

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.

65,542	+	Rental Income
23,537	-	Operating Expenses
30,543	-	Mortgage Payments
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11,463	=	Cash Flow
142,500	/	Downpayment + Closing Costs
8.0%	=	Return on Investment from Cash Flow

2 Appreciation

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

475,000	=	Acquisition Price
5%	*	First Year Appreciation
498,750	=	Value at the end of Year 1.
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23,750	=	Amount of Value Increase
142,500	/	Downpayment + Closing Costs
17%	=	Return on Investment from Appreciation

3 Equity Build-Up

7.12% 25 \$ 2,545.24

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

356,250	=	Loan Amount at Closing
350,900	=	Loan Amount at the end of Year 1
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5,350	-	Equity Build-Up in Year 1
142,500	/	Downpayment + Closing Costs
3.8%	=	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.

42,005	=	Cash Flow Before Loan Payments (rents less expenses)
13,458	-	Depreciation (assumes 15% land, 30 year recovery)
25,193	-	Mortgage Interest
3,355	=	Taxable Income Year 1
2,684		Less 20% Pass-Thru Entity per new tax code
37%	*	Marginal Tax Rate
993	=	Federal Income Tax
993		Federal Income Tax
11,463	/	Cash Flow
8.7%	=	Effective Tax Rate on This Investment
4,241	=	Tax if Cash Flow came from a non-preferred investment vehicle
993	-	Tax from this preferred investment vehicle.
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3,248	=	Income Tax Savings
2.3%		Return on Investment from Tax Savings

Total / Summary

1:	11,463	Cash Flow
2:	23,750	Appreciation Year 1
3:	5,350	Equity Build Up Year 1
4:	3,248	Tax Savings Year 1
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	43,811	Total Return from this Investment
	142,500	Downpayment + Closing Costs
	30.7%	Total Return from this Investment

Illustration of Internal Rate of Return over a 10-Year Holding Period
3310 OAKFIELD AVE 2023

Purchase Price	475,000	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Annual Rent	4.0%	61,165	63,612	66,156	68,803	71,555	74,417	77,393	80,489	83,709	87,057
Vacancy	3.0%	1,835	1,908	1,985	2,064	2,147	2,233	2,322	2,415	2,511	2,612
Effective Income		59,330	61,703	64,172	66,738	69,408	72,184	75,072	78,075	81,198	84,445
Expenses	4.0%	24,611	25,595	26,619	27,684	28,791	29,943	31,141	32,386	33,682	35,029
Exp as a percent of Annual Rent		41%	41%	41%	41%	41%	41%	41%	41%	41%	41%
Exp per unit	5	4,922	5,119	5,324	5,537	5,758	5,989	6,228	6,477	6,736	7,006
NOI	0	34,719	36,108	37,552	39,055	40,617	42,241	43,931	45,688	47,516	49,417
Debt Service	\$ 2,545	30,543	30,543	30,543	30,543	30,543	30,543	30,543	30,543	30,543	30,543
Before Tax Cash Flow	(142,500)	4,177	5,565	7,010	8,512	10,074	11,699	13,388	15,145	16,973	373,312
14.2% Internal Rate of Return											
NOI		34,719	36,108	37,552	39,055	40,617	42,241	43,931	45,688	47,516	49,417
Less Interest		25,193	24,799	24,376	23,923	23,436	22,913	22,352	21,749	21,102	20,407
Less Depreciation		12,667	12,667	12,667	12,667	12,667	12,667	12,667	12,667	12,667	12,667
20% Pass Thru Discount		(628)	(272)	102	493	903	1,332	1,783	2,255	2,749	3,268
Taxable Income	0	(2,512)	(1,086)	407	1,972	3,611	5,330	7,130	9,018	10,998	13,074
Tax @	37%	(929)	(402)	151	730	1,336	1,972	2,638	3,337	4,069	4,837
After Tax Cash Flow	(142,500)	5,106	5,967	6,859	7,782	8,738	9,727	10,750	11,809	12,904	311,039
12.1% Internal Rate of Return											
Purchase	475,000								Assume a Sale at End of Year 10		
L-V	75%								Annual Rent Roll		87,057
Loan	356,250								GRM		7.8
Down Payment	118,750				annual appreciation			3.6%	Price		676,073
Cap Improvement	-								Sale Costs	6%	40,564
Closing Costs	23,750								Less: Basis		348,333
Initial Investment	142,500								Gain		287,175
Rate	7.12%								Tax @	20%	57,435
Term	25								Mortgage Balance		281,071
P&I	\$2,545.24								Sale Proceeds Before Tax		354,438
									Sale Proceeds After Tax		297,003
Mortgage Amortization		1	2	3	4	5	6	7	8	9	10
356,250 Beg Bal		356,250	350,900	345,156	338,990	332,369	325,262	317,632	309,441	300,647	291,206
7.12% Prin		5,350	5,744	6,166	6,620	7,107	7,630	8,191	8,794	9,441	10,135
25.0 Int		25,193	24,799	24,376	23,923	23,436	22,913	22,352	21,749	21,102	20,407
2,545 Bal EOY		350,900	345,156	338,990	332,369	325,262	317,632	309,441	300,647	291,206	281,071
Cost Recovery / Depreciation		475,000	475,000	Building	80%	380,000	Land	20%	95,000	Life	30
		12,667	12,667	12,667	12,667	12,667	12,667	12,667	12,667	12,667	12,667
Basis		462,333	449,667	437,000	424,333	411,667	399,000	386,333	373,667	361,000	348,333