ADKINS CAPITAL MANAGEMENT

Case Study #4 – Illustration of one exemplary Financial Methodology that is used in order to determine the level of underpricing or overpricing of residential real estate property in a specified community. This example is based on the relative comparison of the prevailing mortgage-loan interest rate for a fully-amortized fixed-rate loan in a specified community, versus the justified mortgage loan interest rate for a fully-amortized fixed-rate loan that is derived by the use of the Financial Methodology.

To begin this process, assume that the residential real estate property buyer lives in Oklahoma City, assume that the median household income amount in Oklahoma City is $50,000 dollars, and assume that the median home price in Oklahoma City is $235,000 dollars. Based on this information, the calculated benchmark proxy factor multiple for Oklahoma City is derived by dividing the median home price amount by the median household income amount. In this case, a factor multiple of 4.7 will be used as the benchmark proxy.

In the next step of the process, the Financial Methodology will calculate the justified mortgage loan interest rate for a fully-amortized fixed-rate loan in Oklahoma City. To being this process, assume that the residential real estate property buyer believes that no more than 30% of pre-tax household income should be spent in order to repay the principal and interest costs of a mortgage loan. With this information, the Financial Methodology will determine that the justified mortgage loan interest rate for a fully amortized fixed-rate loan in Oklahoma City is 5.0%. This information is illustrated in the table below.

By using the Financial Methodology, the prospective residential real estate property buyer can evaluate the level of overpricing or underpricing of residential real estate property in Oklahoma City. In this example, assume that the prevailing mortgage loan

interest rate for a fully amortized fixed-rate loan in Oklahoma City is 4.0%. Since the Financial Methodology determined that a mortgage loan interest rate of 5.0% is required in order to justify the relationship between the median household income amount, the median home price amount, and the percentage of pre-tax household income that the prospective residential real estate property buyer believes is the largest amount of money that the people in Oklahoma City should spend in order to repay the principal and interest costs of their mortgage loan, the prospective residential real estate property buyer would conclude that home prices in Oklahoma City are underpriced by approximately one percentage point, based on the current mortgage lending interest-rate environment. This means that mortgage-loan interest rates would have to increase by more than one percentage point (100 basis points) before homes would be classified as overpriced in the community.

With this information, the prospective residential real estate property buyer should reach the conclusion that it is appropriate to purchase residential real estate property in Oklahoma City, because given the percentage of pre-tax household income that he believes is the largest amount of money that should be spent in order to repay the costs of a mortgage loan, in conjunction with the median household income amount for Oklahoma City, an acceptable increase in the prevailing cost of debt in the mortgage lending environment can take place before the price-level of residential real estate property would be classified as overpriced in the community.

See Table on Next Page

TRUNCATED VERSION OF THE COMPREHENSIVE ARHVA FACTOR MULTIPLE TABLE									
Home Price Level	Loan Interest Rate	Percentage of pre-tax household Income that the prospective residential real estate buyer believes is the larges amount of money that should be spent in order to repay the principal and interest costs of the loan							
		20%	30%	40%	45%	50%	55%	60%	70%
↓-Magnitude of Underpricing-↑	1.0%	5.2x	7.8x	10.4x	11.7x	13.0x	14.3x	15.6x	18.1x
	4.0%	3.5x	5.2x	7.0x	7.9x	8.7x	9.6x	10.5x	12.2x
	4.25%	3.4x	5.1x	6.8x	7.6x	8.5x	9.3x	10.2x	11.9x
	4.50%	3.3x	4.9x	6.6x	7.4x	8.2x	9.1x	9.9x	11.5x
	4.75%	3.2x	4.8x	6.4x	7.2x	8.0x	8.8x	9.6x	11.2x
	5.0%	3.1x	4.7x	6.2x	7.0x	7.8x	8.5x	9.3x	10.9x
	10.0%	1.9x	2.9x	3.8x	4.3x	4.7x	5.2x	5.7x	6.7x
	15.0%	1.3x	2.0x	2.6x	3.0x	3.3x	3.6x	4.0x	4.6x
	20.0%	1.0x	1.5x	2.0x	2.2x	2.5x	2.7x	3.0x	3.5x