#### 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.

- 82,355 + Rental Income 28,879 - Operating Expenses 36,429 - Mortgage Payments
  - 17,047 = Cash Flow
  - 131,250 / Downpayment + Closing Costs
    - 13.0% = Return on Investment from Cash Flow

### 2 Appreciation

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

| = | Acquisiton Price                       |
|---|--|
| * | First Year Appreciation                |
| = | Value at the end of Year 1.            |
| = | Amount of Value Increase               |
| / | Downpayment + Closing Costs            |
| = | Return on Investment from Appreciation |
|   | *<br>=<br>=<br>/                       |

# **3 Equity Build-Up** 7.25% 25 \$ 3,035.79

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

420,000=Loan Amount at Closing413,818=Loan Amount at the end of Year 16,182-Equity Build-Up in Year 1131,250/Downpayment + Closing Costs4.7%=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.

| 53,477<br>14,875<br>30,247<br>8,355<br>6,684<br>37%<br>2,472.94 | -<br>-<br>= | Cash Flow Before Loan Payments (rents less expenses)<br>Depreciation (assumes 15% land, 30 year recovery)<br>Mortgage Interest<br>Taxable Income Year 1<br>Less 20% Exclusion for LLC Ownership under new tax law<br>Marginal Tax Rate<br>Federal Income Tax |
|---|-------------|--|
| 2,473<br>17,047<br>14.5%  |             | Federal Income Tax<br>Cash Flow<br>Effective Tax Rate on This Investment   |
| 6,308   | =           | Tax if Cash Flow came from a non-preferred investment vehicle  |
| 2,473   | -           | Tax from this preferred investment vehicle.  |
| 3,835   | =           | Income Tax Savings   |
| 2.9%  |             | Return on Investment from Tax Savings  |

### Total / Summary

| 1: | 17,047  | Cash Flow                         |
|----|---------|-----------------------------------|
| 2: | 26,250  | Appreciation Year 1               |
| 3: | 6,182   | Equity Build Up Year 1            |
| 4: | 3,835   | Tax Savings Year 1                |
|    | 53,314  | Total Return from this Investment |
|    | 131,250 | Downpayment + Closing Costs       |
|    | 40.6%   | Total Return from this Investment |



