

## 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.

94,575	+	Rental Income
26,454	-	Operating Expenses
42,662	-	Mortgage Payments
<hr/>		
25,459	=	Cash Flow
262,500	/	Downpayment + Closing Costs
9.7%	=	Return on Investment from Cash Flow

### 2 **Appreciation**

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

875,000	=	Acquisition Price
5%	*	First Year Appreciation
918,750	=	Value at the end of Year 1.
<hr/>		
43,750	=	Amount of Value Increase
262,500	/	Downpayment + Closing Costs
17%	=	Return on Investment from Appreciation

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

4.25%      25 \$      3,555.16

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

656,250	=	Loan Amount at Closing
641,188	=	Loan Amount at the end of Year 1
<hr/>		
15,062	-	Equity Build-Up in Year 1
262,500	/	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.

68,121	=	Cash Flow Before Loan Payments (rents less expenses)
27,045	-	Depreciation (assumes 15% land, 27.5 year recovery)
27,599	-	Mortgage Interest
13,476	=	Taxable Income Year 1
33%	*	Marginal Tax Rate
4,447	=	Federal Income Tax
4,447		Federal Income Tax
25,459	/	Cash Flow
17.5%	=	Effective Tax Rate on This Investment
8,402	=	Tax if Cash Flow came from a non-preferred investment vehicle
4,447	-	Tax from this preferred investment vehicle.
<hr/>		
3,954	=	Income Tax Savings
1.5%		Return on Investment from Tax Savings

### **Total / Summary**

1:	25,459	Cash Flow
2:	43,750	Appreciation Year 1
3:	15,062	Equity Build Up Year 1
4:	3,954	Tax Savings Year 1
<hr/>		
	88,226	Total Return from this Investment
	262,500	Downpayment + Closing Costs
	33.6%	Total Return from this Investment

**Illustration of Internal Rate of Return over a 10-Year Holding Period  
1226 SAINT PAUL STREET**

Purchase Price	875,000	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Annual Rent	4.0%	97,500	101,400	105,456	109,674	114,061	118,624	123,369	128,303	133,435	138,773
Vacancy	3.0%	2,925	3,042	3,164	3,290	3,422	3,559	3,701	3,849	4,003	4,163
Effective Income		94,575	98,358	102,292	106,384	110,639	115,065	119,668	124,454	129,432	134,610
Expenses	4.0%	26,454	27,512	28,613	29,757	30,947	32,185	33,473	34,812	36,204	37,652
Exp as a percent of Annual Rent		28%	28%	28%	28%	28%	28%	28%	28%	28%	28%
Exp per unit	6	4,409	4,585	4,769	4,960	5,158	5,364	5,579	5,802	6,034	6,275
NOI	0	68,121	70,846	73,680	76,627	79,692	82,880	86,195	89,643	93,228	96,957
Debt Service	\$ 3,555	42,662	42,662	42,662	42,662	42,662	42,662	42,662	42,662	42,662	42,662
<b>Before Tax Cash Flow</b>	<b>(262,500)</b>	<b>25,459</b>	<b>28,184</b>	<b>31,018</b>	<b>33,965</b>	<b>37,030</b>	<b>40,218</b>	<b>43,533</b>	<b>46,981</b>	<b>50,566</b>	<b>752,384</b>
<b>19.7% Internal Rate of Return</b>											
NOI		68,121	70,846	73,680	76,627	79,692	82,880	86,195	89,643	93,228	96,957
Less Interest		27,599	26,947	26,266	25,555	24,814	24,040	23,233	22,391	21,513	20,596
Less Depreciation		25,455	25,455	25,455	25,455	25,455	25,455	25,455	25,455	25,455	25,455
Taxable Income	0	15,067	18,445	21,959	25,617	29,424	33,385	37,507	41,797	46,261	50,907
Tax @	25%	3,767	4,611	5,490	6,404	7,356	8,346	9,377	10,449	11,565	12,727
<b>After Tax Cash Flow</b>	<b>(262,500)</b>	<b>21,692</b>	<b>23,573</b>	<b>25,528</b>	<b>27,561</b>	<b>29,674</b>	<b>31,872</b>	<b>34,156</b>	<b>36,532</b>	<b>39,001</b>	<b>629,614</b>
<b>16.5% Internal Rate of Return</b>											
Purchase	875,000							<b>Assume a Sale at End of Year 10</b>			
L-V	75%							Annual Rent Roll			138,773
Loan	656,250							GRM			9.0
Down Payment	218,750						annual appreciation	3.6%	Price		1,245,398
Cap Improvement	-							Sale Costs		6%	74,724
Closing Costs	43,750							Less: Basis			620,455
Initial Investment	262,500							Gain			550,219
Rate	4.25%							Tax @		20%	110,044
Term	25							Mortgage Balance			472,585
P&I	\$3,555.16							Sale Proceeds Before Tax			698,089
								Sale Proceeds After Tax			588,045
<b>Mortgage Amortization</b>		1	2	3	4	5	6	7	8	9	10
656,250	Beg Bal	656,250	641,188	625,472	609,076	591,969	574,121	555,500	536,071	515,800	494,651
4.25%	Prin	15,062	15,715	16,396	17,107	17,848	18,622	19,429	20,271	21,149	22,066
25.0	Int	27,599	26,947	26,266	25,555	24,814	24,040	23,233	22,391	21,513	20,596
3,555	Bal EOY	641,188	625,472	609,076	591,969	574,121	555,500	536,071	515,800	494,651	472,585
<b>Cost Recovery / Depreciation</b>		875,000	875,000	Building	80%	700,000	Land	20%	175,000	Life	27.5
		25,455	25,455	25,455	25,455	25,455	25,455	25,455	25,455	25,455	25,455
Basis		849,545	824,091	798,636	773,182	747,727	722,273	696,818	671,364	645,909	620,455