## 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.

41,568 + Rental Income
14,065 - Operating Expenses
21,610 - Mortgage Payments
5,893 = Cash Flow
112,500 / Downpayment + Closing Costs
5.2% = Return on Investment from Cash Flow

# 2 Appreciation

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

375,000 = Acquisiton Price
5% \* First Year Appreciation
393,750 = Value at the end of Year 1.

18,750 = Amount of Value Increase
112,500 / Downpayment + Closing Costs
17% = Return on Investment from Appreciation

## 3 Equity Build-Up

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

281,250 = Loan Amount at Closing
278,180 = Loan Amount at the end of Year 1
3,070 - Equity Build-Up in Year 1
112,500 / Downpayment + Closing Costs
2.7% = 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.

27,503 = Cash Flow Before Loan Payments (rents less expenses) 11,591 - Depreciation (assumes 15% land, 27.5 year recovery) 18,541 - Mortgage Interest (2,628) = Taxable Income Year 1 33% \* Marginal Tax Rate (867) = Federal Income Tax (867)Federal Income Tax 5,893 / Cash Flow -14.7% = Effective Tax Rate on This Investment 1,945 = Tax if Cash Flow came from a non-preferred investment vehicle (867)Tax from this preferred investment vehicle. 2,812 = Income Tax Savings

Return on Investment from Tax Savings

### Total / Summary

2.5%

1:	5,893	Cash Flow
2:	18,750	Appreciation Year 1
3:	3,070	Equity Build Up Year 1
<b>4</b> :	2,812	Tax Savings Year 1
	30,524	Total Return from this Investment
	112,500	Downpayment + Closing Costs

