

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.

39,540	+	Rental Income
11,488	-	Operating Expenses
19,954	-	Mortgage Payments
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8,099	=	Cash Flow
97,500	/	Downpayment + Closing Costs
8.3%	=	Return on Investment from Cash Flow

2 Appreciation

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

325,000	=	Acquisition Price
5%	*	First Year Appreciation
341,250	=	Value at the end of Year 1.
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16,250	=	Amount of Value Increase
97,500	/	Downpayment + Closing Costs
17%	=	Return on Investment from Appreciation

3 Equity Build-Up

7.25% 30 \$ 1,662.80

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

243,750	=	Loan Amount at Closing
241,391	=	Loan Amount at the end of Year 1
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2,359	-	Equity Build-Up in Year 1
97,500	/	Downpayment + Closing Costs
2.4%	=	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.

28,052	=	Cash Flow Before Loan Payments (rents less expenses)
9,208	-	Depreciation (assumes 15% land, 30 year recovery)
17,595	-	Mortgage Interest
1,249	=	Taxable Income Year 1
999		Less 20% Exclusion for LLC Ownership under new tax law
37%	*	Marginal Tax Rate
369.80	=	Federal Income Tax
370		Federal Income Tax
8,099	/	Cash Flow
4.6%	=	Effective Tax Rate on This Investment
2,996	=	Tax if Cash Flow came from a non-preferred investment vehicle
370	-	Tax from this preferred investment vehicle.
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2,627	=	Income Tax Savings
2.7%	=	Return on Investment from Tax Savings

Total / Summary

1:	8,099	Cash Flow
2:	16,250	Appreciation Year 1
3:	2,359	Equity Build Up Year 1
4:	2,627	Tax Savings Year 1
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	29,334	Total Return from this Investment
	97,500	Downpayment + Closing Costs
	30.1%	Total Return from this Investment

Illustration of Internal Rate of Return over a 10-Year Holding Period
113 WEST 22ND STREET

Purchase Price	325,000	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Annual Rent	4.0%	39,540	41,122	42,766	44,477	46,256	48,106	50,031	52,032	54,113	56,278
Vacancy	3.0%	1,186	1,234	1,283	1,334	1,388	1,443	1,501	1,561	1,623	1,688
Effective Income		38,354	39,888	41,483	43,143	44,869	46,663	48,530	50,471	52,490	54,589
Expenses	4.0%	11,488	11,947	12,425	12,922	13,439	13,977	14,536	15,117	15,722	16,351
Exp as a percent of Annual Rent		30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
Exp per unit	3	3,829	3,982	4,142	4,307	4,480	4,659	4,845	5,039	5,241	5,450
NOI	0	26,866	27,941	29,058	30,221	31,429	32,687	33,994	35,354	36,768	38,239
Debt Service	\$ 1,663	19,954	19,954	19,954	19,954	19,954	19,954	19,954	19,954	19,954	19,954
Before Tax Cash Flow	(97,500)	6,912	7,987	9,105	10,267	11,476	12,733	14,040	15,400	16,814	242,725
16.9% Internal Rate of Return											

NOI		26,866	27,941	29,058	30,221	31,429	32,687	33,994	35,354	36,768	38,239
Less Interest		17,595	17,418	17,228	17,023	16,804	16,567	16,314	16,041	15,747	15,432
Less Depreciation		8,667	8,667	8,667	8,667	8,667	8,667	8,667	8,667	8,667	8,667
Taxable Income to Individuals		605	1,856	3,164	4,531	5,959	7,452	9,014	10,646	12,354	14,140
Pass Thru Entity	20%	(121)	(371)	(633)	(906)	(1,192)	(1,490)	(1,803)	(2,129)	(2,471)	(2,828)
Taxable Income	0	484	1,485	2,531	3,625	4,767	5,962	7,211	8,517	9,883	11,312
Tax @ *	37%	179	549	937	1,341	1,764	2,206	2,668	3,151	3,657	4,185
After Tax Cash Flow	(97,500)	6,733	7,437	8,168	8,926	9,712	10,527	11,372	12,249	13,158	199,242
14.2% Internal Rate of Return											

Purchase	325,000										Assume a Sale at End of Year 10		
L-V	75%										Annual Rent Roll	56,278	
Loan	243,750										GRM	8.2	
Down Payment	81,250					annual appreciation	3.6%				Price	462,576	
Cap Improvement	-										Sale Costs	6%	27,755
Closing Costs	16,250										Less: Basis		238,333
Initial Investment	97,500										Gain		196,488
Rate	7.25%										Tax @	20%	39,298
Term	30										Mortgage Balance		210,381
P&I	\$1,662.80										Sale Proceeds Before Tax		224,440
											Sale Proceeds After Tax		185,143

Mortgage Amortization		1	2	3	4	5	6	7	8	9	10
243,750 Beg Bal		243,750	241,391	238,855	236,129	233,198	230,048	226,662	223,022	219,109	214,903
7.25% Prin		2,359	2,536	2,726	2,930	3,150	3,386	3,640	3,913	4,206	4,521
30.0 Int		17,595	17,418	17,228	17,023	16,804	16,567	16,314	16,041	15,747	15,432
1,663 Bal EOY		241,391	238,855	236,129	233,198	230,048	226,662	223,022	219,109	214,903	210,381
Cost Recovery / Depreciation		325,000	325,000	Building	80%	260,000	Land	20%	65,000	Life	30
		8,667	8,667	8,667	8,667	8,667	8,667	8,667	8,667	8,667	8,667
Basis		316,333	307,667	299,000	290,333	281,667	273,000	264,333	255,667	247,000	238,333

* 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%.