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.

46,740	+	Rental Income
17,493	-	Operating Expenses
18,331	-	Mortgage Payments
10,917	=	Cash Flow
118,500	/	Downpayment + Closing Costs
9.2%	=	Return on Investment from Cash Flow

2 Appreciation

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

395,000	=	Acquisiton Price
5%	*	First Year Appreciation
414,750	=	Value at the end of Year 1.
19,750	=	Amount of Value Increase
118,500	/	Downpayment + Closing Costs
17%	=	Return on Investment from Appreciation

3 Equity Build-Up 4.65% 30 $ 1,527.57

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

296,250	=	Loan Amount at Closing
291,596	=	Loan Amount at the end of Year 1
4,654	-	Equity Build-Up in Year 1
118,500	/	Downpayment + Closing Costs
3.9%	=	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.

29,247	=	Cash Flow Before Loan Payments (rents less expenses)
11,192	-	Depreciation (assumes 15% land, 30 year recovery)
13,677	-	Mortgage Interest
4,378	=	Taxable Income Year 1
3,503		Less 20% Exclusion for LLC Ownership under new tax law
37%	*	Marginal Tax Rate
1,296.02	=	Federal Income Tax
1,296		Federal Income Tax
10,917	/	Cash Flow
11.9%	=	Effective Tax Rate on This Investment
4,039	=	Tax if Cash Flow came from a non-preferred investment vehicle
1,296	-	Tax from this preferred investment vehicle.
2,743	=	Income Tax Savings
2.3%		Return on Investment from Tax Savings

Total / Summary

1:	10,917	Cash Flow
2:	19,750	Appreciation Year 1
3:	4,654	Equity Build Up Year 1
4:	2,743	Tax Savings Year 1
	38,063	Total Return from this Investment
	118,500	Downpayment + Closing Costs
	32.1%	Total Return from this Investment

For illustration purposes only. Though believed accurate reliable, information is not guaranteed.