| Annual Rent       Vacancy         Effective Income       Expenses         Exp as a percent of Annual Rent       Exp as a percent of Annual Rent         Exp per unit       NOI         Debt Service       \$         Before Tax Cash Flow       (1         20.9%       Internation         NOI       Internation         NOI       S         Less Interest       Internation         Less Depreciation       Taxable Income to Individuals         Pass Thru Entity       Taxable Income         Tax @ *       After Tax Cash Flow       (1         17.1%       Internation         Purchase       5         L-V       Internation         Loan       4   | 8<br>0<br>3,036<br>131,250)  | 2025<br>82,355<br>2,471<br>79,885<br>28,879<br>36%<br>3,610<br>51,006<br>36,429<br>14,577<br>T<br>51,006<br>30,247<br>14,000         | 2026<br>85,650<br>2,569<br>83,080<br>30,034<br>36%<br>3,754<br>53,046<br>36,429<br><b>16,617</b><br>53,046 | 1 2 NORTH<br>2027<br>89,076<br>2,672<br>86,403<br>31,235<br>36%<br>3,904<br>55,168<br>36,429<br>18,739 | 2028<br>92,639<br>2,779<br>89,859<br>32,485<br>36%<br>4,061<br>57,375<br>36,429<br>20,945 | 2029<br>96,344<br>2,890<br>93,454<br>33,784<br>36%<br>4,223<br>59,670<br>36,429<br>23,240 | <i>E</i> 7<br><u>2030</u><br>100,198<br>3,006<br>97,192<br>35,135<br>36%<br>4,392<br>62,057<br>36,429<br><b>25,627</b> | 2031<br>104,206<br>3,126<br>101,080<br>36,541<br>36%<br>4,568<br>64,539<br>36,429<br>28,110 | 2032<br>108,374<br>3,251<br>105,123<br>38,002<br>36%<br>4,750<br>67,121<br>36,429<br>30,691 | 2033<br>112,709<br>3,381<br>109,328<br>39,522<br>36%<br>4,940<br>69,805<br>36,429 | 2034<br>117,217<br>3,517<br>113,701<br>41,103<br>36%<br>5,138<br>72,598<br>36,429 |
|---|--|--|--|--|---|---|--|---|---|---|---|
| Annual Rent       Vacancy         Effective Income       Expenses         Exp as a percent of Annual Rent       Exp as a percent of Annual Rent         Exp per unit       NOI         Debt Service       \$         Before Tax Cash Flow       (1         20.9%       Internation         NOI       Internation         NOI       Setore to Individuals         Pass Thru Entity       Taxable Income to Individuals         Pass Thru Entity       Taxable Income         Tax @ *       After Tax Cash Flow       (1         17.1%       Internation         Purchase       5         L-V       Loan       4  | 4.0%<br>3.0%<br>4.0%<br>nt<br>8<br>0<br>3,036<br>131,250)<br>al Rate of Return | 82,355<br>2,471<br>79,885<br>28,879<br>36%<br>3,610<br>51,006<br>36,429<br>14,577<br>51,006<br>30,247                                | 85,650<br>2,569<br>83,080<br>30,034<br>36%<br>3,754<br>53,046<br>36,429<br><b>16,617</b><br>53,046         | 89,076<br>2,672<br>86,403<br>31,235<br>36%<br>3,904<br>55,168<br>36,429<br>18,739                      | 92,639<br>2,779<br>89,859<br>32,485<br>36%<br>4,061<br>57,375<br>36,429                   | 96,344<br>2,890<br>93,454<br>33,784<br>36%<br>4,223<br>59,670<br>36,429                   | 100,198<br>3,006<br>97,192<br>35,135<br>36%<br>4,392<br>62,057<br>36,429   | 104,206<br>3,126<br>101,080<br>36,541<br>36%<br>4,568<br>64,539<br>36,429                   | 108,374<br>3,251<br>105,123<br>38,002<br>36%<br>4,750<br>67,121<br>36,429                   | 112,709<br>3,381<br>109,328<br>39,522<br>36%<br>4,940<br>69,805<br>36,429         | 117,217<br>3,517<br>113,701<br>41,103<br>36%<br>5,138<br>72,598<br>36,429         |
