

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.

| | | |
|---------|---|-------------------------------------|
| 58,800 | + | Rental Income |
| 11,800 | - | Operating Expenses |
| 32,932 | - | Mortgage Payments |
| <hr/> | | |
| 14,068 | = | Cash Flow |
| 165,000 | / | Downpayment + Closing Costs |
| 8.5% | = | Return on Investment from Cash Flow |

2 Appreciation

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

| | | |
|---------|---|--|
| 550,000 | = | Acquisition Price |
| 5% | * | First Year Appreciation |
| 577,500 | = | Value at the end of Year 1. |
| <hr/> | | |
| 27,500 | = | Amount of Value Increase |
| 165,000 | / | Downpayment + Closing Costs |
| 17% | = | Return on Investment from Appreciation |

3 Equity Build-Up

7.00% 30 \$ 2,744.37

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

| | | |
|---------|---|---|
| 412,500 | = | Loan Amount at Closing |
| 408,310 | = | Loan Amount at the end of Year 1 |
| <hr/> | | |
| 4,190 | - | Equity Build-Up in Year 1 |
| 165,000 | / | Downpayment + Closing Costs |
| 2.5% | = | 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.

| | | |
|--------|---|---|
| 47,000 | = | Cash Flow Before Loan Payments (rents less expenses) |
| 15,583 | - | Depreciation (assumes 15% land, 30 year recovery) |
| 28,742 | - | Mortgage Interest |
| 2,675 | = | Taxable Income Year 1 |
| 2,140 | | Less 20% Exclusion for LLC Ownership under new tax law |
| 37% | * | Marginal Tax Rate |
| 791.75 | = | Federal Income Tax |
| 792 | | Federal Income Tax |
| 14,068 | / | Cash Flow |
| 5.6% | = | Effective Tax Rate on This Investment |
| 5,205 | = | Tax if Cash Flow came from a non-preferred investment vehicle |
| 792 | - | Tax from this preferred investment vehicle. |
| <hr/> | | |
| 4,413 | = | Income Tax Savings |
| 2.7% | = | Return on Investment from Tax Savings |

Total / Summary

| | | |
|-------|---------|-----------------------------------|
| 1: | 14,068 | Cash Flow |
| 2: | 27,500 | Appreciation Year 1 |
| 3: | 4,190 | Equity Build Up Year 1 |
| 4: | 4,413 | Tax Savings Year 1 |
| <hr/> | | |
| | 50,172 | Total Return from this Investment |
| | 165,000 | Downpayment + Closing Costs |
| | 30.4% | Total Return from this Investment |

