

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.

59,400	+	Rental Income
12,135	-	Operating Expenses
31,938	-	Mortgage Payments
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15,327	=	Cash Flow
187,500	/	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.

625,000	=	Acquisition Price
5%	*	First Year Appreciation
656,250	=	Value at the end of Year 1.
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31,250	=	Amount of Value Increase
187,500	/	Downpayment + Closing Costs
17%	=	Return on Investment from Appreciation

3 **Equity Build-Up**

5.50% 30 \$ 2,661.51

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

468,750	=	Loan Amount at Closing
462,436	=	Loan Amount at the end of Year 1
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6,314	-	Equity Build-Up in Year 1
187,500	/	Downpayment + Closing Costs
3.4%	=	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.

47,265	=	Cash Flow Before Loan Payments (rents less expenses)
17,708	-	Depreciation (assumes 15% land, 30 year recovery)
25,624	-	Mortgage Interest
3,933	=	Taxable Income Year 1
3,146	=	Less 20% Exclusion for LLC Ownership under new tax law
37%	*	Marginal Tax Rate
1,164.17	=	Federal Income Tax
1,164	=	Federal Income Tax
15,327	/	Cash Flow
7.6%	=	Effective Tax Rate on This Investment
5,671	=	Tax if Cash Flow came from a non-preferred investment vehicle
1,164	-	Tax from this preferred investment vehicle.
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4,507	=	Income Tax Savings
2.4%	=	Return on Investment from Tax Savings

Total / Summary

1:	15,327	Cash Flow
2:	31,250	Appreciation Year 1
3:	6,314	Equity Build Up Year 1
4:	4,507	Tax Savings Year 1
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	57,398	Total Return from this Investment
	187,500	Downpayment + Closing Costs
	30.6%	Total Return from this Investment

Illustration of Internal Rate of Return over a 10-Year Holding Period
3425 KESWICK ROAD

Purchase Price	625,000	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Annual Rent	4.0%	59,400	61,776	64,247	66,817	69,490	72,269	75,160	78,166	81,293	84,545
Vacancy	3.0%	1,782	1,853	1,927	2,005	2,085	2,168	2,255	2,345	2,439	2,536
Effective Income		57,618	59,923	62,320	64,812	67,405	70,101	72,905	75,821	78,854	82,008
Expenses	4.0%	12,135	12,620	13,125	13,650	14,196	14,764	15,355	15,969	16,608	17,272
Exp as a percent of Annual Rent		21%	21%	21%	21%	21%	21%	21%	21%	21%	21%
Exp per unit	3	4,045	4,207	4,375	4,550	4,732	4,921	5,118	5,323	5,536	5,757
NOI	0	45,483	47,302	49,194	51,162	53,209	55,337	57,551	59,853	62,247	64,736
Debt Service	\$ 2,662	31,938	31,938	31,938	31,938	31,938	31,938	31,938	31,938	31,938	31,938
Before Tax Cash Flow	(187,500)	13,545	15,364	17,256	19,224	21,271	23,399	25,612	27,914	30,308	482,083
16.9% Internal Rate of Return											
NOI		45,483	47,302	49,194	51,162	53,209	55,337	57,551	59,853	62,247	64,736
Less Interest		25,624	25,267	24,891	24,494	24,074	23,630	23,162	22,666	22,143	21,591
Less Depreciation		16,667	16,667	16,667	16,667	16,667	16,667	16,667	16,667	16,667	16,667
Taxable Income to Individuals		3,193	5,368	7,637	10,002	12,468	15,040	17,722	20,519	23,437	26,479
Pass Thru Entity	20%	(639)	(1,074)	(1,527)	(2,000)	(2,494)	(3,008)	(3,544)	(4,104)	(4,687)	(5,296)
Taxable Income	0	2,554	4,295	6,109	8,001	9,975	12,032	14,178	16,416	18,749	21,183
Tax @ *	37%	945	1,589	2,260	2,961	3,691	4,452	5,246	6,074	6,937	7,838
After Tax Cash Flow	(187,500)	12,600	13,775	14,996	16,264	17,580	18,947	20,367	21,841	23,371	398,673
14.2% Internal Rate of Return											
Purchase	625,000							Assume a Sale at End of Year 10			
L-V	75%							Annual Rent Roll			84,545
Loan	468,750							GRM			10.5
Down Payment	156,250							Price			889,570
Cap Improvement	-							Sale Costs		6%	53,374
Closing Costs	31,250							Less: Basis			458,333
Initial Investment	187,500							Gain			377,862
Rate	5.50%							Tax @		20%	75,572
Term	30							Mortgage Balance			386,911
P&I	\$2,661.51							Sale Proceeds Before Tax			449,285
								Sale Proceeds After Tax			373,712
Mortgage Amortization		1	2	3	4	5	6	7	8	9	10
468,750 Beg Bal		468,750	462,436	455,765	448,718	441,273	433,409	425,101	416,324	407,053	397,258
5.50% Prin		6,314	6,671	7,047	7,444	7,864	8,308	8,777	9,272	9,795	10,347
30.0 Int		25,624	25,267	24,891	24,494	24,074	23,630	23,162	22,666	22,143	21,591
2,662 Bal EOY		462,436	455,765	448,718	441,273	433,409	425,101	416,324	407,053	397,258	386,911
Cost Recovery / Depreciation		625,000	625,000	Building	80%	500,000	Land	20%	125,000	Life	30
		16,667	16,667	16,667	16,667	16,667	16,667	16,667	16,667	16,667	16,667
Basis		608,333	591,667	575,000	558,333	541,667	525,000	508,333	491,667	475,000	458,333
* 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%.											