

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.

94,249	+	Rental Income
35,313	-	Operating Expenses
45,472	-	Mortgage Payments
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13,464	=	Cash Flow
209,700	/	Downpayment + Closing Costs
6.4%	=	Return on Investment from Cash Flow

2 **Appreciation**

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

699,000	=	Acquisition Price
5%	*	First Year Appreciation
733,950	=	Value at the end of Year 1.
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34,950	=	Amount of Value Increase
209,700	/	Downpayment + Closing Costs
17%	=	Return on Investment from Appreciation

3 **Equity Build-Up**

7.25% 25 \$ 3,789.31

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

524,250	=	Loan Amount at Closing
516,533	=	Loan Amount at the end of Year 1
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7,717	-	Equity Build-Up in Year 1
209,700	/	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.

58,936	=	Cash Flow Before Loan Payments (rents less expenses)
19,805	-	Depreciation (assumes 15% land, 30 year recovery)
37,755	-	Mortgage Interest
1,376	=	Taxable Income Year 1
1,101		Less 20% Exclusion for LLC Ownership under new tax law
37%	*	Marginal Tax Rate
407.27	=	Federal Income Tax
407		Federal Income Tax
13,464	/	Cash Flow
3.0%	=	Effective Tax Rate on This Investment
4,982	=	Tax if Cash Flow came from a non-preferred investment vehicle
407	-	Tax from this preferred investment vehicle.
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4,574	=	Income Tax Savings
2.2%	=	Return on Investment from Tax Savings

Total / Summary

1:	13,464	Cash Flow
2:	34,950	Appreciation Year 1
3:	7,717	Equity Build Up Year 1
4:	4,574	Tax Savings Year 1
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	60,705	Total Return from this Investment
	209,700	Downpayment + Closing Costs
	28.9%	Total Return from this Investment

**Illustration of Internal Rate of Return over a 10-Year Holding Period
926 NORTH CALVERT STREET**

Purchase Price	699,000	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Annual Rent	4.0%	97,164	101,051	105,093	109,296	113,668	118,215	122,943	127,861	132,976	138,295
Vacancy	3.0%	2,915	3,032	3,153	3,279	3,410	3,546	3,688	3,836	3,989	4,149
Effective Income		94,249	98,019	101,940	106,017	110,258	114,668	119,255	124,025	128,986	134,146
Expenses	4.0%	35,313	36,726	38,195	39,722	41,311	42,964	44,682	46,470	48,328	50,262
Exp as a percent of Annual Rent		37%	37%	37%	37%	37%	37%	37%	37%	37%	37%
Exp per unit	6	5,886	6,121	6,366	6,620	6,885	7,161	7,447	7,745	8,055	8,377
NOI	0	58,936	61,293	63,745	66,295	68,947	71,705	74,573	77,556	80,658	83,884
Debt Service	\$ 3,789	45,472	45,472	45,472	45,472	45,472	45,472	45,472	45,472	45,472	45,472
Before Tax Cash Flow	(209,700)	13,464	15,822	18,273	20,823	23,475	26,233	29,101	32,084	35,186	558,511
17.0% Internal Rate of Return											
NOI		58,936	61,293	63,745	66,295	68,947	71,705	74,573	77,556	80,658	83,884
Less Interest		37,755	37,177	36,555	35,886	35,168	34,396	33,565	32,673	31,713	30,682
Less Depreciation		20,335	20,335	20,335	20,335	20,335	20,335	20,335	20,335	20,335	20,335
Taxable Income to Individuals		846	3,782	6,856	10,074	13,444	16,974	20,673	24,548	28,610	32,868
Pass Thru Entity	20%	(169)	(756)	(1,371)	(2,015)	(2,689)	(3,395)	(4,135)	(4,910)	(5,722)	(6,574)
Taxable Income	0	677	3,026	5,485	8,059	10,755	13,580	16,538	19,639	22,888	26,294
Tax @ *	37%	251	1,120	2,029	2,982	3,980	5,024	6,119	7,266	8,469	9,729
After Tax Cash Flow	(209,700)	13,214	14,702	16,244	17,841	19,495	21,208	22,982	24,818	26,718	460,873
14.3% Internal Rate of Return											
Purchase	699,000										
L-V	75%										138,295
Loan	524,250										7.2
Down Payment	174,750										994,895
Cap Improvement	-									6%	59,694
Closing Costs	34,950										495,655
Initial Investment	209,700										439,547
Rate	7.25%									20%	87,909
Term	25										415,102
P&I	\$3,789.31										520,099
											432,190
Mortgage Amortization		1	2	3	4	5	6	7	8	9	10
524,250 Beg Bal		524,250	516,533	508,238	499,321	489,736	479,432	468,356	456,449	443,650	429,892
7.25% Prin		7,717	8,295	8,917	9,585	10,304	11,076	11,906	12,799	13,758	14,790
25.0 Int		37,755	37,177	36,555	35,886	35,168	34,396	33,565	32,673	31,713	30,682
3,789 Bal EOY		516,533	508,238	499,321	489,736	479,432	468,356	456,449	443,650	429,892	415,102
Cost Recovery / Depreciation		699,000	699,000	Building	80%	559,200	Land	20%	139,800	Life	27.5
		20,335	20,335	20,335	20,335	20,335	20,335	20,335	20,335	20,335	20,335
Basis		678,665	658,331	637,996	617,662	597,327	576,993	556,658	536,324	515,989	495,655

* Tax rate of 35% applies to income of \$243,726 to \$609,350 for singles; \$487,451 to \$731,200 for married filing jointly. Marginal rate above is 37%.