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.

		_	
	49,200	+	Rental Income
	18,413	-	Operating Expenses
	22,470	-	Mortgage Payments
Ī	8,317	=	Cash Flow
	118,500	/	Downpayment + Closing Costs
	7.0%	=	Return on Investment from Cash Flow

2 Appreciation

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

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

3 Equity Build-Up 6.50% 30 \$ 1,872.50

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

296,250	=	Loan Amount at Closing
292,939	=	Loan Amount at the end of Year 1
3,311	-	Equity Build-Up in Year 1
118,500	/	Downpayment + Closing Costs
2.8%	=	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.

30,787	=	Cash Flow Before Loan Payments (rents less expenses)
12,209	-	Depreciation (assumes 15% land, 27.5 year recovery)
19,159	-	Mortgage Interest
(581)	=	Taxable Income Year 1
33%	*	Marginal Tax Rate
(192)	=	Federal Income Tax
(192)		Federal Income Tax
8,317	/	Cash Flow
-2.3%	=	Effective Tax Rate on This Investment
2,745	=	Tax if Cash Flow came from a non-preferred investment vehicle
(192)	-	Tax from this preferred investment vehicle.
2,936	=	Income Tax Savings
2.5%		Return on Investment from Tax Savings

Total / Summary

1:	8,317	Cash Flow
2:	19,750	Appreciation Year 1
3:	3,311	Equity Build Up Year 1
4 :	2,936	Tax Savings Year 1
	34,315	Total Return from this Investment
	118,500	Downpayment + Closing Costs
	29.0%	Total Return from this Investment

