

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.

102,087	+	Rental Income
19,995	-	Operating Expenses
62,776	-	Mortgage Payments
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19,316	=	Cash Flow
289,500	/	Downpayment + Closing Costs
6.7%	=	Return on Investment from Cash Flow

**2 Appreciation**

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

965,000	=	Acquisition Price
5%	*	First Year Appreciation
1,013,250	=	Value at the end of Year 1.
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48,250	=	Amount of Value Increase
289,500	/	Downpayment + Closing Costs
17%	=	Return on Investment from Appreciation

**3 Equity Build-Up**

7.25%      25 \$      5,231.31

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

723,750	=	Loan Amount at Closing
713,097	=	Loan Amount at the end of Year 1
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10,653	-	Equity Build-Up in Year 1
289,500	/	Downpayment + Closing Costs
3.7%	=	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.

82,092	=	Cash Flow Before Loan Payments (rents less expenses)
27,342	-	Depreciation (assumes 15% land, 30 year recovery)
52,122	-	Mortgage Interest
2,628	=	Taxable Income Year 1
2,102		Less 20% Exclusion for LLC Ownership under new tax law
37%	*	Marginal Tax Rate
777.78	=	Federal Income Tax
778		Federal Income Tax
19,316	/	Cash Flow
4.0%	=	Effective Tax Rate on This Investment
7,147	=	Tax if Cash Flow came from a non-preferred investment vehicle
778	-	Tax from this preferred investment vehicle.
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6,369	=	Income Tax Savings
2.2%		Return on Investment from Tax Savings

**Total / Summary**

1:	19,316	Cash Flow
2:	48,250	Appreciation Year 1
3:	10,653	Equity Build Up Year 1
4:	6,369	Tax Savings Year 1
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	84,588	Total Return from this Investment
	289,500	Downpayment + Closing Costs
	29.2%	Total Return from this Investment

**Illustration of Internal Rate of Return over a 10-Year Holding Period  
1011 SAINT PAUL STREET**

<b>Purchase Price</b>	<b>965,000</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>	<b>2030</b>	<b>2031</b>	<b>2032</b>	<b>2033</b>		
Annual Rent	4.0%	102,087	106,170	110,417	114,834	119,427	124,204	129,173	134,340	139,713	145,302		
Vacancy	3.0%	3,063	3,185	3,313	3,445	3,583	3,726	3,875	4,030	4,191	4,359		
Effective Income		99,024	102,985	107,105	111,389	115,845	120,478	125,297	130,309	135,522	140,943		
Expenses	4.0%	19,995	20,795	21,627	22,492	23,392	24,327	25,300	26,312	27,365	28,459		
Exp as a percent of Annual Rent		20%	20%	20%	20%	20%	20%	20%	20%	20%	20%		
Exp per unit	7	2,856	2,971	3,090	3,213	3,342	3,475	3,614	3,759	3,909	4,066		
NOI	0	79,029	82,190	85,478	88,897	92,453	96,151	99,997	103,997	108,157	112,483		
Debt Service	\$ 5,231	62,776	62,776	62,776	62,776	62,776	62,776	62,776	62,776	62,776	62,776		
<b>Before Tax Cash Flow</b>	<b>(289,500)</b>	<b>16,253</b>	<b>19,415</b>	<b>22,702</b>	<b>26,121</b>	<b>29,677</b>	<b>33,375</b>	<b>37,221</b>	<b>41,221</b>	<b>45,381</b>	<b>800,404</b>		
<b>16.7% Internal Rate of Return</b>													
NOI		79,029	82,190	85,478	88,897	92,453	96,151	99,997	103,997	108,157	112,483		
Less Interest		52,122	51,324	50,466	49,543	48,551	47,485	46,338	45,106	43,782	42,358		
Less Depreciation		25,733	25,733	25,733	25,733	25,733	25,733	25,733	25,733	25,733	25,733		
Taxable Income to Individuals		1,173	5,133	9,279	13,621	18,169	22,933	27,925	33,157	38,642	44,392		
Pass Thru Entity	20%	(235)	(1,027)	(1,856)	(2,724)	(3,634)	(4,587)	(5,585)	(6,631)	(7,728)	(8,878)		
Taxable Income	0	939	4,106	7,423	10,897	14,535	18,347	22,340	26,526	30,913	35,513		
Tax @ *	37%	347	1,519	2,747	4,032	5,378	6,788	8,266	9,815	11,438	13,140		
<b>After Tax Cash Flow</b>	<b>(289,500)</b>	<b>15,906</b>	<b>17,895</b>	<b>19,956</b>	<b>22,090</b>	<b>24,299</b>	<b>26,587</b>	<b>28,955</b>	<b>31,407</b>	<b>33,943</b>	<b>664,044</b>		
<b>14.1% Internal Rate of Return</b>													
Purchase	965,000								<b>Assume a Sale at End of Year 10</b>				
L-V	75%								Annual Rent Roll		145,302		
Loan	723,750								GRM		9.7		
Down Payment	241,250								annual appreciation	3.9%	Price	1,408,259	
Cap Improvement	-										Sale Costs	6%	84,496
Closing Costs	48,250										Less: Basis		707,667
Initial Investment	289,500										Gain		616,096
Rate	7.25%										Tax @	20%	123,219
Term	25										Mortgage Balance		573,067
P&I	\$5,231.31										Sale Proceeds Before Tax		750,696
											Sale Proceeds After Tax		627,477
<b>Mortgage Amortization</b>		1	2	3	4	5	6	7	8	9	10		
723,750	Beg Bal	723,750	713,097	701,645	689,335	676,102	661,877	646,586	630,148	612,479	593,485		
7.25%	Prin	10,653	11,452	12,310	13,233	14,225	15,291	16,437	17,670	18,994	20,418		
25.0	Int	52,122	51,324	50,466	49,543	48,551	47,485	46,338	45,106	43,782	42,358		
5,231	Bal EOY	713,097	701,645	689,335	676,102	661,877	646,586	630,148	612,479	593,485	573,067		
<b>Cost Recovery / Depreciation</b>		965,000	965,000	Building	80%	772,000	Land	20%	193,000	<b>Life</b>	<b>30</b>		
		25,733	25,733	25,733	25,733	25,733	25,733	25,733	25,733	25,733	25,733		
Basis		939,267	913,533	887,800	862,067	836,333	810,600	784,867	759,133	733,400	707,667		

\* 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%.