, and maintenance. The cash flow is determined by at least three important factors: the income received, operating expenses, and the method of debt repayment. Cash flow may be positive or negative.

EXAMPLE 1: A rental property has an annual income of $100,000 and operating expenses of $90,000. The property has a positive cash flow of $10,000.

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EXAMPLE 2: A rental property has an annual income of $100,000 and operating expenses of $110,000. The property has a negative cash flow of $10,000.

Equity is the property's value minus mortgage debt. A property worth $500,000 has outstanding debt of $375,000. The investor's equity is $125,000.

$500,000 value – $375,000 mortgage debt = $125,000 equity

Leverage is the use of borrowed funds (often called *other people's money*) to finance an investment. Investors use leverage to increase purchasing power. An investor wants an investment property to produce cash flow in excess of the cost of borrowing the funds. Leverage can be positive or negative, based on whether or not the benefits from borrowing exceed the cost of borrowing. Generally, an investor can receive a maximum return from an initial investment by making a small down payment, paying a low interest rate, and spreading mortgage payments over a long period of time. Positive leverage occurs when the benefits from borrowing exceed the costs of borrowing. Negative leverage occurs when the borrowed funds cost more than they are producing.

EXAMPLE: Consider a property that costs $500,000 and produces a net income of $50,000 per year. If purchased for cash, the investor's annual rate of return on the equity invested is 10% ($50,000 income ÷ $500,000 equity). Assume that this investor leverages the purchase by borrowing $375,000 at 5% ($18,750 interest) annually and makes a down payment of $125,000. The $50,000 income earned from the investment is reduced by the cost of financing ($18,750). The income remaining after mortgage expense is $31,250. The resulting return on equity investment is an attractive 25%.

$31,250 income after financing costs ÷ $125,000 equity = .25 or 25% rate of return on equity

The investor made a greater return on equity investment by leveraging the investment. Positive leverage is the result.

Liquidity refers to the ability to sell an investment very quickly without loss of capital.

Basis is an investor's initial cost of the property. The basis is adjusted by adding any capital improvements made to the property and deducting depreciation expenses taken on tax returns during the years of ownership.

EXAMPLE: An investor purchases a property for $900,000. Improvements to the property during ownership total $100,000. During the ownership period, the investor took $125,000 in depreciation. The investor's adjusted basis is $875,000.

$900,000 cost + $100,000 capital improvements – $125,000 depreciation = $875,000 adjusted basis

Capital gain (or loss) is the difference between the adjusted basis of property and its net selling price. A capital gain or capital loss has tax consequences for the owner of investment property.

The term **tax shelter** describes the advantages of owning real estate investments. An investment is a tax shelter when it shields income from payment of income taxes.

Real estate investment trusts (REITs) offer investors the opportunity to invest in income-producing real estate properties. Individual REITs generally specialize in a particular type of property, such as multifamily communities, retail malls and shopping centers, office properties, and so forth. They provide a means for individuals to pool resources for investment in a professionally managed portfolio of real property and/or mortgages secured by real property. REITs are attractive because they offer diversification and liquidity, they are similar to mutual funds, and they offer the advantages of skilled centralized management and continuity of operation. REITs may be purchased through a stockbroker.

Risk is the chance of losing all or part of an investment. Generally, investors demand a higher return for higher investment risk.

Types of Real Estate Investments

Residential. Investments in residential properties include single-family homes, condominiums, apartments, and other multifamily complexes. Most experts agree that investing in an apartment project (or other income-producing property) is economically feasible when the projected future net income over a predetermined period will permit return of the investment (recover invested capital) and allow the investor an appropriate rate of return over the investment period.

In assessing the desirability of an apartment complex, several criteria should be considered, including the following: location, effective gross income, operating expenses, and property taxes. Existing properties should be inspected carefully, and repair and maintenance records should be studied to ensure that the property has been well maintained. A lack of proper maintenance is called *deferred maintenance*.

