

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.

36,000	+	Rental Income
8,658	-	Operating Expenses
10,899	-	Mortgage Payments
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16,443	=	Cash Flow
71,700	/	Downpayment + Closing Costs
22.9%	=	Return on Investment from Cash Flow

2 **Appreciation**

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

239,000	=	Acquisition Price
5%	*	First Year Appreciation
250,950	=	Value at the end of Year 1.
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11,950	=	Amount of Value Increase
71,700	/	Downpayment + Closing Costs
17%	=	Return on Investment from Appreciation

3 **Equity Build-Up**

4.50% 30 \$ 908.23

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

179,250	=	Loan Amount at Closing
176,358	=	Loan Amount at the end of Year 1
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2,892	-	Equity Build-Up in Year 1
71,700	/	Downpayment + Closing Costs
4.0%	=	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.

27,342	=	Cash Flow Before Loan Payments (rents less expenses)
6,772	-	Depreciation (assumes 15% land, 30 year recovery)
8,007	-	Mortgage Interest
12,563	=	Taxable Income Year 1
10,050		Less 20% Exclusion for LLC Ownership under new tax law
37%	*	Marginal Tax Rate
3,718.59	=	Federal Income Tax
3,719		Federal Income Tax
16,443	/	Cash Flow
22.6%	=	Effective Tax Rate on This Investment
6,084	=	Tax if Cash Flow came from a non-preferred investment vehicle
3,719	-	Tax from this preferred investment vehicle.
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2,365	=	Income Tax Savings
3.3%		Return on Investment from Tax Savings

Total / Summary

1:	16,443	Cash Flow
2:	11,950	Appreciation Year 1
3:	2,892	Equity Build Up Year 1
4:	2,365	Tax Savings Year 1
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	33,650	Total Return from this Investment
	71,700	Downpayment + Closing Costs
	46.9%	Total Return from this Investment