

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.

63,836	+	Rental Income
16,043	-	Operating Expenses
25,045	-	Mortgage Payments
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22,747	=	Cash Flow
115,500	/	Downpayment + Closing Costs
19.7%	=	Return on Investment from Cash Flow

2 Appreciation

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

385,000	=	Acquisition Price
5%	*	First Year Appreciation
404,250	=	Value at the end of Year 1.
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19,250	=	Amount of Value Increase
115,500	/	Downpayment + Closing Costs
17%	=	Return on Investment from Appreciation

3 Equity Build-Up

7.25% 25 \$ 2,087.10

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

288,750	=	Loan Amount at Closing
284,500	=	Loan Amount at the end of Year 1
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4,250	-	Equity Build-Up in Year 1
115,500	/	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.

47,792	=	Cash Flow Before Loan Payments (rents less expenses)
10,908	-	Depreciation (assumes 15% land, 30 year recovery)
20,795	-	Mortgage Interest
16,089	=	Taxable Income Year 1
12,871		Less 20% Exclusion for LLC Ownership under new tax law
37%	*	Marginal Tax Rate
4,762.31	=	Federal Income Tax
4,762		Federal Income Tax
22,747	/	Cash Flow
20.9%	=	Effective Tax Rate on This Investment
8,416	=	Tax if Cash Flow came from a non-preferred investment vehicle
4,762	-	Tax from this preferred investment vehicle.
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3,654	=	Income Tax Savings
3.2%		Return on Investment from Tax Savings

Total / Summary

1:	22,747	Cash Flow
2:	19,250	Appreciation Year 1
3:	4,250	Equity Build Up Year 1
4:	3,654	Tax Savings Year 1
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	49,901	Total Return from this Investment
	115,500	Downpayment + Closing Costs
	43.2%	Total Return from this Investment

**Illustration of Internal Rate of Return over a 10-Year Holding Period
2404 NORTH CHARLES STREET**

Purchase Price	385,000	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>2031</u>	<u>2032</u>	<u>2033</u>	<u>2034</u>
Annual Rent	4.0%	63,836	66,389	69,045	71,806	74,679	77,666	80,772	84,003	87,363	90,858
Vacancy	3.0%	1,915	1,992	2,071	2,154	2,240	2,330	2,423	2,520	2,621	2,726
Effective Income		61,921	64,397	66,973	69,652	72,438	75,336	78,349	81,483	84,743	88,132
Expenses	4.0%	16,043	16,685	17,353	18,047	18,769	19,519	20,300	21,112	21,957	22,835
Exp as a percent of Annual Rent		26%	26%	26%	26%	26%	26%	26%	26%	26%	26%
Exp per unit	4	4,011	4,171	4,338	4,512	4,692	4,880	5,075	5,278	5,489	5,709
NOI	0	45,877	47,712	49,621	51,606	53,670	55,817	58,049	60,371	62,786	65,297
Debt Service	\$ 2,087	25,045	25,045	25,045	25,045	25,045	25,045	25,045	25,045	25,045	25,045
Before Tax Cash Flow	(115,500)	20,832	22,667	24,575	26,560	28,625	30,771	33,004	35,326	37,741	326,716
26.8% Internal Rate of Return											

NOI		45,877	47,712	49,621	51,606	53,670	55,817	58,049	60,371	62,786	65,297
Less Interest		20,795	20,476	20,134	19,766	19,370	18,945	18,487	17,996	17,467	16,899
Less Depreciation		10,267	10,267	10,267	10,267	10,267	10,267	10,267	10,267	10,267	10,267
Taxable Income to Individuals		14,815	16,969	19,220	21,573	24,033	26,605	29,295	32,109	35,052	38,131
Pass Thru Entity	20%	(2,963)	(3,394)	(3,844)	(4,315)	(4,807)	(5,321)	(5,859)	(6,422)	(7,010)	(7,626)
Taxable Income	0	11,852	13,575	15,376	17,258	19,226	21,284	23,436	25,687	28,042	30,505
Tax @ *	37%	4,385	5,023	5,689	6,386	7,114	7,875	8,671	9,504	10,375	11,287
After Tax Cash Flow	(115,500)	16,446	17,644	18,886	20,175	21,511	22,896	24,333	25,822	27,365	268,876
21.5% Internal Rate of Return											

Purchase	385,000									Assume a Sale at End of Year 10	
L-V	75%									Annual Rent Roll	90,858
Loan	288,750									GRM	6.0
Down Payment	96,250					annual appreciation	3.6%			Price	547,975
Cap Improvement	-									Sale Costs	6%
Closing Costs	19,250									Less: Basis	282,333
Initial Investment	115,500									Gain	232,763
Rate	7.25%									Tax @	20%
Term	25									Mortgage Balance	228,633
P&I	\$2,087.10									Sale Proceeds Before Tax	286,464
										Sale Proceeds After Tax	239,911

Mortgage Amortization		1	2	3	4	5	6	7	8	9	10
288,750 Beg Bal		288,750	284,500	279,931	275,020	269,740	264,065	257,964	251,406	244,357	236,779
7.25% Prin		4,250	4,569	4,911	5,279	5,675	6,101	6,558	7,049	7,578	8,146
25.0 Int		20,795	20,476	20,134	19,766	19,370	18,945	18,487	17,996	17,467	16,899
2,087 Bal EOY		284,500	279,931	275,020	269,740	264,065	257,964	251,406	244,357	236,779	228,633
Cost Recovery / Depreciation		385,000	385,000	Building	80%	308,000	Land	20%	77,000	Life	30
Basis		10,267	10,267	10,267	10,267	10,267	10,267	10,267	10,267	10,267	10,267
		374,733	364,467	354,200	343,933	333,667	323,400	313,133	302,867	292,600	282,333

* 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%.