

## 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.

54,000	+	Rental Income
19,801	-	Operating Expenses
21,922	-	Mortgage Payments
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12,277	=	Cash Flow
108,750	/	Downpayment + Closing Costs
11.3%	=	Return on Investment from Cash Flow

### 2 **Appreciation**

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

429,000	=	Acquisition Price
5%	*	First Year Appreciation
450,450	=	Value at the end of Year 1.
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21,450	=	Amount of Value Increase
108,750	/	Downpayment + Closing Costs
20%	=	Return on Investment from Appreciation

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

5.50%      30 \$      1,826.86

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

321,750	=	Loan Amount at Closing
317,416	=	Loan Amount at the end of Year 1
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4,334	-	Equity Build-Up in Year 1
108,750	/	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.

34,199	=	Cash Flow Before Loan Payments (rents less expenses)
850	-	Depreciation (assumes 15% land, 30 year recovery)
17,588	-	Mortgage Interest
15,761	=	Taxable Income Year 1
12,609	=	Less 20% Exclusion for LLC Ownership under new tax law
37%	*	Marginal Tax Rate
4,665.20	=	Federal Income Tax
4,665		Federal Income Tax
12,277	/	Cash Flow
38.0%	=	Effective Tax Rate on This Investment
4,542	=	Tax if Cash Flow came from a non-preferred investment vehicle
4,665	-	Tax from this preferred investment vehicle.
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(123)	=	Income Tax Savings
-0.1%	=	Return on Investment from Tax Savings

### **Total / Summary**

1:	12,277	Cash Flow
2:	21,450	Appreciation Year 1
3:	4,334	Equity Build Up Year 1
4:	(123)	Tax Savings Year 1
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	37,938	Total Return from this Investment
	108,750	Downpayment + Closing Costs
	34.9%	Total Return from this Investment

