

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.

159,666	+	Rental Income
48,568	-	Operating Expenses
75,961	-	Mortgage Payments
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35,136	=	Cash Flow
375,000	/	Downpayment + Closing Costs
9.4%	=	Return on Investment from Cash Flow

2 Appreciation

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

1,250,000	=	Acquisition Price
5%	*	First Year Appreciation
1,312,500	=	Value at the end of Year 1.
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62,500	=	Amount of Value Increase
375,000	/	Downpayment + Closing Costs
17%	=	Return on Investment from Appreciation

3 Equity Build-Up

6.50% 25 \$ 6,330.07

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

937,500	=	Loan Amount at Closing
922,021	=	Loan Amount at the end of Year 1
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15,479	-	Equity Build-Up in Year 1
375,000	/	Downpayment + Closing Costs
4.1%	=	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.

111,097	=	Cash Flow Before Loan Payments (rents less expenses)
35,417	-	Depreciation (assumes 15% land, 30 year recovery)
60,482	-	Mortgage Interest
15,199	=	Taxable Income Year 1
12,159		Less 20% Exclusion for LLC Ownership under new tax law
37%	*	Marginal Tax Rate
4,498.83	=	Federal Income Tax
4,499		Federal Income Tax
35,136	/	Cash Flow
12.8%	=	Effective Tax Rate on This Investment
13,000	=	Tax if Cash Flow came from a non-preferred investment vehicle
4,499	-	Tax from this preferred investment vehicle.
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8,502	=	Income Tax Savings
2.3%		Return on Investment from Tax Savings

Total / Summary

1:	35,136	Cash Flow
2:	62,500	Appreciation Year 1
3:	15,479	Equity Build Up Year 1
4:	8,502	Tax Savings Year 1
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	121,617	Total Return from this Investment
	375,000	Downpayment + Closing Costs
	32.4%	Total Return from this Investment