| VacancyImage: Second state st | 3.0% 4.0% nt 8 0 3,036 131,250) al Rate of Retur                               | 2,471<br>79,885<br>28,879<br>36%<br>3,610<br>51,006<br>36,429<br>14,577<br>m<br>51,006<br>30,247                                     | 2,569<br>83,080<br>30,034<br>36%<br>3,754<br>53,046<br>36,429<br>16,617<br>53,046                          | 2,672<br>86,403<br>31,235<br>36%<br>3,904<br>55,168<br>36,429<br>18,739                                | 2,779<br>89,859<br>32,485<br>36%<br>4,061<br>57,375<br>36,429                             | 2,890<br>93,454<br>33,784<br>36%<br>4,223<br>59,670<br>36,429                             | 3,006<br>97,192<br>35,135<br>36%<br>4,392<br>62,057<br>36,429  | 3,126<br>101,080<br>36,541<br>36%<br>4,568<br>64,539<br>36,429                              | 3,251<br>105,123<br>38,002<br>36%<br>4,750<br>67,121<br>36,429                              | 3,381<br>109,328<br>39,522<br>36%<br>4,940<br>69,805<br>36,429                    | 3,517<br>113,701<br>41,103<br>36%<br>5,138<br>72,598<br>36,429                    |
| Effective Income<br>Expenses<br>Exp as a percent of Annual Ren<br>Exp per unit<br>NOI<br>Debt Service \$<br>Before Tax Cash Flow (1<br>20.9% Interna<br>NOI<br>Less Interest<br>Less Depreciation<br>Taxable Income to Individuals<br>Pass Thru Entity<br>Taxable Income<br>Tax @ *<br>After Tax Cash Flow (1<br>17.1% Interna<br>Purchase 5<br>L-V<br>Loan 4   | 4.0%<br>nt<br>8<br>0<br>3,036<br>131,250)<br>al Rate of Retur                  | 79,885         28,879         36%         3,610         51,006         36,429         14,577         m         51,006         30,247 | 83,080<br>30,034<br>36%<br>3,754<br>53,046<br>36,429<br>16,617<br>53,046                                   | 86,403<br>31,235<br>36%<br>3,904<br>55,168<br>36,429<br>18,739   | 89,859<br>32,485<br>36%<br>4,061<br>57,375<br>36,429                                      | 93,454<br>33,784<br>36%<br>4,223<br>59,670<br>36,429                                      | 97,192<br>35,135<br>36%<br>4,392<br>62,057<br>36,429   | 101,080<br>36,541<br>36%<br>4,568<br>64,539<br>36,429                                       | 105,123<br>38,002<br>36%<br>4,750<br>67,121<br>36,429                                       | 109,328<br>39,522<br>36%<br>4,940<br>69,805<br>36,429                             | 113,701<br>41,103<br>36%<br>5,138<br>72,598<br>36,429                             |
| ExpensesImage: Second seco | nt 8<br>0<br>3,036<br>131,250)<br>al Rate of Retu                              | 28,879<br>36%<br>3,610<br>51,006<br>36,429<br>14,577<br>m<br>51,006<br>30,247  | 30,034<br>36%<br>3,754<br>53,046<br>36,429<br>16,617<br>53,046   | 31,235<br>36%<br>3,904<br>55,168<br>36,429<br>18,739   | 32,485<br>36%<br>4,061<br>57,375<br>36,429  | 33,784<br>36%<br>4,223<br>59,670<br>36,429  | 35,135<br>36%<br>4,392<br>62,057<br>36,429   | 36,541<br>36%<br>4,568<br>64,539<br>36,429  | 38,002<br>36%<br>4,750<br>67,121<br>36,429  | 39,522<br>36%<br>4,940<br>69,805<br>36,429  | 41,103<br>36%<br>5,138<br>72,598<br>36,429  |
| Exp as a percent of Annual RerExp per unitNOIDebt Service\$Before Tax Cash Flow(120.9%InternaNOILess InterestLess DepreciationTaxable Income to IndividualsPass Thru EntityTaxable IncomeTax @ *After Tax Cash Flow(117.1%InternaPurchaseL-VLoan4   | nt 8<br>0<br>3,036<br>131,250)<br>al Rate of Retu                              | 36%<br>3,610<br>51,006<br>36,429<br>14,577<br>m<br>51,006<br>30,247  | 36%<br>3,754<br>53,046<br>36,429<br>16,617<br>53,046   | 36%<br>3,904<br>55,168<br>36,429<br>18,739   | 36%<br>4,061<br>57,375<br>36,429  | 36%<br>4,223<br>59,670<br>36,429  | 36%<br>4,392<br>62,057<br>36,429   | 36%<br>4,568<br>64,539<br>36,429  | 36%<br>4,750<br>67,121<br>36,429  | 36%<br>4,940<br>69,805<br>36,429  | 36%<br>5,138<br>72,598<br>36,429  |
