

## 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.

113,664	+	Rental Income
38,776	-	Operating Expenses
54,388	-	Mortgage Payments
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20,500	=	Cash Flow
268,500	/	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.

895,000	=	Acquisition Price
5%	*	First Year Appreciation
939,750	=	Value at the end of Year 1.
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44,750	=	Amount of Value Increase
268,500	/	Downpayment + Closing Costs
17%	=	Return on Investment from Appreciation

### 3 Equity Build-Up

6.50%      25 \$      4,532.33

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

671,250	=	Loan Amount at Closing
660,167	=	Loan Amount at the end of Year 1
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11,083	-	Equity Build-Up in Year 1
268,500	/	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.

74,888	=	Cash Flow Before Loan Payments (rents less expenses)
25,358	-	Depreciation (assumes 15% land, 30 year recovery)
43,305	-	Mortgage Interest
6,225	=	Taxable Income Year 1
4,980		Less 20% Exclusion for LLC Ownership under new tax law
37%	*	Marginal Tax Rate
1,842.49	=	Federal Income Tax
1,842		Federal Income Tax
20,500	/	Cash Flow
9.0%	=	Effective Tax Rate on This Investment
7,585	=	Tax if Cash Flow came from a non-preferred investment vehicle
1,842	-	Tax from this preferred investment vehicle.
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5,742	=	Income Tax Savings
2.1%		Return on Investment from Tax Savings

### Total / Summary

1:	20,500	Cash Flow
2:	44,750	Appreciation Year 1
3:	11,083	Equity Build Up Year 1
4:	5,742	Tax Savings Year 1
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	82,075	Total Return from this Investment
	268,500	Downpayment + Closing Costs
	30.6%	Total Return from this Investment

**Illustration of Internal Rate of Return over a 10-Year Holding Period  
20-22 WEST 25TH STREET**

Purchase Price	895,000	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Annual Rent	7.0%	117,179	125,382	134,158	143,549	153,598	164,350	175,854	188,164	201,335	215,429
Vacancy	3.0%	3,515	3,761	4,025	4,306	4,608	4,930	5,276	5,645	6,040	6,463
Effective Income		113,664	121,620	130,134	139,243	148,990	159,419	170,579	182,519	195,295	208,966
Expenses	7.0%	38,776	41,490	44,394	47,502	50,827	54,385	58,192	62,265	66,624	71,288
Exp as a percent of Annual Rent		34%	34%	34%	34%	34%	34%	34%	34%	34%	34%
Exp per unit	7	5,539	5,927	6,342	6,786	7,261	7,769	8,313	8,895	9,518	10,184
NOI	0	74,888	80,130	85,739	91,741	98,163	105,034	112,387	120,254	128,671	137,678
Debt Service	\$ 4,532	54,388	54,388	54,388	54,388	54,388	54,388	54,388	54,388	54,388	54,388
<b>Before Tax Cash Flow</b>	<b>(268,500)</b>	<b>20,500</b>	<b>25,742</b>	<b>31,351</b>	<b>37,353</b>	<b>43,775</b>	<b>50,646</b>	<b>57,999</b>	<b>65,866</b>	<b>74,283</b>	<b>1,157,527</b>
<b>23.7% Internal Rate of Return</b>											

NOI		74,888	80,130	85,739	91,741	98,163	105,034	112,387	120,254	128,671	137,678
Less Interest		43,305	42,563	41,771	40,926	40,024	39,062	38,036	36,941	35,772	34,525
Less Depreciation		23,867	23,867	23,867	23,867	23,867	23,867	23,867	23,867	23,867	23,867
Taxable Income to Individuals		7,716	13,701	20,102	26,949	34,272	42,105	50,484	59,446	69,033	79,286
Pass Thru Entity	20%	(1,543)	(2,740)	(4,020)	(5,390)	(6,854)	(8,421)	(10,097)	(11,889)	(13,807)	(15,857)
Taxable Income	0	6,173	10,961	16,081	21,559	27,418	33,684	40,387	47,557	55,226	63,429
Tax @ *	37%	2,284	4,055	5,950	7,977	10,145	12,463	14,943	17,596	20,434	23,469
<b>After Tax Cash Flow</b>	<b>(268,500)</b>	<b>18,216</b>	<b>21,687</b>	<b>25,401</b>	<b>29,376</b>	<b>33,630</b>	<b>38,183</b>	<b>43,055</b>	<b>48,270</b>	<b>53,850</b>	<b>946,419</b>
<b>20.2% Internal Rate of Return</b>											

Purchase	895,000										<b>Assume a Sale at End of Year 10</b>	
L-V	75%										Annual Rent Roll	215,429
Loan	671,250										GRM	7.9
Down Payment	223,750					annual appreciation	6.6%				Price	1,696,310
Cap Improvement	-										Sale Costs	6% 101,779
Closing Costs	44,750										Less: Basis	656,333
Initial Investment	268,500										Gain	938,198
Rate	6.50%										Tax @	20% 187,640
Term	25										Mortgage Balance	520,295
P&I	\$4,532.33										Sale Proceeds Before Tax	1,074,237
											Sale Proceeds After Tax	886,597

Mortgage Amortization		1	2	3	4	5	6	7	8	9	10
671,250 Beg Bal		671,250	660,167	648,342	635,725	622,262	607,899	592,573	576,221	558,773	540,158
6.50% Prin		11,083	11,825	12,617	13,462	14,364	15,326	16,352	17,447	18,616	19,863
25.0 Int		43,305	42,563	41,771	40,926	40,024	39,062	38,036	36,941	35,772	34,525
4,532 Bal EOY		660,167	648,342	635,725	622,262	607,899	592,573	576,221	558,773	540,158	520,295
<b>Cost Recovery / Depreciation</b>		895,000	895,000	Building	80%	716,000	Land	20%	179,000	<b>Life</b>	<b>30</b>
		23,867	23,867	23,867	23,867	23,867	23,867	23,867	23,867	23,867	23,867
Basis		871,133	847,267	823,400	799,533	775,667	751,800	727,933	704,067	680,200	656,333

\* 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%.