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.

- 52,768 + Rental Income
- 17,580 Operating Expenses
- 21,208 Mortgage Payments
- 13,980 = Cash Flow
- 104,700 / Downpayment + Closing Costs
 - 13.4% = Return on Investment from Cash Flow

2 Appreciation

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

349,000	=	Acquisiton Price
5%	*	First Year Appreciation
366,450	=	Value at the end of Year 1.
17,450	=	Amount of Value Increase
104,700	/	Downpayment + Closing Costs
17%	=	Return on Investment from Appreciation

3 Equity Build-Up 6.50% 25 \$ 1,767.35

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

261,750	=	Loan Amount at Closing
257,428	=	Loan Amount at the end of Year 1
4,322	-	Equity Build-Up in Year 1
104,700	/	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.

35,188	=	Cash Flow Before Loan Payments (rents less expenses)
9,888	-	Depreciation (assumes 15% land, 30 year recovery)
16,887	-	Mortgage Interest
8,413	=	Taxable Income Year 1
6,731		Less 20% Exclusion for LLC Ownership under new tax law
37%	*	Marginal Tax Rate
2,490.30	=	Federal Income Tax
2,490		Federal Income Tax
13,980	/	Cash Flow
17.8%	=	Effective Tax Rate on This Investment
5,173	=	Tax if Cash Flow came from a non-preferred investment vehicle
2,490	-	Tax from this preferred investment vehicle.
2,682	=	Income Tax Savings
2.6%		Return on Investment from Tax Savings

Total / Summary

1:	13,980	Cash Flow
2:	17,450	Appreciation Year 1
3:	4,322	Equity Build Up Year 1
4:	2,682	Tax Savings Year 1
	38,434	Total Return from this Investment
	104,700	Downpayment + Closing Costs
	36.7%	Total Return from this Investment



		Illustration of	Internal Rate	of Return ov	er a 10-Year F	lolding Perio	d			
		2 2	03 NORT	h charl	ES STRE	ET				
Purchase Price 349,000	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	2030	<u>2031</u>	<u>2032</u>	<u>2033</u>
Annual Rent 7.0%	52,768	56,461	60,414	64,643	69,168	74,009	79,190	84,733	90,665	97,011
Vacancy 3.0%	1,583	1,694	1,812	1,939	2,075	2,220	2,376	2,542	2,720	2,910
Effective Income	51,185	54,768	58,601	62,703	67,093	71,789	76,814	82,191	87,945	94,101
Expenses 7.0%	17,580	18,810	20,127	21,536	23,043	24,656	26,382	28,229	30,205	32,320
Exp as a percent of Annual Rent	34%	34%	34%	34%	34%	34%	34%	34%	34%	34%
Exp per unit 4	4,395	4,703	5,032	5,384	5,761	6,164	6,596	7,057	7,551	8,080
NOI 0	33,605	35,957	38,474	41,168	44,049	47,133	50,432	53,962	57,740	61,781
Debt Service \$ 1,767	21,208	21,208	21,208	21,208	21,208	21,208	21,208	21,208	21,208	21,208
Before Tax Cash Flow (104,700)	12,397	14,749	17,266	19,959	22,841	25,924	29,224	32,754	36,531	410,656
26.2% Internal Rate o	f Return									
NOI	33,605	35,957	38,474	41,168	44,049	47,133	50,432	53,962	57,740	61,781
Less Interest	16,887	16,597	16,288	15,959	15,607	15,232	14,832	14,405	13,949	13,463
Less Depreciation	9,307	9,307	9,307	9,307	9,307	9,307	9,307	9,307	9,307	9,307
Taxable Income to Individuals	7,412	10,054	12,879	15,902	19,135	22,594	26,294	30,251	34,484	39,012
Pass Thru Entity 20%	(1,482)	(2,011)	(2,576)	(3,180)	(3,827)	(4,519)	(5,259)	(6,050)	(6,897)	(7,802)
Taxable Income 0	5,929	8,043	10,304	12,722	15,308	18,075	21,035	24,201	27,587	31,209
Tax @ * 37%	2,194	2,976	3,812	4,707	5,664	6,688	7,783	8,954	10,207	11,547
After Tax Cash Flow (104,700)	10,203	11,773	13,454	15,252	17,177	19,237	21,441	23,800	26,324	335,701
21.8% Internal Rate o	f Return									
Purchase 349.000							Assume a Sa	ale at End of	Year 10	
L-V 75%							Annual Rent Roll			97.011
Loan 261.750							GRM			6.3
Down Payment 87.250				annua	al appreciation	5.7%	Price			609.541
Cap Improvement -							Sale Costs		6%	36.572
Closing Costs 17.450							Less: Basis			255.933
Initial Investment 104.700							Gain			317.035
Rate 6.50%							Tax @		20%	63.407
Term 25							Mortgage Bal	ance		202.886
P&I \$1,767.35							Sale Proceed	ls Before Tax		370.083
							Sale Proceed	ls After Tax		306.676
Mortgage Amortization	1	2	3	4	5	6	7	8	9	10
261,750 Beg Bal	261,750	257,428	252,817	247,897	242,648	237,046	231,070	224,694	217,890	210,631
6.50% Prin	4,322	4,611	4,920	5,250	5,601	5,976	6,376	6,803	7,259	7,745
25.0 Int	16.887	16.597	16.288	15.959	15.607	15.232	14.832	14.405	13,949	13,463
1.767 Bal EOY	257.428	252.817	247.897	242.648	237.046	231.070	224,694	217.890	210.631	202.886
Cost Recovery / Depreciation	349,000	349,000	Building	80%	279,200	Land	20%	69,800	Life	30
	9.307	9.307	9.307	9.307	9.307	9.307	9.307	9.307	9.307	9,307
Basis	339,693	330,387	321,080	311,773	302,467	293,160	283,853	274,547	265,240	255,933
* Tax rate of 35% applies to income of S	200,001 to \$50	0,000 for singl	es; \$400,001 t	o \$600,000 for	married filing	jointly. Margi	nal rate above	\$500k/\$600k	is 37%.	· · ·

