

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.

31,800	+	Rental Income
16,153	-	Operating Expenses
9,348	-	Mortgage Payments
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6,299	=	Cash Flow
61,500	/	Downpayment + Closing Costs
10.2%	=	Return on Investment from Cash Flow

2 **Appreciation**

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

205,000	=	Acquisition Price
5%	*	First Year Appreciation
215,250	=	Value at the end of Year 1.
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10,250	=	Amount of Value Increase
61,500	/	Downpayment + Closing Costs
17%	=	Return on Investment from Appreciation

3 **Equity Build-Up**

4.50% 30 \$ 779.03

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

153,750	=	Loan Amount at Closing
151,270	=	Loan Amount at the end of Year 1
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2,480	-	Equity Build-Up in Year 1
61,500	/	Downpayment + Closing Costs
4.0%	=	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.

15,647	=	Cash Flow Before Loan Payments (rents less expenses)
6,336	-	Depreciation (assumes 15% land, 27.5 year recovery)
6,868	-	Mortgage Interest
2,443	=	Taxable Income Year 1
33%	*	Marginal Tax Rate
806	=	Federal Income Tax
806		Federal Income Tax
6,299	/	Cash Flow
12.8%	=	Effective Tax Rate on This Investment
2,079	=	Tax if Cash Flow came from a non-preferred investment vehicle
806	-	Tax from this preferred investment vehicle.
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1,272	=	Income Tax Savings
2.1%	=	Return on Investment from Tax Savings

Total / Summary

1:	6,299	Cash Flow
2:	10,250	Appreciation Year 1
3:	2,480	Equity Build Up Year 1
4:	1,272	Tax Savings Year 1
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	20,301	Total Return from this Investment
	61,500	Downpayment + Closing Costs
	33.0%	Total Return from this Investment

**Illustration of Internal Rate of Return over a 10-Year Holding Period
2444 CALLOW AVENUE**

Purchase Price	205,000	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Annual Rent	4.0%	31,800	33,072	34,395	35,771	37,202	38,690	40,237	41,847	43,520	45,261
Expenses	4.0%	16,153	16,799	17,471	18,170	18,897	19,653	20,439	21,256	22,106	22,991
Exp as a percent of Annual Rent		51%	51%	51%	51%	51%	51%	51%	51%	51%	51%
Exp per unit	3	5,384	5,600	5,824	6,057	6,299	6,551	6,813	7,085	7,369	7,664
NOI	0	15,647	16,273	16,924	17,601	18,305	19,037	19,798	20,590	21,414	22,271
Debt Service	\$ 779	9,348	9,348	9,348	9,348	9,348	9,348	9,348	9,348	9,348	9,348
Before Tax Cash Flow	(61,500)	6,299	6,925	7,575	8,252	8,956	9,689	10,450	11,242	12,066	164,057
19.5% Internal Rate of Return											
NOI		15,647	16,273	16,924	17,601	18,305	19,037	19,798	20,590	21,414	22,271
Less Interest		6,868	6,754	6,635	6,510	6,380	6,243	6,101	5,952	5,796	5,632
Less Depreciation		5,964	5,964	5,964	5,964	5,964	5,964	5,964	5,964	5,964	5,964
Taxable Income	0	2,815	3,555	4,325	5,127	5,961	6,830	7,734	8,675	9,655	10,675
Tax @	25%	704	889	1,081	1,282	1,490	1,707	1,933	2,169	2,414	2,669
After Tax Cash Flow	(61,500)	5,595	6,036	6,494	6,971	7,466	7,981	8,517	9,073	9,652	135,607
16.4% Internal Rate of Return											
Purchase	205,000								Assume a Sale at End of Year 10		
L-V	75%								Annual Rent Roll		45,261
Loan	153,750								GRM		6.4
Down Payment	51,250							annual appreciation	3.6%	Price	291,779
Cap Improvement	-								Sale Costs	6%	17,507
Closing Costs	10,250								Less: Basis		145,364
Initial Investment	61,500								Gain		128,909
Rate	4.50%								Tax @	20%	25,782
Term	30								Mortgage Balance		123,138
P&I	\$779.03								Sale Proceeds Before Tax		151,135
									Sale Proceeds After Tax		125,353
Mortgage Amortization		1	2	3	4	5	6	7	8	9	10
153,750	Beg Bal	153,750	151,270	148,675	145,962	143,124	140,155	137,050	133,803	130,406	126,853
4.50%	Prin	2,480	2,594	2,713	2,838	2,969	3,105	3,248	3,397	3,553	3,716
30.0	Int	6,868	6,754	6,635	6,510	6,380	6,243	6,101	5,952	5,796	5,632
779	Bal EOY	151,270	148,675	145,962	143,124	140,155	137,050	133,803	130,406	126,853	123,138
Cost Recovery / Depreciation		205,000	205,000	Building	80%	164,000	Land	20%	41,000	Life	27.5
		5,964	5,964	5,964	5,964	5,964	5,964	5,964	5,964	5,964	5,964
Basis		199,036	193,073	187,109	181,145	175,182	169,218	163,255	157,291	151,327	145,364