

## 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
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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.

525,000	=	Acquisition Price
5%	*	First Year Appreciation
551,250	=	Value at the end of Year 1.
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26,250	=	Amount of Value Increase
131,250	/	Downpayment + Closing Costs
20%	=	Return on Investment from Appreciation

### 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 Closing
413,818	=	Loan Amount at the end of Year 1
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6,182	-	Equity Build-Up in Year 1
131,250	/	Downpayment + Closing Costs
4.7%	=	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	=	Cash Flow Before Loan Payments (rents less expenses)
14,875	-	Depreciation (assumes 15% land, 30 year recovery)
30,247	-	Mortgage Interest
8,355	=	Taxable Income Year 1
6,684		Less 20% Exclusion for LLC Ownership under new tax law
37%	*	Marginal Tax Rate
2,472.94	=	Federal Income Tax
2,473		Federal Income Tax
17,047	/	Cash Flow
14.5%	=	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.
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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
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	53,314	Total Return from this Investment
	131,250	Downpayment + Closing Costs
	40.6%	Total Return from this Investment