| Exp per unitNOIDebt Service\$Before Tax Cash Flow(120.9%InternaNOILess InterestLess DepreciationTaxable Income to IndividualsPass Thru EntityTaxable IncomeTax @ *After Tax Cash Flow(117.1%InternaPurchaseL-VLoan4   | 8<br>0<br>3,036<br>131,250)<br>al Rate of Retur                                | 3,610<br>51,006<br>36,429<br><b>14,577</b><br>m<br>51,006<br>30,247  | 3,754<br>53,046<br>36,429<br><b>16,617</b><br>53,046   | 3,904<br>55,168<br>36,429<br>18,739  | 4,061<br>57,375<br>36,429   | 4,223<br>59,670<br>36,429   | 4,392<br>62,057<br>36,429  | 4,568<br>64,539<br>36,429   | 4,750<br>67,121<br>36,429   | 4,940<br>69,805<br>36,429   | 5,138<br>72,598<br>36,429   |
| NOI       Image: Constraint of the service       \$         Debt Service       \$         Before Tax Cash Flow       (1         20.9%       Internal         NOI       Internal         Less Interest       Internal         Less Depreciation       Taxable Income to Individuals         Pass Thru Entity       Taxable Income         Tax @ *       Internal         After Tax Cash Flow       (1         17.1%       Internal         Purchase       5         L-V       Internal         Loan       4  | 0<br>3,036<br><b>131,250)</b><br>al Rate of Retur                              | 51,006<br>36,429<br><b>14,577</b><br>51,006<br>30,247  | 53,046<br>36,429<br><b>16,617</b><br>53,046  | 55,168<br>36,429<br>18,739   | 57,375<br>36,429  | 59,670<br>36,429  | 62,057<br>36,429   | 64,539<br>36,429  | 67,121<br>36,429  | 69,805<br>36,429  | 72,598<br>36,429  |
| Debt Service\$Before Tax Cash Flow(120.9%InternalNOIInternalLess InterestInternalLess DepreciationInternalTaxable Income to IndividualsPass Thru EntityTaxable IncomeTax @ *After Tax Cash Flow(117.1%InternalPurchase5L-VInternalLoan4   | 3,036<br><b>131,250)</b><br>al Rate of Retur                                   | 36,429<br>14,577<br>m<br>51,006<br>30,247  | 36,429<br><b>16,617</b><br>53,046  | 36,429<br>18,739   | 36,429  | 36,429  | 36,429   | 36,429  | 36,429  | 36,429  | 36,429  |
| Before Tax Cash Flow(120.9%InternalNOILess InterestLess DepreciationTaxable Income to IndividualsPass Thru EntityTaxable IncomeTax @ *After Tax Cash Flow(117.1%InternalPurchase5L-VLoan4   | 131,250)<br>al Rate of Retur   | <b>14,577</b><br>m<br>51,006<br>30,247   | <b>16,617</b><br>53,046  | 18,739   |   |   |  |   |   |   |   |
| 20.9%InternalNOI  | al Rate of Retu  | m<br>51,006<br>30,247  | 53,046   |  | 20,945  | 23,240  | 25,627   | 28 110  | 30 601  |   |   |
| Less Interest<br>Less Depreciation<br>Taxable Income to Individuals<br>Pass Thru Entity<br>Taxable Income<br>Tax @ *<br>After Tax Cash Flow (1<br>17.1% Interna<br>Purchase 55<br>L-V<br>Loan 4   | 20%  | 30,247   |  | FF 400   |   |   |  | 20,110  | 50,091  | 33,376  | 335,775   |
| Less Depreciation<br>Taxable Income to Individuals<br>Pass Thru Entity<br>Taxable Income<br>Tax @ *<br>After Tax Cash Flow (1<br>17.1% Interna<br>Purchase 55<br>L-V<br>Loan 4  | 20%  | 30,247   |  | 55,168   | 57,375  | 59,670  | 62,057   | 64,539  | 67,121  | 69,805  | 72,598  |
