### 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.

59,784+Rental Income17,133-Operating Expenses29,678-Mortgage Payments12,972=Cash Flow154,500/Downpayment + Closing Costs8.4%=Return on Investment from Cash Flow

## 2 Appreciation

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

515,000	=	Acquisiton Price
5%	*	First Year Appreciation
540,750	=	Value at the end of Year 1.
25,750	=	Amount of Value Increase
154,500	/	Downpayment + Closing Costs
17%	=	Return on Investment from Appreciation

# **3 Equity Build-Up** 6.63% 30 \$ 2,473.20

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

386,250	=	Loan Amount at Closing
382,034	=	Loan Amount at the end of Year 1
4,216	-	Equity Build-Up in Year 1
154,500	/	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.

42,651 14,592 25,463 2,597 2,077 37% 768,60	*	Cash Flow Before Loan Payments (rents less expenses) Depreciation (assumes 15% land, 30 year recovery) Mortgage Interest Taxable Income Year 1 Less 20% Exclusion for LLC Ownership under new tax law Marginal Tax Rate Federal Income Tax
769 12,972 5.9% 4,800		Federal Income Tax Cash Flow Effective Tax Rate on This Investment Tax if Cash Flow came from a non-preferred investment vehicle
769	-	Tax from this preferred investment vehicle.
4,031	=	
2.6%		Return on Investment from Tax Savings

### Total / Summary

1:	12,972	Cash Flow
2:	25,750	Appreciation Year 1
3:	4,216	Equity Build Up Year 1
4:	4,031	Tax Savings Year 1
	46,970	Total Return from this Investment
	154,500	Downpayment + Closing Costs
	30.4%	Total Return from this Investment

				Internal Rate			lolding Period				
Purchase Price	515,000	2024	2025	2026	2027	2028		2030	<u>2031</u>	2032	2033
Annual Rent	4.0%	59,784	62,175	64,662	67,249	69,939	72,736	75,646	78,672	81,819	85,091
Vacancy	3.0%	1,794	1,865	1,940	2,017	2,098	2,182	2,269	2,360	2,455	2,553
Effective Income		57,990	60,310	62,723	65,231	67,841	70,554	73,376	76,312		82,539
Expenses	4.0%	17,133	17,818	18,531	19,272	20,043	20,845	21,679	22,546	23,448	24,386
Exp as a percent of Ann	ual Rent	30%	30%	30%	30%	30%	30%	30%	30%		30%
Exp per unit	4	4,283	4,455	4,633	4,818	5,011	5,211	5,420	5,637	5,862	6,096
NOI	0	40,857	42,492	44,191	45,959	47,797	49,709	51,698	53,765	55,916	58,153
Debt Service	\$ 2,473	29,678	29,678	29,678	29,678	29,678	29,678	29,678	29,678	29,678	29,678
Before Tax Cash Flow	(154,500)	11,179	12,813	14,513	16,281	18,119	20,031	22,019	24,087	26,238	389,032
17.0%	Internal Rate of	Return		-						-	
NOI		40,857	42,492	44,191	45,959	47,797	49,709	51,698	53,765	55,916	58,153
Less Interest		25,463	25,175	24,867	24,538	24,187	23,812	23,412	22,984	22,526	22,038
Less Depreciation		13,733	13,733	13,733	13,733	13,733	13,733	13,733	13,733	13,733	13,733
Taxable Income to Indivi	iduals	1,661	3,584	5,591	7,687	9,877	12,164	14,553	17,048	19,656	22,381
Pass Thru Entity	20%	(332)	(717)	(1,118)	(1,537)	(1,975)	(2,433)	(2,911)	(3,410)	(3,931)	(4,476)
Taxable Income	0	1,329	2,867	4,473	6,150	7,901	9,731	11,642	13,639	15,725	17,905
Tax @ *	37%	492	1,061	1,655	2,275	2,923	3,600	4,308	5,046	5,818	6,625
After Tax Cash Flow	(154,500)	10,687	11,752	12,858	14,005	15,195	16,430	17,712	19,041	20,419	320,135
	Internal Rate of	Return									
Purchase	515,000						Assume a Sale at End of Year			<u>rear 10</u>	
L-V	75%						Annual Rent Roll				85,091
Loan	386,250						1 <u>L</u>	GRM			8.6
Down Payment	128,750				annua	I appreciation				733,006	
Cap Improvement	-							Sale Costs		6%	43,980
Closing Costs	25,750						Less: Basis			377,667	
Initial Investment	154,500						Gain			311,359	
Rate	6.63%						Tax @		20%	62,272	
Term	30						Mortgage Balance				328,468
P&I	\$2,473.20						Sale Proceeds Before Tax				360,557
Mortgage Amortization		1	2	3	4	5		Sale Proceeds After Tax 6 7 8			298,286 10
386,250		386,250	382,034	377,530	372,719	367,579	362,088	356,222	349,955	9 343,260	336,108
6.63%		4,216	4.504	4,811	5.140	5,491	5.866	6,267	6.695	7,152	7.640
30.0		25,463	25,175	24,867	24,538	24,187	23,812	23,412	22,984	22,526	22,038
		382,034	377,530	372,719	367,579	362,088	356,222	349,955	343,260	336,108	328,468
,	2,473 Bal EOY Cost Recovery / Depreciation		515,000		80%	412,000		20%	103,000		<u> </u>
Cost Recovery / Depre		515,000 13,733	13,733	13,733	13,733	13,733	13,733	13,733	13,733	13,733	13,733
Basis		501,267	487,533	473,800	460,067	446,333	432,600	418,867	405,133		377,667
			1		,		,	,	-		311,001
* Tax rate of 35% applie	s to income of \$2	200,001 to \$500	,000 for single	s; \$400,001 to	\$600,000 for r	married filing jo	ointly. Marginal	rate above \$5	00k/\$600k is	37%.	

