

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.

38,520	+	Rental Income
12,798	-	Operating Expenses
16,608	-	Mortgage Payments
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9,114	=	Cash Flow
97,500	/	Downpayment + Closing Costs
9.3%	=	Return on Investment from Cash Flow

2 Appreciation

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

325,000	=	Acquisition Price
5%	*	First Year Appreciation
341,250	=	Value at the end of Year 1.
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16,250	=	Amount of Value Increase
97,500	/	Downpayment + Closing Costs
17%	=	Return on Investment from Appreciation

3 Equity Build-Up

5.50% 30 \$ 1,383.99

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

243,750	=	Loan Amount at Closing
240,466	=	Loan Amount at the end of Year 1
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3,284	-	Equity Build-Up in Year 1
97,500	/	Downpayment + Closing Costs
3.4%	=	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.

25,722	=	Cash Flow Before Loan Payments (rents less expenses)
9,208	-	Depreciation (assumes 15% land, 30 year recovery)
13,324	-	Mortgage Interest
3,189	=	Taxable Income Year 1
2,551	=	Less 20% Exclusion for LLC Ownership under new tax law
37%	*	Marginal Tax Rate
944.05	=	Federal Income Tax
944	=	Federal Income Tax
9,114	/	Cash Flow
10.4%	=	Effective Tax Rate on This Investment
3,372	=	Tax if Cash Flow came from a non-preferred investment vehicle
944	-	Tax from this preferred investment vehicle.
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2,428	=	Income Tax Savings
2.5%	=	Return on Investment from Tax Savings

Total / Summary

1:	9,114	Cash Flow
2:	16,250	Appreciation Year 1
3:	3,284	Equity Build Up Year 1
4:	2,428	Tax Savings Year 1
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	31,076	Total Return from this Investment
	97,500	Downpayment + Closing Costs
	31.9%	Total Return from this Investment

Illustration of Internal Rate of Return over a 10-Year Holding Period
207 WEST 29th STREET

Purchase Price	325,000	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Annual Rent	4.0%	38,520	40,061	41,663	43,330	45,063	46,865	48,740	50,690	52,717	54,826
Vacancy	3.0%	1,156	1,202	1,250	1,300	1,352	1,406	1,462	1,521	1,582	1,645
Effective Income		37,364	38,859	40,413	42,030	43,711	45,460	47,278	49,169	51,136	53,181
Expenses	4.0%	12,798	13,310	13,842	14,396	14,972	15,571	16,194	16,841	17,515	18,216
Exp as a percent of Annual Rent		34%	34%	34%	34%	34%	34%	34%	34%	34%	34%
Exp per unit	3	4,266	4,437	4,614	4,799	4,991	5,190	5,398	5,614	5,838	6,072
NOI	0	24,566	25,549	26,571	27,634	28,739	29,889	31,084	32,328	33,621	34,966
Debt Service	\$ 1,384	16,608	16,608	16,608	16,608	16,608	16,608	16,608	16,608	16,608	16,608
Before Tax Cash Flow	(97,500)	7,959	8,941	9,963	11,026	12,131	13,281	14,477	15,720	17,013	251,986
17.7% Internal Rate of Return											

NOI		24,566	25,549	26,571	27,634	28,739	29,889	31,084	32,328	33,621	34,966
Less Interest		13,324	13,139	12,943	12,737	12,518	12,288	12,044	11,787	11,515	11,227
Less Depreciation		8,667	8,667	8,667	8,667	8,667	8,667	8,667	8,667	8,667	8,667
Taxable Income to Individuals		2,575	3,743	4,961	6,230	7,554	8,934	10,374	11,874	13,440	15,072
Pass Thru Entity	20%	(515)	(749)	(992)	(1,246)	(1,511)	(1,787)	(2,075)	(2,375)	(2,688)	(3,014)
Taxable Income	0	2,060	2,995	3,969	4,984	6,043	7,148	8,299	9,500	10,752	12,057
Tax @ *	37%	762	1,108	1,468	1,844	2,236	2,645	3,071	3,515	3,978	4,461
After Tax Cash Flow	(97,500)	7,196	7,833	8,495	9,182	9,895	10,636	11,406	12,205	13,035	208,227
14.8% Internal Rate of Return											

		Assume a Sale at End of Year 10									
Purchase	325,000										
L-V	75%										54,826
Loan	243,750										8.4
Down Payment	81,250				annual appreciation	3.6%					462,576
Cap Improvement	-									6%	27,755
Closing Costs	16,250										238,333
Initial Investment	97,500										196,488
Rate	5.50%										39,298
Term	30										201,194
P&I	\$1,383.99										233,628
											194,330

Mortgage Amortization		1	2	3	4	5	6	7	8	9	10
243,750	Beg Bal	243,750	240,466	236,998	233,333	229,462	225,373	221,053	216,489	211,667	206,574
5.50%	Prin	3,284	3,469	3,664	3,871	4,089	4,320	4,564	4,821	5,093	5,381
30.0	Int	13,324	13,139	12,943	12,737	12,518	12,288	12,044	11,787	11,515	11,227
1,384	Bal EOY	240,466	236,998	233,333	229,462	225,373	221,053	216,489	211,667	206,574	201,194

Cost Recovery / Depreciation 325,000 325,000 Building 80% 260,000 Land 20% 65,000 **Life** **30**

		8,667	8,667	8,667	8,667	8,667	8,667	8,667	8,667	8,667	8,667
Basis		#####649/6	#####63 : /9	#####5<</3	#####5<3/6	#####5 ; 4/9	#####5 : 6/3	#####597/6	#####588/9	#####57 : /3	#####56 ; /6

* Tax rate of 35% applies to income of \$200,001 to \$500,000 for singles; \$400,001 to \$600,000 for married filing jointly. Marginal rate above \$500k/\$600k is 37%.