Commercial. This category includes retail and office properties. Retail properties include downtown commercial properties, shopping centers, and regional malls. A shopping center's economic characteristics depend on the nature of existing leases and on operating expenses. An investor should study all leases carefully to find out how much of the original term remains, whether investors participate in tenant income from sales, and whether the leases provide for appropriate costs to be shifted to tenants. Long-term leases and a tendency on the part of tenants to renew their leases are among the main attractions of investing in office properties.

Industrial. Industrial uses of real estate in urban areas generally involve manufacturing, assembly, and/or distribution. To be suitable for industrial use, a site should be located near transportation facilities such as railroad stations, expressways, and airports because of the need to receive and ship by rail, truck, and air.

Agricultural. Agricultural properties are often purchased by a farsighted investor-developer looking for large tracts of land that lie in the path of foreseeable urban growth. However, the holding period to realize such development potential may be many years.

Business Opportunities. One of the categories that Chapter 475, F.S., defines as real estate is "any interest in business enterprises or business opportunities." This category includes the sale or lease of a business and goodwill of an existing business, including business assets such as the stock of a corporation.

Practice Questions

1. The difference between assets and liabilities is _________ ___________.
2. ___________ ________________ is the type of real estate investment that involves the sale or lease of a business.
3. ___________ ___________ results when the cost of borrowed funds exceeds the rate of return on the investment.

17.2 REAL ESTATE AS AN INVESTMENT

Advantages of Real Estate as an Investment

Real estate investments have the following advantages (see Figure 17.1):

- *Rate of return.* Historically, real estate has produced an above-average rate of return for owner-investors compared with other types of investments.
- *Tax advantages.* Real estate investments receive certain tax benefits.
- *Hedge against inflation.* Historically, real estate prices have increased (property appreciation) at a faster pace than inflation. If a parcel of real property is acquired at market value or less, an owner will normally find that the sale price increases faster than other prices. This ability to maintain or increase purchasing power is one reason real estate is regarded as one of the best protections against inflation.
- *Leverage.* Real estate is typically highly leveraged. An investor can usually borrow 70% to 75% of the appraised value to finance a real estate investment. The goal of leveraging is to increase one's yield (return) on equity (investor's own capital) by using borrowed funds.
- *Equity buildup.* As a property appreciates in value and the mortgage debt is reduced, the investor's equity grows.

FIGURE 17.1 ■ Advantages and Disadvantages of Real Estate Investments

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Advantages	Disadvantages
Usually above-average rate of return	Lack of liquidity (illiquid)
Tax advantages	More localized market
Hedge against inflation	Expenses associated with expertise
Leverage of borrowed money	Need for active management
Equity buildup	Relatively high degree of risk

Disadvantages of Investing in Real Estate

Following are some of the disadvantages of investing in real estate (see Figure 17.1):

- *Illiquidity.* Real estate is not considered a liquid investment over the short term. Therefore, it is said to be illiquid.
- *Market is local in nature.* The real estate market is more local in nature compared with other investments. An investor usually is interested in a particular property type and geographic area. Other types of investments, such as stocks, are bought and sold in an international marketplace.
- *Need for expert help.* Many expenses are associated with investing in real estate, including the need for property managers, financial consultants, and legal experts.
- *Need for active management.* Real estate requires active management. Properties must be cared for, rents collected, and so forth.
- *Risk.* An investor must weigh the chance of losing invested capital. Real estate investment involves a high degree of risk compared with other investments. Tenant turnover, increasing property taxes, and increased costs associated with operations are a few examples of the types of risk to which a real estate investor is exposed.

Practice Questions

4. One disadvantage of real estate as an investment is that it is ______________ in the short term.

5. An advantage of real estate investments is that they are a good ______________ against inflation.

17.3 ASSESSMENT OF RISKS

Investors have a target rate of return in mind when they invest in real estate. Factors out of the control of an investor, such as inflation, rising interest rates, and so forth, create uncertainty that the actual rate of return an investment will provide will meet the investor's target. This uncertainty is what we call risk. **Risk** is the chance of unfavorable events or outcomes. Some degree of risk is always associated with an investment.

