

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.

116,400	+	Rental Income
35,852	-	Operating Expenses
53,632	-	Mortgage Payments
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26,916	=	Cash Flow
330,000	/	Downpayment + Closing Costs
8.2%	=	Return on Investment from Cash Flow

2 **Appreciation**

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

1,100,000	=	Acquisition Price
3%	*	First Year Appreciation
1,133,000	=	Value at the end of Year 1.
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33,000	=	Amount of Value Increase
330,000	/	Downpayment + Closing Costs
10%	=	Return on Investment from Appreciation

3 **Equity Build-Up**

4.25% 25 \$ 4,469.34

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

825,000	=	Loan Amount at Closing
806,064	=	Loan Amount at the end of Year 1
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18,936	-	Equity Build-Up in Year 1
330,000	/	Downpayment + Closing Costs
5.7%	=	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.

80,548	=	Cash Flow Before Loan Payments (rents less expenses)
31,167	-	Depreciation (assumes 15% land, 30 year recovery)
34,696	-	Mortgage Interest
14,685	=	Taxable Income Year 1
11,748	=	Less 20% Exclusion for LLC Ownership under new tax law
37%	*	Marginal Tax Rate
4,346.76	=	Federal Income Tax
4,347	=	Federal Income Tax
26,916	/	Cash Flow
16.1%	=	Effective Tax Rate on This Investment
9,959	=	Tax if Cash Flow came from a non-preferred investment vehicle
4,347	-	Tax from this preferred investment vehicle.
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5,612	=	Income Tax Savings
1.7%	=	Return on Investment from Tax Savings

Total / Summary

1:	26,916	Cash Flow
2:	33,000	Appreciation Year 1
3:	18,936	Equity Build Up Year 1
4:	5,612	Tax Savings Year 1
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	84,464	Total Return from this Investment
	330,000	Downpayment + Closing Costs
	25.6%	Total Return from this Investment