			Illustration of		of Return ove		dolding Period	d			
Purchase Price	395,000	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Annual Rent	7.0%	49,200	52,644	56,329	60,272	64,491	69,006	73,836	79,004	84,535	90,452
Expenses	7.0%	18,413	19,702	21,081	22,556	24,135	25,825	27,633	29,567	31,636	33,851
Exp as a percent of Ann	ual Rent	37%	37%	37%	37%	37%	37%	37%	37%	37%	37%
Exp per unit	2	9,206	9,851	10,540	11,278	12,068	12,912	13,816	14,783	15,818	16,926
NOI	0	30,787	32,942	35,248	37,716	40,356	43,181	46,203	49,438	52,898	56,601
Debt Service	\$ 1,873	22,470	22,470	22,470	22,470	22,470	22,470	22,470	22,470	22,470	22,470
Before Tax Cash Flow	(118,500)	8,317	10,472	12,778	15,246	17,886	20,711	23,733	26,968	30,428	465,602
22.3%	Internal Rate of	Return									
NOI		30,787	32,942	35,248	37,716	40,356	43,181	46,203	49,438	52,898	56,601
Less Interest		19,159	18,937	18,700	18,448	18,179	17,891	17,584	17,257	16,908	16,536
Less Depreciation		11,491	11,491	11,491	11,491	11,491	11,491	11,491	11,491	11,491	11,491
Taxable Income	0	138	2,514	5,057	7,777	10,686	13,799	17,128	20,689	24,499	28,575
Tax @	25%	34	629	1,264	1,944	2,672	3,450	4,282	5,172	6,125	7,144
After Tax Cash Flow	(118,500)	8,283	9,844	11,514	13,301	15,214	17,261	19,451	21,795	24,303	377,952
10.5%	Internal Rate of	Doturn									
19.5 /0	internal Nate of	Return									
Purchase	395,000	Return						Assume a Sa	le at End of \	Year 10	
		Return						Assume a Sa Annual Rent F		<u>Year 10</u>	90,452
Purchase	395,000	Return								Year 10	90,452
Purchase L-V	395,000 75%	Ketum			annua	l appreciation	6.3%	Annual Rent F GRM Price			8.0 726,191
Purchase L-V Loan Down Payment Cap Improvement	395,000 75% 296,250 98,750	Return			annua	l appreciation	6.3%	Annual Rent F GRM		Year 10 6%	8.0 726,191 43,571
Purchase L-V Loan Down Payment Cap Improvement Closing Costs	395,000 75% 296,250 98,750 - 19,750	Return			annua	l appreciation	6.3%	Annual Rent F GRM Price Sale Costs Less: Basis			8.0 726,191 43,571 280,091
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment	395,000 75% 296,250 98,750 - 19,750 118,500	Return			annua	l appreciation	6.3%	Annual Rent F GRM Price Sale Costs Less: Basis Gain		6%	8.0 726,191 43,571 280,091 402,529
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate	395,000 75% 296,250 98,750 - 19,750 118,500 6.50%	Return			annua	l appreciation	6.3%	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @	रु॥		8.0 726,191 43,571 280,091 402,529 80,506
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term	395,000 75% 296,250 98,750 - 19,750 118,500 6.50%	Return			annua	l appreciation	6.3%	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala	Roll	6%	8.0 726,191 43,571 280,091 402,529 80,506 251,149
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate	395,000 75% 296,250 98,750 - 19,750 118,500 6.50%	Return			annua	l appreciation	6.3%	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala Sale Proceed	Roll ance s Before Tax	6%	8.0 726,191 43,571 280,091 402,529 80,506 251,149 431,471
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term P&I	395,000 75% 296,250 98,750 - 19,750 118,500 6.50% 30 \$1,872.50							Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala Sale Proceed: Sale Proceed:	ance s Before Tax	20%	8.0 726,191 43,571 280,091 402,529 80,506 251,149 431,471 350,965
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term P&I Mortgage Amortization	395,000 75% 296,250 98,750 - 19,750 118,500 6.50% 30 \$1,872.50	1	2	3	4	5	6	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala Sale Proceed: Sale Proceed:	ance s Before Tax s After Tax	20%	8.0 726,191 43,571 280,091 402,529 80,506 251,149 431,471 350,965
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term P&I Mortgage Amortization 296,250	395,000 75% 296,250 98,750 - 19,750 118,500 6.50% 30 \$1,872.50 Beg Bal	1 296,250	292,939	289,406	4 285,636	5 281,614	6 277,323	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala Sale Proceed: Sale Proceed: 7 272,744	ance s Before Tax s After Tax 8 267,858	6% 20% 9 262,645	8.0 726,191 43,571 280,091 402,529 80,506 251,149 431,471 350,965 10 257,084
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term P&I Mortgage Amortization 296,250 6.50%	395,000 75% 296,250 98,750 - 19,750 118,500 6.50% 30 \$1,872.50 Beg Bal	1 296,250 3,311	292,939 3,533	289,406 3,770	4 285,636 4,022	5 281,614 4,291	6 277,323 4,579	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala Sale Proceed: Sale Proceed: 7 272,744 4,886	ance s Before Tax s After Tax 8 267,858 5,213	9 262,645 5,562	8.0 726,191 43,571 280,091 402,529 80,506 251,149 431,471 350,965 10 257,084 5,934
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term P&I Mortgage Amortization 296,250 6.50% 30.0	395,000 75% 296,250 98,750 - 19,750 118,500 6.50% 30 \$1,872.50 Beg Bal Prin Int	1 296,250 3,311 19,159	292,939 3,533 18,937	289,406 3,770 18,700	4 285,636 4,022 18,448	5 281,614 4,291 18,179	6 277,323 4,579 17,891	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala Sale Proceed: Sale Proceed: 272,744 4,886 17,584	ance s Before Tax s After Tax 267,858 5,213 17,257	9 262,645 5,562 16,908	8.0 726,191 43,571 280,091 402,529 80,506 251,149 431,471 350,965 10 257,084 5,934 16,536
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term P&I Mortgage Amortization 296,250 6.50% 30.0 1,873	395,000 75% 296,250 98,750 - 19,750 118,500 6.50% 30 \$1,872.50 Beg Bal Prin Int Bal EOY	1 296,250 3,311 19,159 292,939	292,939 3,533 18,937 289,406	289,406 3,770 18,700 285,636	4 285,636 4,022 18,448 281,614	5 281,614 4,291 18,179 277,323	6 277,323 4,579 17,891 272,744	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala Sale Proceed: Sale Proceed: 4,886 17,584 267,858	ance s Before Tax s After Tax 267,858 5,213 17,257 262,645	9 262,645 5,562 16,908 257,084	8.0 726,191 43,571 280,091 402,529 80,506 251,149 431,471 350,965 10 257,084 5,934 16,536 251,149
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term P&I Mortgage Amortization 296,250 6.50% 30.0	395,000 75% 296,250 98,750 - 19,750 118,500 6.50% 30 \$1,872.50 Beg Bal Prin Int Bal EOY	1 296,250 3,311 19,159 292,939 395,000	292,939 3,533 18,937 289,406 395,000	289,406 3,770 18,700 285,636 Building	4 285,636 4,022 18,448 281,614 80%	5 281,614 4,291 18,179 277,323 316,000	6 277,323 4,579 17,891 272,744 Land	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala Sale Proceed: Sale Proceed: 4,886 17,584 267,858 20%	ance s Before Tax s After Tax 8 267,858 5,213 17,257 262,645 79,000	9 262,645 5,562 16,908 257,084 Life	8.0 726,191 43,571 280,091 402,529 80,506 251,149 431,471 350,965 10 257,084 5,934 16,536 251,149 27.5
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term P&I Mortgage Amortization 296,250 6.50% 30.0 1,873	395,000 75% 296,250 98,750 - 19,750 118,500 6.50% 30 \$1,872.50 Beg Bal Prin Int Bal EOY	1 296,250 3,311 19,159 292,939	292,939 3,533 18,937 289,406	289,406 3,770 18,700 285,636	4 285,636 4,022 18,448 281,614	5 281,614 4,291 18,179 277,323	6 277,323 4,579 17,891 272,744	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala Sale Proceed: Sale Proceed: 4,886 17,584 267,858	ance s Before Tax s After Tax 267,858 5,213 17,257 262,645	9 262,645 5,562 16,908 257,084	8.0 726,191 43,571 280,091 402,529 80,506 251,149 431,471 350,965 10 257,084 5,934 16,536 251,149