

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
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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	=	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**

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
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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.
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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
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	34,315	Total Return from this Investment
	118,500	Downpayment + Closing Costs
	29.0%	Total Return from this Investment

Illustration of Internal Rate of Return over a 10-Year Holding Period
1208 BOLTON STREET

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 Annual 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
19.5% Internal Rate of Return											
Purchase	395,000							Assume a Sale at End of Year 10			
L-V	75%							Annual Rent Roll			90,452
Loan	296,250							GRM			8.0
Down Payment	98,750						annual appreciation 6.3%	Price			726,191
Cap Improvement	-							Sale Costs		6%	43,571
Closing Costs	19,750							Less: Basis			280,091
Initial Investment	118,500							Gain			402,529
Rate	6.50%							Tax @		20%	80,506
Term	30							Mortgage Balance			251,149
P&I	\$1,872.50							Sale Proceeds Before Tax			431,471
								Sale Proceeds After Tax			350,965
Mortgage Amortization		1	2	3	4	5	6	7	8	9	10
296,250 Beg Bal		296,250	292,939	289,406	285,636	281,614	277,323	272,744	267,858	262,645	257,084
6.50% Prin		3,311	3,533	3,770	4,022	4,291	4,579	4,886	5,213	5,562	5,934
30.0 Int		19,159	18,937	18,700	18,448	18,179	17,891	17,584	17,257	16,908	16,536
1,873 Bal EOY		292,939	289,406	285,636	281,614	277,323	272,744	267,858	262,645	257,084	251,149
Cost Recovery / Depreciation		395,000	395,000	Building	80%	316,000	Land	20%	79,000	Life	27.5
		11,491	11,491	11,491	11,491	11,491	11,491	11,491	11,491	11,491	11,491
Basis		383,509	372,018	360,527	349,036	337,545	326,055	314,564	303,073	291,582	280,091