

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.

60,859	+	Rental Income
12,587	-	Operating Expenses
32,932	-	Mortgage Payments
<hr/>		
15,340	=	Cash Flow
165,000	/	Downpayment + Closing Costs
9.3%	=	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.

48,272	=	Cash Flow Before Loan Payments (rents less expenses)
15,583	-	Depreciation (assumes 15% land, 30 year recovery)
28,742	-	Mortgage Interest
3,947	=	Taxable Income Year 1
3,157		Less 20% Exclusion for LLC Ownership under new tax law
37%	*	Marginal Tax Rate
1,168.17	=	Federal Income Tax
1,168		Federal Income Tax
15,340	/	Cash Flow
7.6%	=	Effective Tax Rate on This Investment
5,676	=	Tax if Cash Flow came from a non-preferred investment vehicle
1,168	-	Tax from this preferred investment vehicle.
<hr/>		
4,507	=	Income Tax Savings
2.7%	=	Return on Investment from Tax Savings

Total / Summary

1:	15,340	Cash Flow
2:	27,500	Appreciation Year 1
3:	4,190	Equity Build Up Year 1
4:	4,507	Tax Savings Year 1
<hr/>		
	51,537	Total Return from this Investment
	165,000	Downpayment + Closing Costs
	31.2%	Total Return from this Investment

