## 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.

42,792	+	Rental Income
13,442	-	Operating Expenses
9,093	-	Mortgage Payments
20,257	=	Cash Flow
67,500	/	Downpayment + Closing Costs
30.0%	=	Return on Investment from Cash Flow

# 2 Appreciation

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

225,000	=	Acquisiton Price
5%	*	First Year Appreciation
236,250	=	Value at the end of Year 1.
11,250	=	Amount of Value Increase
67,500	/	Downpayment + Closing Costs
17%	=	Return on Investment from Appreciation

## 3 Equity Build-Up

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

:	Loan Amount at Closing
:	Loan Amount at the end of Year 1
	Equity Build-Up in Year 1
	Downpayment + Closing Costs
:	Return on Investment from Equity Build-Up
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#### 4 Tax Benefits

One pays less income taxes on a real estate investment than on other investment vehicles.

29,350	) =	Cash Flow Before Loan Payments (rents less expenses)
6,955	5 -	Depreciation (assumes 15% land, 27.5 year recovery)
5,855	5 -	Mortgage Interest
16,541	=	Taxable Income Year 1
33%	<b>6</b> *	Marginal Tax Rate
5,458	3 =	Federal Income Tax
5,458	3	Federal Income Tax
20,257	7 /	Cash Flow
26.9%	% =	Effective Tax Rate on This Investment
6,685	5 =	Tax if Cash Flow came from a non-preferred investment vehicle
5,458	3 -	Tax from this preferred investment vehicle.
1,226	) =	Income Tax Savings
1.8%	6	Return on Investment from Tax Savings

#### Total / Summary

1:	20,257	Cash Flow
2:	11,250	Appreciation Year 1
3:	3,239	Equity Build Up Year 1
<b>4</b> :	1,226	Tax Savings Year 1
	35,972	Total Return from this Investment
	67,500	Downpayment + Closing Costs
	53.3%	Total Return from this Investment