Risks Associated With General Business Conditions

Business Risk. Business risk reflects the possible unsuccessful operation of a particular project. It is the probability that projected income will not be achieved or will not be adequate to meet operating expenses. This category of risk is associated with the degree of variance between projected income and expenses and actual income and expenses.

EXAMPLE: A regional shopping center that is fully rented under long-term net leases has less business risk than raw land to be developed into a hotel sometime in the future.

Financial Risk. Financial risk is the risk of defaulting on borrowed funds used to finance an investment. Financial risk is the potential inability of the investment's income to cover the required debt service. The more borrowed funds used to purchase an investment, the greater the financial risk.

Purchasing-Power Risk. Purchasing-power risk is inflation risk. Purchasing power risk reflects the fact that inflation may cause the investor to be paid back with less valuable dollars. If the rents are fixed by the lease, the gross income may not keep pace with inflation, while the operating expenses increase at the inflation rate.

EXAMPLE: A well-established restaurant with a loyal customer base that can adjust menu prices to cover increasing food costs during inflation has less purchasing-power risk than a warehouse leased for 20 years.

Interest-Rate Risk. Assume that the only change in a real estate investment is that the interest rate is raised by the lender. The property remains unchanged, the owners remain the same, and management remains in place. However, with the increase in interest rates, the value of the property as an investment goes down. That is interest-rate risk at work. Investments tied to a fixed-rate mortgage loan have less interest-rate risk than one leveraged with an adjustable rate mortgage.

Risks That Affect Return

Historically, businesses and individuals have put money in investments that offer the highest return commensurate with the liquidity and safety of the money.

Liquidity Risk. Real estate investments are particularly susceptible to liquidity risk. Liquidity risk is the risk that a quick sale will not be possible or that a significant price reduction will be required to achieve a quick sale.

Safety Risk. Safety risk is the possible loss of invested capital (return of investment) and/or expected earnings (return on investment). Safety risk is composed of market risk (possible loss of invested capital) and risk of default (possible loss of earnings):

- *Market risk* is the type of risk associated with a decrease in the market value of an investment as a result of increased interest rates (the interest-rate risk at work). Often, market risk is magnified by long periods of time. Investments that have earnings exposed to the cyclical gyrations of the money markets over extended periods experience increased market risk.
- *Risk of default* is the risk that the investment will not generate enough income to sustain itself.

Each investment opportunity has with it risks. Some types of risk are more likely with certain types of investments. If everything were equal, an investor would prefer a liquid, short-term investment because less risk would be involved. However, the possibility of a higher yield will induce some investors to commit funds to a less-liquid, long-term, riskier investment. It is a basic economic premise that risk and the desired rate of return are directly related (e.g., high risk, high return).

Practice Questions

6. Safety risk is composed of ______________ risk and risk of ______________.

7. ______________ risk is associated with the variance between ______________ income and expenses and ______________ income and expenses.

8. ___________ risk is risk of defaulting on borrowed funds to finance an investment.

17.4 BUSINESS BROKERAGE

Real estate licensees who engage in the sale, purchase, or lease of businesses are called business brokers. This real estate activity is sometimes called business opportunity brokerage. Business opportunity brokerage involves the sale or lease of existing businesses. In Florida, an active current real estate license is required to sell or lease business opportunities.

Similarities to Real Estate Brokerage

475.01, F.S.

Business brokerage almost always involves the sale of real property or an assignment of a long-term lease. Business brokerage activities require a real estate license under Chapter 475, Part I, F.S.

Differences From Real Estate Brokerage

Business brokerage differs from real estate brokerage in at least three ways (see Figure 17.2).

