

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.

38,400	+	Rental Income
8,519	-	Operating Expenses
16,848	-	Mortgage Payments
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13,033	=	Cash Flow
101,700	/	Downpayment + Closing Costs
12.8%	=	Return on Investment from Cash Flow

2 **Appreciation**

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

339,000	=	Acquisition Price
5%	*	First Year Appreciation
16,950	=	Value at the end of Year 1.
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16,950	=	Amount of Value Increase
101,700	/	Downpayment + Closing Costs
17%	=	Return on Investment from Appreciation

3 **Equity Build-Up**

5.25% 30 \$ 1,403.98

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

254,250	=	Loan Amount at Closing
250,665	=	Loan Amount at the end of Year 1
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3,585	-	Equity Build-Up in Year 1
101,700	/	Downpayment + Closing Costs
3.5%	=	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.

29,881	=	Cash Flow Before Loan Payments (rents less expenses)
10,478	-	Depreciation (assumes 15% land, 27.5 year recovery)
13,263	-	Mortgage Interest
6,140	=	Taxable Income Year 1
33%	*	Marginal Tax Rate
2,026	=	Federal Income Tax
2,026		Federal Income Tax
13,033	/	Cash Flow
15.5%	=	Effective Tax Rate on This Investment
4,301	=	Tax if Cash Flow came from a non-preferred investment vehicle
2,026	-	Tax from this preferred investment vehicle.
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2,275	=	Income Tax Savings
2.2%		Return on Investment from Tax Savings

Total / Summary

1:	13,033	Cash Flow
2:	16,950	Appreciation Year 1
3:	3,585	Equity Build Up Year 1
4:	2,275	Tax Savings Year 1
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	35,843	Total Return from this Investment
	101,700	Downpayment + Closing Costs
	35.2%	Total Return from this Investment

Illustration of Internal Rate of Return over a 10-Year Holding Period
207 EAST 33rd STREET

Purchase Price	339,000	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Annual Rent	4.0%	38,400	39,936	41,533	43,195	44,923	46,719	48,588	50,532	52,553	54,655
Expenses	4.0%	8,519	8,860	9,214	9,583	9,966	10,365	10,780	11,211	11,659	12,126
Exp as a percent of Annual Rent		22%	22%	22%	22%	22%	22%	22%	22%	22%	22%
Exp per unit	5	1,704	1,772	1,843	1,917	1,993	2,073	2,156	2,242	2,332	2,425
NOI	0	29,881	31,076	32,319	33,612	34,956	36,354	37,809	39,321	40,894	42,530
Debt Service	\$ 1,404	16,848	16,848	16,848	16,848	16,848	16,848	16,848	16,848	16,848	16,848
Before Tax Cash Flow	(101,700)	13,033	14,228	15,471	16,764	18,108	19,507	20,961	22,473	24,046	270,881
21.6% Internal Rate of Return											
NOI		29,881	31,076	32,319	33,612	34,956	36,354	37,809	39,321	40,894	42,530
Less Interest		13,263	13,070	12,867	12,653	12,427	12,189	11,939	11,675	11,396	11,103
Less Depreciation		9,862	9,862	9,862	9,862	9,862	9,862	9,862	9,862	9,862	9,862
Taxable Income	0	6,756	8,144	9,590	11,097	12,667	14,303	16,008	17,785	19,636	21,565
Tax @	25%	1,689	2,036	2,398	2,774	3,167	3,576	4,002	4,446	4,909	5,391
After Tax Cash Flow	(101,700)	11,344	12,192	13,074	13,990	14,942	15,931	16,959	18,027	19,137	222,856
18.2% Internal Rate of Return											
Purchase	339,000							Assume a Sale at End of Year 10			
L-V	75%							Annual Rent Roll			54,655
Loan	254,250							GRM			105.9
Down Payment	84,750						annual appreciation	3.6%	Price		482,503
Cap Improvement	-							Sale Costs		6%	28,950
Closing Costs	16,950							Less: Basis			240,382
Initial Investment	101,700							Gain			213,171
Rate	5.25%							Tax @		20%	42,634
Term	30							Mortgage Balance			208,354
P&I	\$1,403.98							Sale Proceeds Before Tax			245,199
								Sale Proceeds After Tax			202,565
Mortgage Amortization		1	2	3	4	5	6	7	8	9	10
254,250	Beg Bal	254,250	250,665	246,887	242,906	238,711	234,290	229,632	224,722	219,549	214,098
5.25%	Prin	3,585	3,778	3,981	4,195	4,421	4,659	4,909	5,173	5,451	5,745
30.0	Int	13,263	13,070	12,867	12,653	12,427	12,189	11,939	11,675	11,396	11,103
1,404	Bal EOY	250,665	246,887	242,906	238,711	234,290	229,632	224,722	219,549	214,098	208,354
Cost Recovery / Depreciation		339,000	339,000	Building	80%	271,200	Land	20%	67,800	Life	27.5
		9,862	9,862	9,862	9,862	9,862	9,862	9,862	9,862	9,862	9,862
Basis		329,138	319,276	309,415	299,553	289,691	279,829	269,967	260,105	250,244	240,382