

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.

46,500	+	Rental Income
14,832	-	Operating Expenses
21,500	-	Mortgage Payments
<hr/>		
10,168	=	Cash Flow
133,500	/	Downpayment + Closing Costs
7.6%	=	Return on Investment from Cash Flow

2 **Appreciation**

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

445,000	=	Acquisition Price
5%	*	First Year Appreciation
467,250	=	Value at the end of Year 1.
<hr/>		
22,250	=	Amount of Value Increase
133,500	/	Downpayment + Closing Costs
17%	=	Return on Investment from Appreciation

3 **Equity Build-Up**

5.00% 30 \$ 1,791.64

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

333,750	=	Loan Amount at Closing
328,826	=	Loan Amount at the end of Year 1
<hr/>		
4,924	-	Equity Build-Up in Year 1
133,500	/	Downpayment + Closing Costs
3.7%	=	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.

31,668	=	Cash Flow Before Loan Payments (rents less expenses)
12,608	-	Depreciation (assumes 15% land, 30 year recovery)
16,576	-	Mortgage Interest
2,484	=	Taxable Income Year 1
1,987	=	Less 20% Exclusion for LLC Ownership under new tax law
37%	*	Marginal Tax Rate
735.15	=	Federal Income Tax
735	=	Federal Income Tax
10,168	/	Cash Flow
7.2%	=	Effective Tax Rate on This Investment
3,762	=	Tax if Cash Flow came from a non-preferred investment vehicle
735	-	Tax from this preferred investment vehicle.
<hr/>		
3,027	=	Income Tax Savings
2.3%	=	Return on Investment from Tax Savings

Total / Summary

1:	10,168	Cash Flow
2:	22,250	Appreciation Year 1
3:	4,924	Equity Build Up Year 1
4:	3,027	Tax Savings Year 1
<hr/>		
	40,369	Total Return from this Investment
	133,500	Downpayment + Closing Costs
	30.2%	Total Return from this Investment