1. *Business brokerage assets often include personal property and goodwill.* **Goodwill** is attributed to a business's reputation and the expectation of continued customer loyalty. Goodwill is an intangible asset because goodwill does not have physical existence (it cannot be seen or touched) and yet it's "value" to a business opportunity is very real. The value of an intangible asset is in what it represents to the business, such as what the brand name "Kleenex" means to Kimberly-Clark. The value of goodwill is approximated by subtracting the value of tangible assets from the value of the business. Other intangible assets that add value include licenses, franchises, copyrights, and patents.
2. *The value of the business may differ from the value of the real estate.* In other words, the total **going-concern value** may be different from the real estate value. Going-concern value is the value of an established business property compared with the value of just the physical assets of a business that is not yet established.
3. *Markets for business enterprises are typically wider in geographic scope than markets for individual parcels of real estate.*

FIGURE 17.2 ■ **Business Brokerage Compared With Real Estate Brokerage**

Similarities	Differences
Sale of real property or assignment of a long-term lease	Assets include personal property and goodwill
Active real estate license required	Going-concern value may differ from real estate value
	Wider geographic market

Practice Questions

9. List two ways real estate brokerage and business brokerage are similar.
    1. ____________________
    2. ____________________

10. ______________ value is the value of an established business property compared with the value of the physical assets of a business that is not yet established.

11. An ______________ asset does not have physical existence, meaning it cannot be seen or touched.

17.5 EXPERTISE REQUIRED IN BUSINESS BROKERAGE

The expertise required in business brokerage includes the following:

- Corporate finance
- Business accounting
- Valuation of businesses

Corporate Finance

To become a reputable, successful business broker requires training and experience. People with corporate backgrounds or business education are able to draw upon those experiences. The business broker works in conjunction with CPAs and attorneys to provide the expertise required in the purchase and sale of businesses. Expertise in corporate finance includes knowledge of the following:

- *Classes and characteristics of corporate stock* [common (required of all corporations) and preferred]
- *Securities analysis and valuation*
- *Management of working capital* (the difference between total current assets and total current liabilities)
- *Budgeting* (an estimate of anticipated income and expenditures over a definite future period)

Business Accounting

Some areas important to business accounting are the following:

- *Income statement analysis*. The income statement is a concise summary of all income and expenses of a business for a *stated period of time*. It is designed to show the results of business operations over a specific period and to provide the basic data for analyzing the reasons for a firm's profits or losses.
- *Balance sheet analysis*. The balance sheet shows the company's financial position at a stated *moment in time*, the close of business on the date of the balance sheet. The balance sheet shows assets, liabilities, and owner's equity (net worth). It is customary to prepare an income statement and a balance sheet at the same time. This allows the net income or loss shown on the income statement for the prior period to be reflected on the balance sheet as of that particular moment.
- *Cash flow analysis*. Cash flow is the total amount of money generated from an investment after expenses have been paid. Operating expenses include reserves

for replacement and payment of mortgage principal and interest. Cash flow disregards depreciation because depreciation does not involve an outlay of cash.

- *Asset depreciation.* Business brokers must be able to separate the depreciable assets of a business into real property and personal property.
- *Taxation.* Anyone interested in buying or selling a business knows the critical role taxes play in the success or failure of that business. Business brokers must be alert to recommending that clients seek expert tax advice.

Valuation of Businesses

The methods used to estimate a business's value are similar to those used in appraising real property.

