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
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 = Acquisiton Price
3% * First Year Appreciation

1,133,000 = Value at the end of Year 1.

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
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.

00 E 40		Cook Flow Refere Lean Reyments (rentaless synance)
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.
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
	84,464	Total Return from this Investment
	330,000	Downpayment + Closing Costs
	25.6%	Total Return from this Investment

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	Illustration of Internal Rate of Return over a 10-Year Holding Period 1321 EUTAW PLACE										
Purchase Price	1,100,000	<u>2021</u>	2022			<u>2025</u>		<u>2027</u>	<u>2028</u>		<u>2030</u>
Annual Rent	3.0%	120,000	123,600	127,308	131,127	135,061	139,113	143,286	147,585	152,012	156,573
Vacancy	3.0%	3,600	3,708	3,819	3,934	4,052	4,173	4,299	4,428	4,560	4,697
Effective Income		116,400	119,892	123,489	127,193	131,009	134,940	138,988	143,157	147,452	151,876
Expenses	3.0%	35,852	36,927	38,035	39,176	40,352	41,562	42,809	44,093	45,416	46,779
Exp as a percent of A		31%	31%	31%		31%		31%	31%		31%
Exp per unit	7	5,122	5,275	5,434	5,597	5,765	5,937	6,116	6,299	6,488	6,683
NOI	0	80,548	82,965	85,454	88,017	90,658	93,377	96,179	99,064	102,036	105,097
Debt Service	\$ 4,469	53,632	53,632	53,632	53,632	53,632	53,632	53,632	53,632	53,632	53,632
Before Tax Cash Flo	w (330,000) Mate of	26,916 Return	29,333	31,821	34,385	37,026	39,745	42,547	45,432	48,404	806,493
NOI		80,548	82,965	85,454	88,017	90,658	93,377	96,179	99,064	102,036	105,097
Less Interest		34,696	33,876	33,020	32,126	31,194	30,222	29,207	28,149	27,045	25,892
Less Depreciation		29,333	29,333	29,333	29,333	29,333	29,333	29,333	29,333	29,333	29,333
Taxable Income to Inc	lividuals	16,518	19,755	23,101	26,557	30,130	33,822	37,638	41,582	45,658	49,871
Pass Thru Entity	20%	(3,304)	(3,951)	(4,620)		(6,026)	,	(7,528)	(8,316)		(9,974
Taxable Income	0	13,215	15,804	18,480	21,246	24,104	27,058	30,110	33,265	36,526	39,897
Tax @ *	37%	4,889	5,848	6,838	7,861	8,918	10,011	11,141	12,308	13,515	14,762
After Tax Cash Flow		22,027	23,485	24,984	26,524	28,107	29,734	31,406	33,124	34,889	683,238
	% Internal Rate of		,	- 1,2 - 1	,	,	,	- 1,1-1	,:=:	,	,
Purchase	1,100,000							Assume a Sa	le at End of \	Year 10	
L-V	75%						Annual Rent Roll 156,5				
Loan	825,000							GRM			9.2
Down Payment	275,000				annua	al appreciation				1,435,251	
Cap Improvement	-							Sale Costs		6%	86,115
Closing Costs	55,000							Less: Basis			806,667
Initial Investment	330,000						Gain				542,469
Rate	4.25%						Tax @			20%	108,494
Term	25							Mortgage Balance			594,107
P&I	\$4,469,34							Sale Proceed			755,028
	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,							Sale Proceed			646,535
Mortgage Amortization		1	2	3	4	5	6		8	9	
825,00	0 Beg Bal	825,000	806,064	786,308	765,696	744,190	721,752	698,342	673,918	648,434	621,847
	% Prin	18,936	19,756	20,612	21,506	22,438	23,410	24,425	25,483	26,588	27,740
25.	0 Int	34,696	33,876	33,020	32,126	31,194	30,222	29,207	28,149	27,045	25,892
4,46	9 Bal EOY	806,064	786,308	765,696	744,190	721,752	698,342	673,918	648,434	621,847	594,107
Cost Recovery / Dep	reciation	1,100,000	1,100,000		80%	880,000		20%	220,000		30
		29,333	29,333	29,333	29,333	29,333	29,333	29,333	29,333	29,333	29,333
Basis		######################################	######################################			###### <u></u> 86,666		##### ; <7 <i>/</i> 99:	###### \$ 98 <i>/</i> 666		###### 3 39 <i>/</i> 99 :
* Tax rate of 35% app	lies to income of \$	200,001 to \$50	0,000 for single	es; \$400,001 to	5 \$600,000 for	married filing	jointly. Margin	al rate above \$	\$500k/\$600k is	s 37%.	

