

## 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.

70,146	+	Rental Income
29,091	-	Operating Expenses
29,010	-	Mortgage Payments
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12,045	=	Cash Flow
178,500	/	Downpayment + Closing Costs
6.7%	=	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**

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.

41,055	=	Cash Flow Before Loan Payments (rents less expenses)
18,391	-	Depreciation (assumes 15% land, 27.5 year recovery)
18,768	-	Mortgage Interest
3,897	=	Taxable Income Year 1
33%	*	Marginal Tax Rate
1,286	=	Federal Income Tax
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12,045	/	Cash Flow
10.7%	=	Effective Tax Rate on This Investment
3,975	=	Tax if Cash Flow came from a non-preferred investment vehicle
1,286	-	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:	12,045	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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	54,726	Total Return from this Investment
	178,500	Downpayment + Closing Costs
	30.7%	Total Return from this Investment

