

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
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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	=	Acquisition Price
5%	*	First Year Appreciation
366,450	=	Value at the end of Year 1.
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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
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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.
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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
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	38,434	Total Return from this Investment
	104,700	Downpayment + Closing Costs
	36.7%	Total Return from this Investment

