

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.

44,400	+	Rental Income
13,415	-	Operating Expenses
20,185	-	Mortgage Payments
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10,800	=	Cash Flow
118,500	/	Downpayment + Closing Costs
9.1%	=	Return on Investment from Cash Flow

2 Appreciation

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

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

3 Equity Build-Up

5.50% 30 \$ 1,682.07

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

296,250	=	Loan Amount at Closing
292,259	=	Loan Amount at the end of Year 1
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3,991	-	Equity Build-Up in Year 1
118,500	/	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.

30,985	=	Cash Flow Before Loan Payments (rents less expenses)
11,192	-	Depreciation (assumes 15% land, 30 year recovery)
16,194	-	Mortgage Interest
3,599	=	Taxable Income Year 1
2,879		Less 20% Exclusion for LLC Ownership under new tax law
37%	*	Marginal Tax Rate
1,065.22	=	Federal Income Tax
1,065		Federal Income Tax
10,800	/	Cash Flow
9.9%	=	Effective Tax Rate on This Investment
3,996	=	Tax if Cash Flow came from a non-preferred investment vehicle
1,065	-	Tax from this preferred investment vehicle.
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2,931	=	Income Tax Savings
2.5%		Return on Investment from Tax Savings

Total / Summary

1:	10,800	Cash Flow
2:	19,750	Appreciation Year 1
3:	3,991	Equity Build Up Year 1
4:	2,931	Tax Savings Year 1
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	37,471	Total Return from this Investment
	118,500	Downpayment + Closing Costs
	31.6%	Total Return from this Investment

**Illustration of Internal Rate of Return over a 10-Year Holding Period
2522 NORTH CALVERT STREET**

Purchase Price	395,000	2023	2024	2025	2026	2027	2028	2029	2030		2031	2032
Annual Rent	4.0%	44,400	46,176	48,023	49,944	51,942	54,019	56,180	58,427		60,764	63,195
Vacancy	3.0%	1,332	1,385	1,441	1,498	1,558	1,621	1,685	1,753		1,823	1,896
Effective Income		43,068	44,791	46,582	48,446	50,383	52,399	54,495	56,675		58,942	61,299
Expenses	4.0%	13,415	13,952	14,510	15,091	15,694	16,322	16,975	17,654		18,360	19,094
Exp as a percent of Annual Rent		31%	31%	31%	31%	31%	31%	31%	31%		31%	31%
Exp per unit	3	4,472	4,651	4,837	5,030	5,231	5,441	5,658	5,885		6,120	6,365
NOI	0	29,653	30,839	32,072	33,355	34,689	36,077	37,520	39,021		40,582	42,205
Debt Service	\$ 1,682	20,185	20,185	20,185	20,185	20,185	20,185	20,185	20,185		20,185	20,185
Before Tax Cash Flow	(118,500)	9,468	10,654	11,887	13,170	14,504	15,892	17,335	18,836		20,397	313,207
17.8% Internal Rate of Return												
NOI		29,653	30,839	32,072	33,355	34,689	36,077	37,520	39,021		40,582	42,205
Less Interest		16,194	15,969	15,731	15,480	15,215	14,934	14,638	14,325		13,995	13,645
Less Depreciation		10,533	10,533	10,533	10,533	10,533	10,533	10,533	10,533		10,533	10,533
Taxable Income to Individuals		2,925	4,336	5,808	7,342	8,941	10,609	12,349	14,162		16,054	18,026
Pass Thru Entity	20%	(585)	(867)	(1,162)	(1,468)	(1,788)	(2,122)	(2,470)	(2,832)		(3,211)	(3,605)
Taxable Income	0	2,340	3,469	4,646	5,873	7,153	8,487	9,879	11,330		12,843	14,421
Tax @ *	37%	866	1,284	1,719	2,173	2,647	3,140	3,655	4,192		4,752	5,336
After Tax Cash Flow	(118,500)	8,602	9,370	10,168	10,997	11,858	12,752	13,680	14,644		15,645	258,662
14.8% Internal Rate of Return												
Purchase	395,000											
L-V	75%											
Loan	296,250											
Down Payment	98,750											
Cap Improvement	-											
Closing Costs	19,750											
Initial Investment	118,500											
Rate	5.50%											
Term	30											
P&I	\$1,682.07											
										Assume a Sale at End of Year 10		
										Annual Rent Roll		63,195
										GRM		9.0
										Price		569,910
										Sale Costs		6%
										Less: Basis		289,667
										Gain		246,048
										Tax @		20%
										Mortgage Balance		244,528
										Sale Proceeds Before Tax		291,187
										Sale Proceeds After Tax		241,978
Mortgage Amortization		1	2	3	4	5	6	7	8		9	10
296,250 Beg Bal		296,250	292,259	288,043	283,590	278,885	273,915	268,664	263,117		257,257	251,067
5.50% Prin		3,991	4,216	4,454	4,705	4,970	5,251	5,547	5,860		6,190	6,539
30.0 Int		16,194	15,969	15,731	15,480	15,215	14,934	14,638	14,325		13,995	13,645
1,682 Bal EOY		292,259	288,043	283,590	278,885	273,915	268,664	263,117	257,257		251,067	244,528
Cost Recovery / Depreciation		395,000	395,000	Building	80%	316,000	Land	20%	79,000		Life	30
		10,533	10,533	10,533	10,533	10,533	10,533	10,533	10,533		10,533	10,533
Basis		384,467	373,933	363,400	352,867	342,333	331,800	321,267	310,733		300,200	289,667

* 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%.