Illustration of Internal Rate of Return over a 10-Year Holding Period

546 SAINT MARY STREET

| Purchase Price | 550,000 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 |
|--------------------------------------|------------------|---------------|---------------|---------------|---------------|---------------|---------------|--------------------------|--|---------------|----------------|
| Annual Rent | 6.0% | 58,800 | 62,328 | 66,068 | 70,032 | 74,234 | 78,688 | 83,409 | 88,413 | 93,718 | 99,341 |
| Vacancy | 3.0% | 1,764 | 1,870 | 1,982 | 2,101 | 2,227 | 2,361 | 2,502 | 2,652 | 2,812 | 2,980 |
| Effective Income | | 57,036 | 60,458 | 64,086 | 67,931 | 72,007 | 76,327 | 80,907 | 85,761 | 90,907 | 96,361 |
| Expenses | 6.0% | 11,800 | 12,508 | 13,258 | 14,053 | 14,897 | 15,790 | 16,738 | 17,742 | 18,807 | 19,935 |
| Exp as a percent of Annual Rent | | 21% | 21% | 21% | 21% | 21% | 21% | 21% | 21% | 21% | 21% |
| Exp per unit | 3 | 3,933 | 4,169 | 4,419 | 4,684 | 4,966 | 5,263 | 5,579 | 5,914 | 6,269 | 6,645 |
| NOI | 0 | 45,236 | 47,951 | 50,828 | 53,877 | 57,110 | 60,537 | 64,169 | 68,019 | 72,100 | 76,426 |
| Debt Service | \$ 2,744 | 32,932 | 32,932 | 32,932 | 32,932 | 32,932 | 32,932 | 32,932 | 32,932 | 32,932 | 32,932 |
| Before Tax Cash Flow | (165,000) | 12,304 | 15,018 | 17,895 | 20,945 | 24,177 | 27,604 | 31,236 | 35,086 | 39,168 | 562,978 |
| 21.0% Internal Rate of Return | | | | | | | | | | | |
| NOI | | 45,236 | 47,951 | 50,828 | 53,877 | 57,110 | 60,537 | 64,169 | 68,019 | 72,100 | 76,426 |
| Less Interest | | 28,742 | 28,439 | 28,115 | 27,766 | 27,393 | 26,992 | 26,563 | 26,102 | 25,609 | 25,079 |
| Less Depreciation | | 14,667 | 14,667 | 14,667 | 14,667 | 14,667 | 14,667 | 14,667 | 14,667 | 14,667 | 14,667 |
| Taxable Income to Individuals | | 1,827 | 4,845 | 8,046 | 11,444 | 15,050 | 18,878 | 22,939 | 27,250 | 31,825 | 36,680 |
| Pass Thru Entity | 20% | (365) | (969) | (1,609) | (2,289) | (3,010) | (3,776) | (4,588) | (5,450) | (6,365) | (7,336) |
| Taxable Income | 0 | 1,462 | 3,876 | 6,437 | 9,156 | 12,040 | 15,102 | 18,351 | 21,800 | 25,460 | 29,344 |
| Tax @ * | 37% | 541 | 1,434 | 2,382 | 3,388 | 4,455 | 5,588 | 6,790 | 8,066 | 9,420 | 10,857 |
| After Tax Cash Flow | (165,000) | 11,763 | 13,584 | 15,513 | 17,557 | 19,723 | 22,016 | 24,446 | 27,020 | 29,747 | 458,095 |
| 17.9% Internal Rate of Return | | | | | | | | | | | |
| Purchase | 550,000 | | | | | | | | Assume a Sale at End of Year 10 | | |
| L-V | 75% | | | | | | | | Annual Rent Roll | | 99,341 |
| Loan | 412,500 | | | | | | | | GRM | | 9.4 |
| Down Payment | 137,500 | | | | | | | annual appreciation 5.4% | Price | | 929,213 |
| Cap Improvement | - | | | | | | | | Sale Costs | 6% | 55,753 |
| Closing Costs | 27,500 | | | | | | | | Less: Basis | | 403,333 |
| Initial Investment | 165,000 | | | | | | | | Gain | | 470,127 |
| Rate | 7.00% | | | | | | | | Tax @ | 20% | 94,025 |
| Term | 30 | | | | | | | | Mortgage Balance | | 353,976 |
| P&I | \$2,744.37 | | | | | | | | Sale Proceeds Before Tax | | 519,485 |
| | | | | | | | | | Sale Proceeds After Tax | | 425,459 |
| Mortgage Amortization | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| 412,500 | Beg Bal | 412,500 | 408,310 | 403,817 | 398,999 | 393,832 | 388,293 | 382,353 | 375,983 | 369,153 | 361,829 |
| 7.00% | Prin | 4,190 | 4,493 | 4,818 | 5,166 | 5,540 | 5,940 | 6,370 | 6,830 | 7,324 | 7,853 |
| 30.0 | Int | 28,742 | 28,439 | 28,115 | 27,766 | 27,393 | 26,992 | 26,563 | 26,102 | 25,609 | 25,079 |
| 2,744 | Bal EOY | 408,310 | 403,817 | 398,999 | 393,832 | 388,293 | 382,353 | 375,983 | 369,153 | 361,829 | 353,976 |
| Cost Recovery / Depreciation | 550,000 | 550,000 | Building | 80% | 440,000 | Land | 20% | 110,000 | Life | | 30 |
| | | 14,667 | 14,667 | 14,667 | 14,667 | 14,667 | 14,667 | 14,667 | 14,667 | 14,667 | 14,667 |
| Basis | | 535,333 | 520,667 | 506,000 | 491,333 | 476,667 | 462,000 | 447,333 | 432,667 | 418,000 | 403,333 |

* 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%.