			Illustration of				dolding Period	d			
Durchase Dries	275 000	2025	2020		RTLAND		2020	2024	2022	2022	2024
Purchase Price Annual Rent	<b>375,000</b> 4.0%	<u>2025</u> 41,568	<u>2026</u>	<u>2027</u> 44,960	2028 46,758	2029 48,629	2030 50,574	2031 52.597	<u>2032</u> 54,701	2033 56,889	2034 59,164
Expenses	4.0%	14,065	43,231 14,627	15,212	15,821	16,454	17,112	17,796	18,508	19,249	20,019
Exp as a percent of Ann		34%	34%	34%	34%	34%	34%		34%	34%	34%
Exp per unit	uai Reni	7,032	7,314	7,606	7,910	8,227	8,556	8,898	9,254	9,624	10,009
NOI	0	27,503	28,603	29,747	30,937	32,175	33,462	34,800	36,192	37,640	39,146
Debt Service	\$ 1,801	21,610	21,610	21,610	21,610	21,610	21,610	21,610	21,610	21,610	21,610
Before Tax Cash Flow		5,893	6,993	8,137	9,327	10,564	11,851	13,190	14,582	16,030	280,077
			0,995	0,137	3,321	10,304	11,031	13,130	14,302	10,030	200,011
15.5%	Internal Rate of	Return									
NOI		27,503	28,603	29,747	30,937	32,175	33,462	34,800	36,192	37,640	39,146
Less Interest		18,541	18,331	18,107	17,868	17,612	17,339	17,047	16,736	16,403	16,047
Less Depreciation		10,909	10,909	10,909	10,909	10,909	10,909	10,909	10,909	10,909	10,909
Taxable Income	0	(1,947)	(637)	731	2,160	3,654	5,214	6,844	8,548	10,328	12,189
Tax @	25%	(487)	(159)	183	540	913	1,303	1,711	2,137	2,582	3,047
After Tax Cash Flow	(112,500)	6,379	7,152	7,954	8,787	9,651	10,548	11,479	12,445	13,447	229,868
13.2%	Internal Rate of	Return									
	mitorrial react of	rtotairi									
Purchase	375,000	rtotairi						Assume a Sa	le at End of Y	/ear 10	
		rtotam						Assume a Sa Annual Rent F		<u>rear 10</u>	59,164
Purchase	375,000	Ttotam								<u>/ear 10</u>	59,164 9.0
Purchase L-V	375,000 75%	rtotum			annua	I appreciation	3.6%	Annual Rent F		<u>rear 10</u>	,
Purchase L-V Loan	375,000 75% 281,250	TOTAL			annua	I appreciation	3.6%	Annual Rent F		<u>rear 10</u>	9.0
Purchase L-V Loan Down Payment	375,000 75% 281,250	TOGIN			annua	I appreciation	3.6%	Annual Rent F GRM Price Sale Costs Less: Basis			9.0 533,742
Purchase L-V Loan Down Payment Cap Improvement	375,000 75% 281,250 93,750	100011			annua	l appreciation	3.6%	Annual Rent F GRM Price Sale Costs Less: Basis Gain			9.0 533,742 32,025
Purchase L-V Loan Down Payment Cap Improvement Closing Costs	375,000 75% 281,250 93,750 - 18,750 112,500 6.63%	100011			annua	l appreciation	3.6%	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @	२०॥		9.0 533,742 32,025 265,909
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term	375,000 75% 281,250 93,750 - 18,750 112,500 6.63% 30				annua	I appreciation	3.6%	Annual Rent F GRM Price Sale Costs Less: Basis Gain	२०॥	6%	9.0 533,742 32,025 265,909 235,808
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate	375,000 75% 281,250 93,750 - 18,750 112,500 6.63%				annua	I appreciation	3.6%	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @	Roll	6%	9.0 533,742 32,025 265,909 235,808 47,162 239,176 262,542
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term P&I	375,000 75% 281,250 93,750 - 18,750 112,500 6.63% 30 \$1,800.87				annua	I appreciation	3.6%	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala	Roll  ance s Before Tax	6%	9.0 533,742 32,025 265,909 235,808 47,162 239,176
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term P&I  Mortgage Amortization	375,000 75% 281,250 93,750 - 18,750 112,500 6.63% 30 \$1,800.87	1	2	3	4	5	6	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala Sale Proceed Sale Proceed	ance s Before Tax s After Tax	20%	9.0 533,742 32,025 265,909 235,808 47,162 239,176 262,542 215,380
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term P&I  Mortgage Amortization 281,250	375,000 75% 281,250 93,750 - 18,750 112,500 6.63% 30 \$1,800.87	1 281,250	278,180	274,901	4 271,397	5 267,655		Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala Sale Proceed Sale Proceed	ance s Before Tax s After Tax 8 254,822	9 249,947	9.0 533,742 32,025 265,909 235,808 47,162 239,176 262,542 215,380 10 244,739
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term P&I  Mortgage Amortization 281,250 6.63%	375,000 75% 281,250 93,750 - 18,750 112,500 6.63% 30 \$1,800.87	1 281,250 3,070	278,180 3,279	274,901 3,503	4 271,397 3,743	5 267,655 3,998	6 263,656 4,271	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bali Sale Proceed Sale Proceed 7 259,385 4,563	ance s Before Tax s After Tax 8 254,822 4,875	9 249,947 5,208	9.0 533,742 32,025 265,909 235,808 47,162 239,176 262,542 215,380 10 244,739 5,563
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term P&I  Mortgage Amortization 281,250 6.63% 30.0	375,000 75% 281,250 93,750 - 18,750 112,500 6.63% 30 \$1,800.87	1 281,250 3,070 18,541	278,180 3,279 18,331	274,901 3,503 18,107	4 271,397 3,743 17,868	5 267,655 3,998 17,612	6 263,656 4,271 17,339	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bali Sale Proceed Sale Proceed 7 259,385 4,563 17,047	ance s Before Tax s After Tax 8 254,822 4,875 16,736	9 249,947 5,208 16,403	9.0 533,742 32,025 265,909 235,808 47,162 239,176 262,542 215,380 10 244,739 5,563 16,047
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term P&I  Mortgage Amortizatior 281,250 6.63% 30.0 1,801	375,000 75% 281,250 93,750 - 18,750 112,500 6.63% 30 \$1,800.87 Beg Bal Prin Int Bal EOY	1 281,250 3,070 18,541 278,180	278,180 3,279 18,331 274,901	274,901 3,503 18,107 271,397	4 271,397 3,743 17,868 267,655	5 267,655 3,998 17,612 263,656	6 263,656 4,271 17,339 259,385	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala Sale Proceed Sale Proceed 5259,385 4,563 17,047 254,822	ance s Before Tax s After Tax 254,822 4,875 16,736 249,947	9 249,947 5,208 16,403 244,739	9.0 533,742 32,025 265,909 235,808 47,162 239,176 262,542 215,380 10 244,739 5,563 16,047 239,176
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term P&I  Mortgage Amortization 281,250 6.63% 30.0	375,000 75% 281,250 93,750 - 18,750 112,500 6.63% 30 \$1,800.87 Beg Bal Prin Int Bal EOY	1 281,250 3,070 18,541 278,180 375,000	278,180 3,279 18,331 274,901 375,000	274,901 3,503 18,107 271,397 Building	4 271,397 3,743 17,868 267,655 80%	5 267,655 3,998 17,612 263,656 300,000	6 263,656 4,271 17,339 259,385 Land	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala Sale Proceed Sale Proceed 7 259,385 4,563 17,047 254,822 20%	ance s Before Tax s After Tax 8 254,822 4,875 16,736 249,947 75,000	9 249,947 5,208 16,403 244,739 Life	9.0 533,742 32,025 265,909 235,808 47,162 239,176 262,542 215,380 10 244,739 5,563 16,047 239,176 27.5
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term P&I  Mortgage Amortizatior 281,250 6.63% 30.0 1,801	375,000 75% 281,250 93,750 - 18,750 112,500 6.63% 30 \$1,800.87 Beg Bal Prin Int Bal EOY	1 281,250 3,070 18,541 278,180	278,180 3,279 18,331 274,901	274,901 3,503 18,107 271,397	4 271,397 3,743 17,868 267,655	5 267,655 3,998 17,612 263,656	6 263,656 4,271 17,339 259,385	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala Sale Proceed Sale Proceed 5259,385 4,563 17,047 254,822	ance s Before Tax s After Tax 254,822 4,875 16,736 249,947	9 249,947 5,208 16,403 244,739	9.0 533,742 32,025 265,909 235,808 47,162 239,176 262,542 215,380 10 244,739 5,563 16,047 239,176

