

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.

87,710	+	Rental Income
24,587	-	Operating Expenses
42,234	-	Mortgage Payments
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20,889	=	Cash Flow
208,500	/	Downpayment + Closing Costs
10.0%	=	Return on Investment from Cash Flow

2 Appreciation

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

695,000	=	Acquisition Price
5%	*	First Year Appreciation
729,750	=	Value at the end of Year 1.
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34,750	=	Amount of Value Increase
208,500	/	Downpayment + Closing Costs
17%	=	Return on Investment from Appreciation

3 Equity Build-Up

6.50% 25 \$ 3,519.52

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

521,250	=	Loan Amount at Closing
512,644	=	Loan Amount at the end of Year 1
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8,606	-	Equity Build-Up in Year 1
208,500	/	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.

63,123	=	Cash Flow Before Loan Payments (rents less expenses)
19,692	-	Depreciation (assumes 15% land, 30 year recovery)
33,628	-	Mortgage Interest
9,803	=	Taxable Income Year 1
7,843		Less 20% Exclusion for LLC Ownership under new tax law
37%	*	Marginal Tax Rate
2,901.75	=	Federal Income Tax
2,902		Federal Income Tax
20,889	/	Cash Flow
13.9%	=	Effective Tax Rate on This Investment
7,729	=	Tax if Cash Flow came from a non-preferred investment vehicle
2,902	-	Tax from this preferred investment vehicle.
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4,827	=	Income Tax Savings
2.3%		Return on Investment from Tax Savings

Total / Summary

1:	20,889	Cash Flow
2:	34,750	Appreciation Year 1
3:	8,606	Equity Build Up Year 1
4:	4,827	Tax Savings Year 1
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	69,072	Total Return from this Investment
	208,500	Downpayment + Closing Costs
	33.1%	Total Return from this Investment

**Illustration of Internal Rate of Return over a 10-Year Holding Period
2200-2202 NORTH CHARLES & 10 WEST 22ND**

Purchase Price	695,000	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Annual Rent	7.0%	87,710	93,849	100,419	107,448	114,970	123,017	131,629	140,843	150,702	161,251
Vacancy	3.0%	2,631	2,815	3,013	3,223	3,449	3,691	3,949	4,225	4,521	4,838
Effective Income		85,078	91,034	97,406	104,225	111,520	119,327	127,680	136,617	146,181	156,413
Expenses	7.0%	24,587	26,308	28,150	30,120	32,229	34,485	36,898	39,481	42,245	45,202
Exp as a percent of Annual Rent		29%	29%	29%	29%	29%	29%	29%	29%	29%	29%
Exp per unit	6	4,098	4,385	4,692	5,020	5,371	5,747	6,150	6,580	7,041	7,534
NOI	0	60,491	64,726	69,257	74,105	79,292	84,842	90,781	97,136	103,936	111,211
Debt Service	\$ 3,520	42,234	42,234	42,234	42,234	42,234	42,234	42,234	42,234	42,234	42,234
Before Tax Cash Flow	(208,500)	18,257	22,492	27,022	31,870	37,058	42,608	48,547	54,902	61,701	925,667
24.8% Internal Rate of Return											

NOI		60,491	64,726	69,257	74,105	79,292	84,842	90,781	97,136	103,936	111,211
Less Interest		33,628	33,051	32,436	31,780	31,080	30,333	29,536	28,686	27,778	26,810
Less Depreciation		18,533	18,533	18,533	18,533	18,533	18,533	18,533	18,533	18,533	18,533
Taxable Income to Individuals		8,330	13,141	18,287	23,791	29,678	35,976	42,712	49,917	57,624	65,867
Pass Thru Entity	20%	(1,666)	(2,628)	(3,657)	(4,758)	(5,936)	(7,195)	(8,542)	(9,983)	(11,525)	(13,173)
Taxable Income	0	6,664	10,513	14,629	19,033	23,743	28,781	34,169	39,934	46,099	52,694
Tax @ *	37%	2,466	3,890	5,413	7,042	8,785	10,649	12,643	14,775	17,057	19,497
After Tax Cash Flow	(208,500)	15,791	18,602	21,610	24,828	28,273	31,959	35,904	40,126	44,645	755,960
21.1% Internal Rate of Return											

Purchase	695,000										Assume a Sale at End of Year 10	
L-V	75%										Annual Rent Roll	161,251
Loan	521,250										GRM	8.3
Down Payment	173,750					annual appreciation	6.8%				Price	1,341,190
Cap Improvement	-										Sale Costs	6% 80,471
Closing Costs	34,750										Less: Basis	509,667
Initial Investment	208,500										Gain	751,052
Rate	6.50%										Tax @	20% 150,210
Term	25										Mortgage Balance	404,028
P&I	\$3,519.52										Sale Proceeds Before Tax	856,690
											Sale Proceeds After Tax	706,480

Mortgage Amortization		1	2	3	4	5	6	7	8	9	10
521,250	Beg Bal	521,250	512,644	503,461	493,663	483,209	472,055	460,154	447,456	433,908	419,452
6.50%	Prin	8,606	9,183	9,798	10,454	11,154	11,901	12,698	13,548	14,456	15,424
25.0	Int	33,628	33,051	32,436	31,780	31,080	30,333	29,536	28,686	27,778	26,810
3,520	Bal EOY	512,644	503,461	493,663	483,209	472,055	460,154	447,456	433,908	419,452	404,028
Cost Recovery / Depreciation		695,000	695,000	Building	80%	556,000	Land	20%	139,000	Life	30
		18,533	18,533	18,533	18,533	18,533	18,533	18,533	18,533	18,533	18,533
Basis		676,467	657,933	639,400	620,867	602,333	583,800	565,267	546,733	528,200	509,667

* 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%.