| Taxable Income to IndividualsPass Thru EntityImage: Colspan="2">Taxable IncomeTax @ *Image: Colspan="2">Tax @ *After Tax Cash Flow(117.1%InternaPurchase5L-VImage: Colspan="2">Loan   | 20%  |  | 29,784   | 29,286   | 28,750  | 28,175  | 27,556   | 26,891  | 26,176  | 25,407  | 24,581  |
| Taxable Income to IndividualsPass Thru EntityImage: Colspan="2">Taxable IncomeTax @ *Image: Colspan="2">Tax @ *After Tax Cash Flow(117.1%InternaPurchase5L-VImage: Colspan="2">Loan   | 20%  |  | 14,000   | 14,000   | 14,000  | 14,000  | 14,000   | 14,000  | 14,000  | 14,000  | 14,000  |
| Pass Thru EntityTaxable IncomeTax @ *After Tax Cash Flow(117.1%InternaPurchase5L-V1Loan4  | 20%  | 6,759  | 9,263  | 11,883   | 14,625  | 17,495  | 20,501   | 23,648  | 26,945  | 30,398  | 34,017  |
| Taxable IncomeTax @ *After Tax Cash Flow(117.1%InternaPurchase5L-V1Loan4  | -  | (1,352)  | (1,853)  | (2,377)  | (2,925)   | (3,499)   | (4,100)  | (4,730)   | (5,389)   | (6,080)   | (6,803)   |
| After Tax Cash Flow(117.1%InternaPurchase5L-V1Loan4   | 0  | 5,407  | 7,410  | 9,506  | 11,700  | 13,996  | 16,401   | 18,919  | 21,556  | 24,319  | 27,213  |
| After Tax Cash Flow(117.1%InternaPurchase5L-V1Loan4   | 37%  | 2,001  | 2,742  | 3,517  | 4,329   | 5,179   | 6,068  | 7,000   | 7,976   | 8,998   | 10,069  |
| 17.1%InternaPurchase5L-V1Loan4  | 131,250)   | 12,576   | 13,875   | 15,222   | 16,617  | 18,062  | 19,559   | 21,110  | 22,715  | 24,378  | 276,273   |
| Purchase 5<br>L-V Loan 4  |  |  |  |  |   |   |  |   |   |   |   |
| L-V<br>Loan 4   | 525,000  |  |  |  |   |   |  | Assume a Sal  | e at End of Y   | ear 10  |   |
| Loan 4  | 80%  |  |  |  |   |   |  | Annual Rent R   |   | 041.10  | 117,217   |
|   | 420,000  |  |  |  |   |   |  | GRM   |   |   | 5.7   |
| Down Payment 1  | 105,000  |  |  |  | annual  | appreciation  | 2.5%   |   |   |   | 672,515   |
| Cap Improvement   | -  |  |  |  |   |   |  | Sale Costs  |   | 6%  | 40,351  |
|   | 26,250   |  |  |  |   |   |  | Less: Basis   |   |   | 385,000   |
|   | 131,250  |  |  |  |   |   |  | Gain  |   |   | 247,164   |
| Rate  | 7.25%  |  |  |  |   |   |  | Tax @   |   | 20%   | 49,433  |
| Term  | 25   |  |  |  |   |   |  | Mortgage Bala   | nce   |   | 332,557   |
|   | ,035.79  |  |  |  |   |   |  | Sale Proceeds   |   |   | 299,607   |
|   | ,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,  |  |  |  |   |   | Sale Proceeds After Tax  |   |   | 250,174   |   |
| Mortgage Amortization   |  | 1  | 2  | 3  | 4   | 5   | 6  | 7   | 8   | 9   | 10  |
| 420,000 Beg Ba  | al   | 420,000  | 413,818  | 407,172  | 400,028   | 392,349   | 384,094  | 375,221   | 365,682   | 355,428   | 344,406   |
| 7.25% Prin  |  | 6,182  | 6,646  | 7,144  | 7,679   | 8,255   | 8,874  | 9,539   | 10,254  | 11,022  | 11,849  |
| 25.0 Int  |  | 30,247   | 29,784   | 29,286   | 28,750  | 28,175  | 27,556   | 26,891  | 26,176  | 25,407  | 24,581  |
| 3,036 Bal EO  | )Y   | 413,818  | 407,172  | 400,028  | 392,349   | 384,094   | 375,221  | 365,682   | 355,428   | 344,406   | 332,557   |
| Cost Recovery / Depreciation  |  | 525,000  | 525,000  |  | 80%   | 420,000   |  | 20%   | 105,000   |   | 30  |
|   |  | 14,000   | 14,000   | 14,000   | 14,000  | 14,000  | 14,000   | 14,000  | 14,000  | 14,000  | 14,000  |
| Basis   |  | 511,000  | 497,000  | 483,000  | 469,000   | 455,000   | 441,000  | 427,000   | 413,000   | 399,000   | 385,000   |
| * Tax rate of 35% applies to inc  | 1  |  |  |  |   |   |  |   |   |   | 000,000   |

