

**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 Income
17,133	-	Operating Expenses
29,678	-	Mortgage Payments
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12,972	=	Cash Flow
154,500	/	Downpayment + Closing Costs
8.4%	=	Return on Investment from Cash Flow

**2 Appreciation**

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

515,000	=	Acquisition Price
5%	*	First Year Appreciation
540,750	=	Value at the end of Year 1.
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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
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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	=	Cash Flow Before Loan Payments (rents less expenses)
14,592	-	Depreciation (assumes 15% land, 30 year recovery)
25,463	-	Mortgage Interest
2,597	=	Taxable Income Year 1
2,077		Less 20% Exclusion for LLC Ownership under new tax law
37%	*	Marginal Tax Rate
768.60	=	Federal Income Tax
769		Federal Income Tax
12,972	/	Cash Flow
5.9%	=	Effective Tax Rate on This Investment
4,800	=	Tax if Cash Flow came from a non-preferred investment vehicle
769	-	Tax from this preferred investment vehicle.
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4,031	=	Income Tax Savings
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
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	46,970	Total Return from this Investment
	154,500	Downpayment + Closing Costs
	30.4%	Total Return from this Investment

