

## 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.

59,760	+	Rental Income
14,585	-	Operating Expenses
29,885	-	Mortgage Payments
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15,290	=	Cash Flow
202,500	/	Downpayment + Closing Costs
7.6%	=	Return on Investment from Cash Flow

### 2 Appreciation

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

675,000	=	Acquisition Price
5%	*	First Year Appreciation
708,750	=	Value at the end of Year 1.
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33,750	=	Amount of Value Increase
202,500	/	Downpayment + Closing Costs
17%	=	Return on Investment from Appreciation

### 3 Equity Build-Up

4.25% 30 \$ 2,490.45

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

506,250	=	Loan Amount at Closing
497,715	=	Loan Amount at the end of Year 1
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8,535	-	Equity Build-Up in Year 1
202,500	/	Downpayment + Closing Costs
4.2%	=	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.

45,175	=	Cash Flow Before Loan Payments (rents less expenses)
19,125	-	Depreciation (assumes 15% land, 30 year recovery)
21,351	-	Mortgage Interest
4,700	=	Taxable Income Year 1
3,760		Less 20% Exclusion for LLC Ownership under new tax law
37%	*	Marginal Tax Rate
1,391.10	=	Federal Income Tax
1,391		Federal Income Tax
15,290	/	Cash Flow
9.1%	=	Effective Tax Rate on This Investment
5,657	=	Tax if Cash Flow came from a non-preferred investment vehicle
1,391	-	Tax from this preferred investment vehicle.
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4,266	=	Income Tax Savings
2.1%	=	Return on Investment from Tax Savings

### Total / Summary

1:	15,290	Cash Flow
2:	33,750	Appreciation Year 1
3:	8,535	Equity Build Up Year 1
4:	4,266	Tax Savings Year 1
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	61,841	Total Return from this Investment
	202,500	Downpayment + Closing Costs
	30.5%	Total Return from this Investment

**Illustration of Internal Rate of Return over a 10-Year Holding Period**

**2815 SAINT PAUL STREET**

<b>Purchase Price</b>	<b>675,000</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>	<b>2030</b>		<b>2031</b>	<b>2032</b>
Annual Rent	4.0%	59,760	62,150	64,636	67,222	69,911	72,707	75,615	78,640		81,786	85,057
Vacancy	3.0%	1,793	1,865	1,939	2,017	2,097	2,181	2,268	2,359		2,454	2,552
Effective Income		57,967	60,286	62,697	65,205	67,813	70,526	73,347	76,281		79,332	82,505
Expenses	4.0%	14,585	15,168	15,775	16,406	17,062	17,745	18,454	19,192		19,960	20,759
Exp as a percent of Annual Rent		25%	25%	25%	25%	25%	25%	25%	25%		25%	25%
Exp per unit	3	4,862	5,056	5,258	5,469	5,687	5,915	6,151	6,397		6,653	6,920
NOI	0	43,383	45,118	46,923	48,799	50,751	52,781	54,893	57,088		59,372	61,747
Debt Service	\$ 2,490	29,885	29,885	29,885	29,885	29,885	29,885	29,885	29,885		29,885	29,885
<b>Before Tax Cash Flow</b>	<b>(202,500)</b>	<b>13,497</b>	<b>15,232</b>	<b>17,037</b>	<b>18,914</b>	<b>20,866</b>	<b>22,896</b>	<b>25,007</b>	<b>27,203</b>		<b>29,487</b>	<b>576,500</b>
<b>17.2% Internal Rate of Return</b>												
NOI		43,383	45,118	46,923	48,799	50,751	52,781	54,893	57,088		59,372	61,747
Less Interest		21,351	20,981	20,595	20,192	19,772	19,334	18,877	18,400		17,902	17,382
Less Depreciation		18,000	18,000	18,000	18,000	18,000	18,000	18,000	18,000		18,000	18,000
Taxable Income to Individuals		4,032	6,137	8,328	10,607	12,979	15,448	18,016	20,689		23,470	26,364
Pass Thru Entity	20%	(806)	(1,227)	(1,666)	(2,121)	(2,596)	(3,090)	(3,603)	(4,138)		(4,694)	(5,273)
Taxable Income	0	3,225	4,910	6,662	8,486	10,383	12,358	14,413	16,551		18,776	21,092
Tax @ *	37%	1,193	1,817	2,465	3,140	3,842	4,572	5,333	6,124		6,947	7,804
<b>After Tax Cash Flow</b>	<b>(202,500)</b>	<b>12,304</b>	<b>13,416</b>	<b>14,572</b>	<b>15,774</b>	<b>17,024</b>	<b>18,324</b>	<b>19,675</b>	<b>21,079</b>		<b>22,539</b>	<b>478,332</b>
<b>14.4% Internal Rate of Return</b>												
Purchase	675,000							<b>Assume a Sale at End of Year 10</b>				
L-V	75%							Annual Rent Roll				
Loan	506,250							GRM				
Down Payment	168,750							Price				
Cap Improvement	-							Sale Costs				
Closing Costs	33,750							Less: Basis				
Initial Investment	202,500							Gain				
Rate	4.25%							Tax @				
Term	30							Mortgage Balance				
P&I	\$2,490.45							Sale Proceeds Before Tax				
								Sale Proceeds After Tax				
<b>Mortgage Amortization</b>		1	2	3	4	5	6	7	8		9	10
506,250 Beg Bal		506,250	497,715	488,811	479,520	469,827	459,714	449,162	438,154		426,668	414,684
4.25% Prin		8,535	8,905	9,290	9,693	10,113	10,551	11,009	11,486		11,984	12,503
30.0 Int		21,351	20,981	20,595	20,192	19,772	19,334	18,877	18,400		17,902	17,382
2,490 Bal EOY		497,715	488,811	479,520	469,827	459,714	449,162	438,154	426,668		414,684	402,181
<b>Cost Recovery / Depreciation</b>		675,000	675,000	Building	80%	540,000	Land	20%	135,000		Life	30
		18,000	18,000	18,000	18,000	18,000	18,000	18,000	18,000		18,000	18,000
Basis		657,000	639,000	621,000	603,000	585,000	567,000	549,000	531,000		513,000	495,000
* Tax rate of 35% applies to income of \$200,001 to \$500,000 for singles; \$400,001 to \$600,000 for married filing jointly. Marginal rate above \$500k/\$600k is 37%.												