

## Illustration of the **Four Components of "Return on Investment"**

### 1 **Cash Flow**

This first and perhaps most obvious component is "cash flow" - rental income minus expenses - or how much cash ends up in your pocket.

44,523	+	Rental Income
20,446	-	Operating Expenses
16,333	-	Mortgage Payments
<hr/>		
7,744	=	Cash Flow
100,500	/	Downpayment + Closing Costs
7.7%	=	Return on Investment from Cash Flow

### 2 **Appreciation**

Studio

335,000	=	Acquisition Price
5%	*	First Year Appreciation
351,750	=	Value at the end of Year 1.
<hr/>		
16,750	=	Amount of Value Increase
100,500	/	Downpayment + Closing Costs
17%	=	Return on Investment from Appreciation

### 3 **Equity Build-Up**

4.25%      25 \$      1,361.12

Even if the property did not increase in value, Equity will increase solely from paying down the mortgage.

251,250	=	Loan Amount at Closing
245,483	=	Loan Amount at the end of Year 1
<hr/>		
5,767	-	Equity Build-Up in Year 1
100,500	/	Downpayment + Closing Costs
5.7%	=	Return on Investment from Equity Build-Up

### 4 **Tax Benefits**

One pays less income taxes on a real estate investment than on other investment vehicles.

24,077	=	Cash Flow Before Loan Payments (rents less expenses)
10,355	-	Depreciation (assumes 15% land, 27.5 year recovery)
10,567	-	Mortgage Interest
3,156	=	Taxable Income Year 1
33%	*	Marginal Tax Rate
1,042	=	Federal Income Tax
1,042		Federal Income Tax
7,744	/	Cash Flow
13.4%	=	Effective Tax Rate on This Investment
2,556	=	Tax if Cash Flow came from a non-preferred investment vehicle
1,042	-	Tax from this preferred investment vehicle.
<hr/>		
1,514	=	Income Tax Savings
1.5%		Return on Investment from Tax Savings

### **Total / Summary**

1:	7,744	Cash Flow
2:	16,750	Appreciation Year 1
3:	5,767	Equity Build Up Year 1
4:	1,514	Tax Savings Year 1
<hr/>		
	31,775	Total Return from this Investment
	100,500	Downpayment + Closing Costs
	31.6%	Total Return from this Investment

**Illustration of Internal Rate of Return over a 10-Year Holding Period  
2 8 3 4 CALVERT STREET**

Purchase Price	335,000	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Annual Rent	4.0%	45,900	47,736	49,645	51,631	53,697	55,844	58,078	60,401	62,817	65,330
Vacancy	3.0%	1,377	1,432	1,489	1,549	1,611	1,675	1,742	1,812	1,885	1,960
Effective Income		44,523	46,304	48,156	50,082	52,086	54,169	56,336	58,589	60,933	63,370
Expenses	4.0%	20,446	21,263	22,114	22,998	23,918	24,875	25,870	26,905	27,981	29,100
Exp as a percent of Annual Rent		46%	46%	46%	46%	46%	46%	46%	46%	46%	46%
Exp per unit	5	4,089	4,253	4,423	4,600	4,784	4,975	5,174	5,381	5,596	5,820
NOI	0	43,312	25,041	26,042	27,084	28,167	29,294	30,466	31,684	32,952	34,270
Debt Service	\$ 1,361	43,312	16,333	16,333	16,333	16,333	16,333	16,333	16,333	16,333	16,333
<b>Before Tax Cash Flow</b>	<b>Studio</b>	<b>-</b>	<b>8,707</b>	<b>9,709</b>	<b>10,751</b>	<b>11,834</b>	<b>12,961</b>	<b>14,132</b>	<b>15,351</b>	<b>16,618</b>	<b>285,205</b>
<b>#NUM!</b>	Internal Rate of Return										
NOI		43,312	25,041	26,042	27,084	28,167	29,294	30,466	31,684	32,952	34,270
Less Interest		10,567	10,317	10,056	9,784	9,500	9,204	8,895	8,573	8,236	7,885
Less Depreciation		9,745	9,745	9,745	9,745	9,745	9,745	9,745	9,745	9,745	9,745
Taxable Income	0	23,000	4,978	6,241	7,555	8,922	10,345	11,825	13,366	14,970	16,639
Tax @	25%	5,750	1,245	1,560	1,889	2,230	2,586	2,956	3,342	3,742	4,160
<b>After Tax Cash Flow</b>	<b>(100,500)</b>	<b>(5,750)</b>	<b>7,463</b>	<b>8,149</b>	<b>8,862</b>	<b>9,603</b>	<b>10,374</b>	<b>11,176</b>	<b>12,009</b>	<b>12,876</b>	<b>238,914</b>
<b>13.7%</b>	Internal Rate of Return										
Purchase	335,000								<b>Assume a Sale at End of Year 10</b>		
L-V	75%								Annual Rent Roll		65,330
Loan	251,250								GRM		7.3
Down Payment	83,750							annual appreciation	3.6%	Price	476,809
Cap Improvement	-								Sale Costs	6%	28,609
Closing Costs	16,750								Less: Basis		237,545
Initial Investment	100,500								Gain		210,655
Rate	4.25%								Tax @	20%	42,131
Term	25								Mortgage Balance		180,933
P&I	\$1,361.12								Sale Proceeds Before Tax		267,268
									Sale Proceeds After Tax		225,137
<b>Mortgage Amortization</b>		1	2	3	4	5	6	7	8	9	10
251,250	Beg Bal	251,250	245,483	239,467	233,189	226,640	219,806	212,677	205,239	197,478	189,381
4.25%	Prin	5,767	6,017	6,277	6,549	6,833	7,129	7,438	7,761	8,097	8,448
25.0	Int	10,567	10,317	10,056	9,784	9,500	9,204	8,895	8,573	8,236	7,885
1,361	Bal EOY	245,483	239,467	233,189	226,640	219,806	212,677	205,239	197,478	189,381	180,933
<b>Cost Recovery / Depreciation</b>		335,000	335,000	Building	80%	268,000	Land	20%	67,000	Life	27.5
		9,745	9,745	9,745	9,745	9,745	9,745	9,745	9,745	9,745	9,745
Basis		325,255	315,509	305,764	296,018	286,273	276,527	266,782	257,036	247,291	237,545