

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.

39,900	+	Rental Income
9,073	-	Operating Expenses
21,177	-	Mortgage Payments
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9,650	=	Cash Flow
87,250	/	Downpayment + Closing Costs
11.1%	=	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
87,250	/	Downpayment + Closing Costs
20%	=	Return on Investment from Appreciation

3 **Equity Build-Up**

6.50% 30 \$ 1,764.73

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

279,200	=	Loan Amount at Closing
276,079	=	Loan Amount at the end of Year 1
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3,121	-	Equity Build-Up in Year 1
87,250	/	Downpayment + Closing Costs
3.6%	=	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.

30,827	=	Cash Flow Before Loan Payments (rents less expenses)
9,888	-	Depreciation (assumes 15% land, 30 year recovery)
18,056	-	Mortgage Interest
2,883	=	Taxable Income Year 1
2,306	=	Less 20% Exclusion for LLC Ownership under new tax law
37%	*	Marginal Tax Rate
853.23	=	Federal Income Tax
853	=	Federal Income Tax
9,650	/	Cash Flow
8.8%	=	Effective Tax Rate on This Investment
3,571	=	Tax if Cash Flow came from a non-preferred investment vehicle
853	-	Tax from this preferred investment vehicle.
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2,717	=	Income Tax Savings
3.1%	=	Return on Investment from Tax Savings

Total / Summary

1:	9,650	Cash Flow
2:	17,450	Appreciation Year 1
3:	3,121	Equity Build Up Year 1
4:	2,717	Tax Savings Year 1
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	32,938	Total Return from this Investment
	87,250	Downpayment + Closing Costs
	37.8%	Total Return from this Investment

Illustration of Internal Rate of Return over a 10-Year Holding Period
2 8 0 2 B E R W I C K A V E N U E

Purchase Price	349,000	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Annual Rent	7.0%	39,900	42,693	45,682	48,879	52,301	55,962	59,879	64,071	68,556	73,355
Vacancy	0.0%	-	-	-	-	-	-	-	-	-	-
Effective Income		39,900	42,693	45,682	48,879	52,301	55,962	59,879	64,071	68,556	73,355
Expenses	7.0%	9,073	9,708	10,388	11,115	11,893	12,725	13,616	14,569	15,589	16,680
Exp as a percent of Annual Rent		23%	23%	23%	23%	23%	23%	23%	23%	23%	23%
Exp per unit	2	4,537	4,854	5,194	5,557	5,946	6,363	6,808	7,285	7,795	8,340
NOI	0	30,827	32,985	35,294	37,764	40,408	43,236	46,263	49,501	52,966	56,674
Debt Service	\$ 1,765	21,177	21,177	21,177	21,177	21,177	21,177	21,177	21,177	21,177	21,177
Before Tax Cash Flow	(87,250)	9,650	11,808	14,117	16,588	19,231	22,060	25,086	28,325	31,790	401,927
27.3% Internal Rate of Return											
NOI		30,827	32,985	35,294	37,764	40,408	43,236	46,263	49,501	52,966	56,674
Less Interest		18,056	17,847	17,624	17,386	17,132	16,861	16,572	16,264	15,935	15,584
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		3,464	5,831	8,363	11,072	13,969	17,068	20,384	23,931	27,725	31,783
Pass Thru Entity	20%	(693)	(1,166)	(1,673)	(2,214)	(2,794)	(3,414)	(4,077)	(4,786)	(5,545)	(6,357)
Taxable Income	0	2,771	4,665	6,690	8,857	11,175	13,655	16,307	19,145	22,180	25,427
Tax @ *	37%	1,025	1,726	2,475	3,277	4,135	5,052	6,034	7,083	8,207	9,408
After Tax Cash Flow	(87,250)	8,625	10,082	11,642	13,310	15,096	17,007	19,053	21,241	23,583	323,081
23.3% Internal Rate of Return											
Purchase	349,000							Assume a Sale at End of Year 10			
L-V	80%							Annual Rent Roll			73,355
Loan	279,200							GRM			8.7
Down Payment	69,800							Price			641,622
Cap Improvement	-							Sale Costs		6%	38,497
Closing Costs	17,450							Less: Basis			255,933
Initial Investment	87,250							Gain			347,192
Rate	6.50%							Tax @		20%	69,438
Term	30							Mortgage Balance			236,695
P&I	\$1,764.73							Sale Proceeds Before Tax			366,430
								Sale Proceeds After Tax			296,992
Mortgage Amortization		1	2	3	4	5	6	7	8	9	10
279,200 Beg Bal		279,200	276,079	272,750	269,197	265,406	261,362	257,047	252,442	247,529	242,288
6.50% Prin		3,121	3,330	3,553	3,791	4,044	4,315	4,604	4,913	5,242	5,593
30.0 Int		18,056	17,847	17,624	17,386	17,132	16,861	16,572	16,264	15,935	15,584
1,765 Bal EOY		276,079	272,750	269,197	265,406	261,362	257,047	252,442	247,529	242,288	236,695
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 \$200,001 to \$500,000 for singles; \$400,001 to \$600,000 for married filing jointly. Marginal rate above \$500k/\$600k is 37%.