- *Comparable sales analysis.* Where records reveal previous sale prices for businesses with a high degree of similarity, the appraiser can use professional judgment to account for existing differences and to arrive at a close approximation of the market value of a business.
- *Cost approach.* This method is appropriate for estimating the value of improvements of any type. When reproduction cost is used as a basis, the appraiser calculates the amount required to duplicate exactly the business or building being appraised. When replacement cost is used, the appraiser calculates the cost that would result in a business's (or building's) having the same use and capabilities as the one being appraised, even though the new business/building might differ physically.
- *Income analysis.* Most income-producing properties derive a large portion of their value from their ability to produce an income stream. This method of appraising attempts to estimate accurately the present value of expected future benefits (earnings and appreciation of assets) by converting the anticipated income stream into a present value through the use of a capitalization rate. The income approach is the best approach for valuing a business.
- *Liquidation analysis.* The liquidation of a business may become necessary because of failure of a business, the death of a sole proprietor, the dissolution of a partnership, a court order, or any number of other reasons. In a **liquidation analysis**, business brokers and financial experts must consider such factors as the ability of the firm to pay off short-term obligations, the value of the inventory on hand, and the liquidation value of preferred stock.

In addition to all the activities mentioned, a business broker is required to observe the many regulatory provisions, including Chapter 475, F.S., and state and federal securities laws.

Practice Questions

12. The expertise required in business brokerage includes ____________ finance, ____________ ____________, and ____________ of businesses.

13. Working capital is the difference between total current ____________ and total current ____________.

14. The two types of corporate stock are ____________ and ____________ stock.

17.6 STEPS IN THE SALE OF A BUSINESS

The sale of a business generally can be described as a series of steps. In the case of an outright purchase (and sale), the following 12-step sequence usually occurs:

1. *The listing.* List the business for sale.
2. *Identify all assets of the business.*
3. *Valuation of the business.*
4. *Deduct liabilities.* Subtract the value of all short-term and long-term liabilities (including the value of preferred stock) from the value of the business.
5. *Valuation of stock.* If a corporation is being sold by transferring shares of stock, the share value must be determined. Divide the net value of the business by the number of common shares of stock outstanding. Most small businesses are sold as an asset sale even if the business is held as a corporation.
6. *Legal compliance with all pertinent laws.*
7. *Market (advertise) the business.*
8. *Secure a buyer.* Have the buyer sign a confidentiality (nondisclosure) agreement before releasing the name, location, and financial information regarding the business.
9. *Enter into a contract with both parties.*
10. *Due diligence period.* Buyer inspects the financials of the business.
11. *Closing preparation.* If real estate is not sold with the business, an assignment of the lease or a new lease from the landlord is prepared; if real estate is included in the sale, title work is ordered.
12. *Coordinate a date for closing the transaction.*

Practice Questions

15. Once all of the ______________ of a business are identified, the ______________ are deducted from the value of the business.

16. To protect a business's confidentiality regarding sale, the buyer should be required to sign a __________________ agreement before releasing financial information regarding the business.

17. A ______________ ______________ period is established to allow the buyer to inspect the ______________ of the business.

17.7 SUMMARY OF IMPORTANT POINTS

- Real estate investment analysis is the process of determining the extent to which real estate investments achieve an investor's objectives.
- *Appreciation* is the increase in property value over a period of time due to economic causes.
- *Assets* are the entire resources of a business. An asset is anything of value. A tangible asset can be touched and has actual substance. An intangible asset has value but does not have physical substance, such as the goodwill of a business. The difference between assets and liabilities is net worth.

