

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.

88,932	+	Rental Income
20,310	-	Operating Expenses
48,999	-	Mortgage Payments
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19,622	=	Cash Flow
243,000	/	Downpayment + Closing Costs
8.1%	=	Return on Investment from Cash Flow

2 Appreciation

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

635,000	=	Acquisition Price
5%	*	First Year Appreciation
666,750	=	Value at the end of Year 1.
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31,750	=	Amount of Value Increase
243,000	/	Downpayment + Closing Costs
13%	=	Return on Investment from Appreciation

3 Equity Build-Up

6.00% 25 \$ 4,083.26

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

633,750	=	Loan Amount at Closing
622,469	=	Loan Amount at the end of Year 1
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11,281	-	Equity Build-Up in Year 1
243,000	/	Downpayment + Closing Costs
4.6%	=	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.

68,622	=	Cash Flow Before Loan Payments (rents less expenses)
17,992	-	Depreciation (assumes 15% land, 30 year recovery)
37,718	-	Mortgage Interest
12,912	=	Taxable Income Year 1
10,329	=	Less 20% Exclusion for LLC Ownership under new tax law
37%	*	Marginal Tax Rate
3,821.90	=	Federal Income Tax
3,822	=	Federal Income Tax
19,622	/	Cash Flow
19.5%	=	Effective Tax Rate on This Investment
7,260	=	Tax if Cash Flow came from a non-preferred investment vehicle
3,822	-	Tax from this preferred investment vehicle.
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3,438	=	Income Tax Savings
1.4%	=	Return on Investment from Tax Savings

Total / Summary

1:	19,622	Cash Flow
2:	31,750	Appreciation Year 1
3:	11,281	Equity Build Up Year 1
4:	3,438	Tax Savings Year 1
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	66,092	Total Return from this Investment
	243,000	Downpayment + Closing Costs
	27.2%	Total Return from this Investment

Illustration of Internal Rate of Return over a 10-Year Holding Period
111 WEST 29TH STREET

Purchase Price	635,000	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Annual Rent	7.0%	88,932	95,157	101,818	108,946	116,572	124,732	133,463	142,805	152,802	163,498
Vacancy	3.0%	2,668	2,855	3,055	3,268	3,497	3,742	4,004	4,284	4,584	4,905
Effective Income		86,264	92,303	98,764	105,677	113,075	120,990	129,459	138,521	148,218	158,593
Expenses	7.0%	20,310	21,732	23,253	24,881	26,623	28,486	30,480	32,614	34,897	37,340
Exp as a percent of Annual Rent		24%	24%	24%	24%	24%	24%	24%	24%	24%	24%
Exp per unit	6	3,385	3,622	3,876	4,147	4,437	4,748	5,080	5,436	5,816	6,223
NOI	0	65,954	70,570	75,510	80,796	86,452	92,503	98,979	105,907	113,321	121,253
Debt Service	\$ 4,083	48,999	48,999	48,999	48,999	48,999	48,999	48,999	48,999	48,999	48,999
Before Tax Cash Flow	(243,000)	16,955	21,571	26,511	31,797	37,453	43,504	49,980	56,908	64,322	685,750
19.8% Internal Rate of Return											

NOI		65,954	70,570	75,510	80,796	86,452	92,503	98,979	105,907	113,321	121,253
Less Interest		37,718	37,022	36,284	35,499	34,667	33,783	32,844	31,848	30,790	29,667
Less Depreciation		22,533	22,533	22,533	22,533	22,533	22,533	22,533	22,533	22,533	22,533
Taxable Income to Individuals		5,702	11,015	16,693	22,763	29,252	36,187	43,601	51,526	59,997	69,053
Pass Thru Entity	20%	(1,140)	(2,203)	(3,339)	(4,553)	(5,850)	(7,237)	(8,720)	(10,305)	(11,999)	(13,811)
Taxable Income	0	4,562	8,812	13,355	18,211	23,401	28,950	34,881	41,221	47,998	55,242
Tax @ *	37%	1,688	3,260	4,941	6,738	8,659	10,711	12,906	15,252	17,759	20,440
After Tax Cash Flow	(243,000)	15,267	18,311	21,570	25,059	28,794	32,793	37,074	41,656	46,562	569,768
16.4% Internal Rate of Return											

		Assume a Sale at End of Year 10										
Purchase	845,000										Annual Rent Roll	163,498
L-V	75%										GRM	7.1
Loan	633,750										Price	1,167,422
Down Payment	211,250					annual appreciation	3.3%				Sale Costs	6% 70,045
Cap Improvement	-										Less: Basis	619,667
Closing Costs	31,750										Gain	477,710
Initial Investment	243,000										Tax @	20% 95,542
Rate	6.00%										Mortgage Balance	483,881
Term	25										Sale Proceeds Before Tax	613,496
P&I	\$4,083.26										Sale Proceeds After Tax	517,954
Mortgage Amortization		1	2	3	4	5	6	7	8	9	10	
633,750	Beg Bal	633,750	622,469	610,492	597,777	584,277	569,945	554,728	538,573	521,422	503,213	
6.00%	Prin	11,281	11,977	12,715	13,500	14,332	15,216	16,155	17,151	18,209	19,332	
25.0	Int	37,718	37,022	36,284	35,499	34,667	33,783	32,844	31,848	30,790	29,667	
4,083	Bal EOY	622,469	610,492	597,777	584,277	569,945	554,728	538,573	521,422	503,213	483,881	
Cost Recovery / Depreciation		845,000	845,000	Building	80%	676,000	Land	20%	169,000	Life	30	
		22,533	22,533	22,533	22,533	22,533	22,533	22,533	22,533	22,533	22,533	
Basis		822,467	799,933	777,400	754,867	732,333	709,800	687,267	664,733	642,200	619,667	

* 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%.