

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.

69,564	+	Rental Income
29,062	-	Operating Expenses
29,010	-	Mortgage Payments
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11,492	=	Cash Flow
178,500	/	Downpayment + Closing Costs
6.4%	=	Return on Investment from Cash Flow

2 **Appreciation**

As the value of the property increases, your return on investment increases.

595,000	=	Acquisition Price
5%	*	First Year Appreciation
624,750	=	Value at the end of Year 1.
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29,750	=	Amount of Value Increase
178,500	/	Downpayment + Closing Costs
17%	=	Return on Investment from Appreciation

3 **Equity Build-Up**

4.25% 25 \$ 2,417.51

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

446,250	=	Loan Amount at Closing
436,008	=	Loan Amount at the end of Year 1
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10,242	-	Equity Build-Up in Year 1
178,500	/	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.

40,502	=	Cash Flow Before Loan Payments (rents less expenses)
18,391	-	Depreciation (assumes 15% land, 27.5 year recovery)
18,768	-	Mortgage Interest
3,344	=	Taxable Income Year 1
33%	*	Marginal Tax Rate
1,103	=	Federal Income Tax
1,103		Federal Income Tax
11,492	/	Cash Flow
9.6%	=	Effective Tax Rate on This Investment
3,792	=	Tax if Cash Flow came from a non-preferred investment vehicle
1,103	-	Tax from this preferred investment vehicle.
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2,689	=	Income Tax Savings
1.5%		Return on Investment from Tax Savings

Total / Summary

1:	11,492	Cash Flow
2:	29,750	Appreciation Year 1
3:	10,242	Equity Build Up Year 1
4:	2,689	Tax Savings Year 1
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	54,174	Total Return from this Investment
	178,500	Downpayment + Closing Costs
	30.3%	Total Return from this Investment

**Illustration of Internal Rate of Return over a 10-Year Holding Period
3002 SAINT PAUL STREET**

Purchase Price	595,000	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Annual Rent	4.0%	71,716	74,584	77,568	80,670	83,897	87,253	90,743	94,373	98,148	102,074
Vacancy	3.0%	2,151	2,238	2,327	2,420	2,517	2,618	2,722	2,831	2,944	3,062
Effective Income		69,564	72,347	75,240	78,250	81,380	84,635	88,021	91,542	95,203	99,011
Expenses	4.0%	29,062	30,224	31,433	32,691	33,998	35,358	36,773	38,243	39,773	41,364
Exp as a percent of Annual Rent		42%	42%	42%	42%	42%	42%	42%	42%	42%	42%
Exp per unit	6	4,844	5,037	5,239	5,448	5,666	5,893	6,129	6,374	6,629	6,894
NOI	0	40,502	42,122	43,807	45,559	47,382	49,277	51,248	53,298	55,430	57,647
Debt Service	\$ 2,418	29,010	29,010	29,010	29,010	29,010	29,010	29,010	29,010	29,010	29,010
Before Tax Cash Flow	(178,500)	11,492	13,112	14,797	16,549	18,372	20,267	22,238	24,288	26,420	503,338
17.1% Internal Rate of Return											
NOI		40,502	42,122	43,807	45,559	47,382	49,277	51,248	53,298	55,430	57,647
Less Interest		18,768	18,324	17,861	17,377	16,873	16,347	15,799	15,226	14,629	14,005
Less Depreciation		17,309	17,309	17,309	17,309	17,309	17,309	17,309	17,309	17,309	17,309
Taxable Income	0	4,425	6,489	8,637	10,873	13,199	15,621	18,141	20,763	23,492	26,333
Tax @	25%	1,106	1,622	2,159	2,718	3,300	3,905	4,535	5,191	5,873	6,583
After Tax Cash Flow	(178,500)	10,386	11,490	12,638	13,831	15,072	16,362	17,703	19,097	20,547	421,925
14.4% Internal Rate of Return											
Purchase	595,000								Assume a Sale at End of Year 10		
L-V	75%								Annual Rent Roll		102,074
Loan	446,250								GRM		8.3
Down Payment	148,750							annual appreciation	3.6%	Price	846,871
Cap Improvement	-								Sale Costs	6%	50,812
Closing Costs	29,750								Less: Basis		421,909
Initial Investment	178,500								Gain		374,149
Rate	4.25%								Tax @	20%	74,830
Term	25								Mortgage Balance		321,358
P&I	\$2,417.51								Sale Proceeds Before Tax		474,700
									Sale Proceeds After Tax		399,871
Mortgage Amortization		1	2	3	4	5	6	7	8	9	10
446,250	Beg Bal	446,250	436,008	425,321	414,172	402,539	390,402	377,740	364,528	350,744	336,363
4.25%	Prin	10,242	10,686	11,149	11,633	12,137	12,663	13,212	13,784	14,381	15,005
25.0	Int	18,768	18,324	17,861	17,377	16,873	16,347	15,799	15,226	14,629	14,005
2,418	Bal EOY	436,008	425,321	414,172	402,539	390,402	377,740	364,528	350,744	336,363	321,358
Cost Recovery / Depreciation		595,000	595,000	Building	80%	476,000	Land	20%	119,000	Life	27.5
		17,309	17,309	17,309	17,309	17,309	17,309	17,309	17,309	17,309	17,309
Basis		577,691	560,382	543,073	525,764	508,455	491,145	473,836	456,527	439,218	421,909