- *Cash flow* is the total amount of spendable income generated from an investment. It is the total amount of money remaining after all expenditures have been paid. Cash flow may be positive or negative.
- *Equity* is the property's value minus debt.
- *Leverage* is the use of borrowed funds to finance the purchase of an asset. Positive leverage occurs when the benefits exceed the cost of borrowing. Negative leverage occurs if the borrowed funds cost more than they are producing. *Liquidity* refers to the ability to sell an investment very quickly without loss of capital.
- *Basis* is an investor's initial cost of the property. The basis is adjusted by adding any capital improvements made to the property and deducting depreciation expenses taken on tax returns during the years of ownership.
- *Capital gain (or loss)* is the difference between the adjusted basis of property and its net selling price. A capital gain or capital loss has tax consequences to the owner of investment property.
- *Tax shelter* is the term used to describe advantages of owning real estate investments. An investment is a tax shelter when it shields income from payment of income taxes.
- Real estate investment trusts (REITs) offer investors the opportunity to invest in a pool of income-producing properties under professional management.
- Investors can choose from several types of real estate investments: residential, commercial, industrial, agricultural, and business opportunities.
- Advantages of real estate investment include the following: rate of return, tax advantages, hedge against inflation, leverage, and equity buildup.
- Disadvantages of investing in real estate include the following: illiquidity, local market, need for expert help, management requirements, and risk.
- *Risk* is the chance of losing all or part of an investment.
- Risk associated with general business conditions include the following: business risk, financial risk, purchasing-power risk, and interest-rate risk.
- Business brokerage and real estate brokerage similarities include (1) the sale of real property or assignment of a long-term lease may be involved, and (2) an active real estate license is required for business brokerage and real estate brokerage.
- Business brokerage differs from real estate brokerage in three ways. Business brokerage (1) may include personal property and goodwill assets; (2) the going-concern value may differ from real estate value; and (3) business brokerage may have a wider geographic market.
- *Going-concern value* is the value of an established business property compared with the value of just the physical assets of a business that is not yet established.
- An *income statement* is a concise summary of all income and expenses of a business for a stated period of time. A *balance sheet* shows the company's financial position at a stated moment in time.
- Expertise required in business brokerage includes corporate finance, business accounting, and valuation of businesses.
- The methods of appraising a business are comparable sales analysis, reproduction or replacement cost, income analysis, and liquidation analysis.

UNIT 17 EXAM

1. Investors who want to invest in office buildings and apartment complexes but want the advantages of liquidity and diversification often consider investing in
   a. a real estate investment trust.
   b. a large property management company.
   c. a mutual fund that invests in the broad stock market.
   d. none of these.

2. A case in which the interest paid for borrowed funds is less than the overall rate of return to an investor is an example of
   a. loan-to-value ratio.
   b. positive leverage.
   c. negative leverage.
   d. yield.

3. Business risk is chance of loss associated with the
   a. variance between projected and actual income and expenses.
   b. ability to pay all operating expenses from proceeds generated by the investment.
   c. increase in interest rates during the period of investment.
   d. effect of inflation on purchasing power.

4. Intangible assets of a business do NOT include
   a. goodwill.
   b. customer loyalty.
   c. trademarks.
   d. improvements.

5. A firm's working capital is customarily defined as the difference between the firm's total
   a. current assets and total current liabilities.
   b. current liabilities and total cash on hand.
   c. short-term liabilities and total cash on hand.
   d. long-term liabilities and total accounts receivable.

6. How does business brokerage differ from real estate brokerage?
   a. An appraisal is usually needed.
   b. An interest in real property is involved.
   c. Intangible assets must be considered.
   d. A real estate license is required.

7. The financial report that indicates a firm's financial position at a stated moment in time is the
   a. operating statement.
   b. balance sheet.
   c. working capital statement.
   d. statement of net earnings.

8. The value of an established business property, compared with the value of just the physical assets of a business that is NOT yet established, is called
   a. going-concern value.
   b. goodwill.
   c. business enterprise.
   d. tangible assets.

9. The advantages of real estate as an investment do NOT include
   a. a generally good rate of return compared with other types of investments.
   b. a hedge against inflation.
   c. income tax considerations.
   d. the need for active management.

10. A concise summary of all income and expenses of a business for a stated period of time is the
    a. balance sheet.
    b. income statement.
    c. cash flow statement.
    d. asset sheet.

11. All the resources of a business, including tangibles and intangibles, are called the
    a. net worth.
    b. capital.
    c. gross income.
    d. assets.

12. The market value of an apartment building is $975,900. The investor has leveraged $731,925. What is the investor's equity in the property?
    a. $178,925
    b. $197,759
    c. $243,975
    d. $731,925