			Illustration of				~	d			
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Purchase Price	225,000	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>		<u>2022</u>	<u>2023</u>		<u>2025</u>
Annual Rent	4.0%	42,792	44,504	46,284	48,135	50,061	52,063	54,146	56,311	58,564	60,906
Expenses	4.0%	13,442	13,980	14,539	15,121	15,725	16,354	17,009	17,689	18,397	19,132
Exp as a percent of Ann	1	31%	31%	31%	31%	31%			31%		31%
Exp per unit	4	3,361	3,495	3,635	3,780	3,931	4,089	4,252	4,422	4,599	4,783
NOI	0	29,350	30,524	31,745	33,015	34,335	35,709	37,137	38,622	40,167	41,774
Debt Service	\$ 758	9,093	9,093	9,093	9,093	9,093	9,093	9,093	9,093	9,093	9,093
Before Tax Cash Flow	(67,500)	20,257	21,431	22,652	23,921	25,242	26,615	28,044	29,529	31,074	203,053
36.8%	Internal Rate of	Return									
NOI		29,350	30,524	31,745	33,015	34,335	35,709	37,137	38,622	40,167	41,774
Less Interest		5,855	5,739	5,620	5,497	5,369	5,236	5,099	4,957	4,810	4,658
Less Depreciation		6,545	6,545	6,545	6,545	6,545	6,545	6,545	6,545	6,545	6,545
Taxable Income	0	16,950	18,239	19,579	20,972	22,421	23,927	25,492	27,120	28,812	30,571
Tax @	25%	4,237	4,560	4,895	5,243	5,605	5,982	6,373	6,780	7,203	7,643
After Tax Cash Flow	(67,500)	16,019	16,871	17,757	18,678	19,637	20,634	21,671	22,749	23,871	167,114
29.8%	Internal Rate of	Return									
Purchase	225,000							Assume a Sa	le at End of \	<u>Year 10</u>	
	225,000 75%							Annual Rent F		<u>Year 10</u>	60,906
Purchase	225,000 75% 168,750									Year 10	5.3
Purchase L-V	225,000 75%				annua	I appreciation	3.6%	Annual Rent F GRM Price			5.3 320,245
Purchase L-V Loan Down Payment Cap Improvement	225,000 75% 168,750 56,250				annua	l appreciation	3.6%	Annual Rent F		<u>Year 10</u>	5.3 320,245 19,215
Purchase L-V Loan Down Payment	225,000 75% 168,750 56,250				annua	I appreciation	3.6%	Annual Rent F GRM Price			5.3 320,245
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment	225,000 75% 168,750 56,250 - 11,250 67,500				annua	l appreciation	3.6%	Annual Rent F GRM Price Sale Costs Less: Basis Gain			5.3 320,245 19,215 159,545 141,485
Purchase L-V Loan Down Payment Cap Improvement Closing Costs	225,000 75% 168,750 56,250 - 11,250 67,500 3.50%				annua	I appreciation	3.6%	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @	रु॥		5.3 320,245 19,215 159,545 141,485 28,297
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term	225,000 75% 168,750 56,250 - 11,250 67,500 3.50% 30				annua	I appreciation	3.6%	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala	Roll	6%	5.3 320,245 19,215 159,545 141,485
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate	225,000 75% 168,750 56,250 - 11,250 67,500 3.50%				annua	I appreciation	3.6%	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @	Roll	6%	5.3 320,245 19,215 159,545 141,485 28,297 130,658 170,373
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term P&I	225,000 75% 168,750 56,250 - 11,250 67,500 3.50% 30 \$757.76				annua	I appreciation	3.6%	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala	Roll  ance s Before Tax	6%	5.3 320,245 19,215 159,545 141,485 28,297 130,658
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term P&I  Mortgage Amortization	225,000 75% 168,750 56,250 - 11,250 67,500 3.50% 30 \$757.76	1	2	3	4	5	6	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala Sale Proceed Sale Proceed	ance s Before Tax s After Tax	20%	5.3 320,245 19,215 159,545 141,485 28,297 130,658 170,373 142,076
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term P&I  Mortgage Amortization 168,750	225,000 75% 168,750 56,250 - 11,250 67,500 3.50% 30 \$757.76		165,511	162,158		5 155,088	6 151,364	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala Sale Proceed Sale Proceed	ance s Before Tax	20%	5.3 320,245 19,215 159,545 141,485 28,297 130,658 170,373 142,076
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term P&I  Mortgage Amortization 168,750 3.50%	225,000 75% 168,750 56,250 - 11,250 67,500 3.50% 30 \$757.76	1 168,750 3,239	165,511 3,354	162,158 3,473	4 158,685 3,597	5 155,088 3,724	6 151,364 3,857	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala Sale Proceed Sale Proceed 7 147,507 3,994	ance s Before Tax s After Tax 8 143,513 4,136	9 139,377 4,283	5.3 320,245 19,215 159,545 141,485 28,297 130,658 170,373 142,076 10 135,093 4,436
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term P&I  Mortgage Amortization 168,750 3.50% 30.0	225,000 75% 168,750 56,250 - 11,250 67,500 3.50% 30 \$757.76 Beg Bal Prin	1 168,750 3,239 5,855	165,511 3,354 5,739	162,158 3,473 5,620	4 158,685 3,597 5,497	5 155,088 3,724 5,369	6 151,364 3,857 5,236	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala Sale Proceed Sale Proceed 7 147,507 3,994 5,099	ance s Before Tax s After Tax 8 143,513 4,136 4,957	9 139,377 4,283 4,810	5.3 320,245 19,215 159,545 141,485 28,297 130,658 170,373 142,076 10 135,093 4,436 4,658
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term P&I  Mortgage Amortization 168,750 3.50% 30.0 758	225,000 75% 168,750 56,250 - 11,250 67,500 3.50% 30 \$757.76 Beg Bal Prin Int Bal EOY	1 168,750 3,239 5,855 165,511	165,511 3,354 5,739 162,158	162,158 3,473 5,620 158,685	4 158,685 3,597 5,497 155,088	5 155,088 3,724 5,369 151,364	6 151,364 3,857 5,236 147,507	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala Sale Proceed Sale Proceed 7 147,507 3,994 5,099 143,513	ance s Before Tax s After Tax 8 143,513 4,136 4,957 139,377	9 139,377 4,283 4,810 135,093	5.3 320,245 19,215 159,545 141,485 28,297 130,658 170,373 142,076 10 135,093 4,436 4,658 130,658
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term P&I  Mortgage Amortization 168,750 3.50% 30.0	225,000 75% 168,750 56,250 - 11,250 67,500 3.50% 30 \$757.76 Beg Bal Prin Int Bal EOY	1 168,750 3,239 5,855 165,511 225,000	165,511 3,354 5,739 162,158 225,000	162,158 3,473 5,620 158,685 Building	4 158,685 3,597 5,497 155,088 80%	5 155,088 3,724 5,369 151,364 180,000	6 151,364 3,857 5,236 147,507 Land	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala Sale Proceed Sale Proceed 7 147,507 3,994 5,099 143,513 20%	ance s Before Tax s After Tax 143,513 4,136 4,957 139,377 45,000	9 139,377 4,283 4,810 135,093 Life	5.3 320,245 19,215 159,545 141,485 28,297 130,658 170,373 142,076 10 135,093 4,436 4,658 130,658
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term P&I  Mortgage Amortization 168,750 3.50% 30.0 758	225,000 75% 168,750 56,250 - 11,250 67,500 3.50% 30 \$757.76 Beg Bal Prin Int Bal EOY	1 168,750 3,239 5,855 165,511	165,511 3,354 5,739 162,158	162,158 3,473 5,620 158,685	4 158,685 3,597 5,497 155,088	5 155,088 3,724 5,369 151,364	6 151,364 3,857 5,236 147,507	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala Sale Proceed Sale Proceed 7 147,507 3,994 5,099 143,513	ance s Before Tax s After Tax 8 143,513 4,136 4,957 139,377	9 139,377 4,283 4,810 135,093	5.3 320,245 19,215 159,545 141,485 28,297 130,658 170,373 142,076 10 135,093 4,436