

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.

27,600	+	Rental Income
14,459	-	Operating Expenses
9,509	-	Mortgage Payments
<hr/>		
3,632	=	Cash Flow
49,500	/	Downpayment + Closing Costs
7.3%	=	Return on Investment from Cash Flow

2 **Appreciation**

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

165,000	=	Acquisition Price
5%	*	First Year Appreciation
173,250	=	Value at the end of Year 1.
<hr/>		
8,250	=	Amount of Value Increase
49,500	/	Downpayment + Closing Costs
17%	=	Return on Investment from Appreciation

3 **Equity Build-Up**

6.63% 30 \$ 792.38

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

123,750	=	Loan Amount at Closing
122,399	=	Loan Amount at the end of Year 1
<hr/>		
1,351	-	Equity Build-Up in Year 1
49,500	/	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.

13,141	=	Cash Flow Before Loan Payments (rents less expenses)
4,675	-	Depreciation (assumes 15% land, 30 year recovery)
8,158	-	Mortgage Interest
308	=	Taxable Income Year 1
246		Less 20% Pass-Thru Entity per new tax code
37%	*	Marginal Tax Rate
91	=	Federal Income Tax
91		Federal Income Tax
3,632	/	Cash Flow
2.5%	=	Effective Tax Rate on This Investment
1,344	=	Tax if Cash Flow came from a non-preferred investment vehicle
91	-	Tax from this preferred investment vehicle.
<hr/>		
1,253	=	Income Tax Savings
2.5%		Return on Investment from Tax Savings

Total / Summary

1:	3,632	Cash Flow
2:	8,250	Appreciation Year 1
3:	1,351	Equity Build Up Year 1
4:	1,253	Tax Savings Year 1
<hr/>		
	14,485	Total Return from this Investment
	49,500	Downpayment + Closing Costs
	29.3%	Total Return from this Investment

**Illustration of Internal Rate of Return over a 10-Year Holding Period
UNIVERSITY ONE #1502**

Purchase Price	165,000	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Annual Rent	4.0%	27,600	28,704	29,852	31,046	32,288	33,580	34,923	36,320	37,773	39,283
Vacancy	3.0%	828	861	896	931	969	1,007	1,048	1,090	1,133	1,179
Effective Income		26,772	27,843	28,957	30,115	31,319	32,572	33,875	35,230	36,639	38,105
Expenses	4.0%	14,459	15,038	15,639	16,265	16,915	17,592	18,296	19,028	19,789	20,580
Exp as a percent of Annual Rent		54%	54%	54%	54%	54%	54%	54%	54%	54%	54%
Exp per unit	1	14,459	15,038	15,639	16,265	16,915	17,592	18,296	19,028	19,789	20,580
NOI	0	12,313	12,805	13,317	13,850	14,404	14,980	15,579	16,203	16,851	17,525
Debt Service	\$ 792	9,509	9,509	9,509	9,509	9,509	9,509	9,509	9,509	9,509	9,509
Before Tax Cash Flow	(49,500)	2,804	3,297	3,809	4,341	4,895	5,472	6,071	6,694	7,342	123,534
15.7% Internal Rate of Return											
NOI		12,313	12,805	13,317	13,850	14,404	14,980	15,579	16,203	16,851	17,525
Less Interest		8,158	8,066	7,967	7,862	7,749	7,629	7,501	7,364	7,217	7,061
Less Depreciation		4,400	4,400	4,400	4,400	4,400	4,400	4,400	4,400	4,400	4,400
20% Pass Thru Discount		(49)	68	190	318	451	590	736	888	1,047	1,213
Taxable Income	0	(196)	272	760	1,271	1,804	2,361	2,943	3,551	4,187	4,851
Tax @	37%	(73)	100	281	470	667	873	1,089	1,314	1,549	1,795
After Tax Cash Flow	(49,500)	2,877	3,196	3,527	3,871	4,228	4,598	4,982	5,380	5,793	101,788
13.3% Internal Rate of Return											
Purchase	165,000								Assume a Sale at End of Year 10		
L-V	75%								Annual Rent Roll		39,283
Loan	123,750								GRM		6.0
Down Payment	41,250							annual appreciation	3.6%	Price	234,846
Cap Improvement	-								Sale Costs	6%	14,091
Closing Costs	8,250								Less: Basis		121,000
Initial Investment	49,500								Gain		99,756
Rate	6.63%								Tax @	20%	19,951
Term	30								Mortgage Balance		105,237
P&I	\$792.38								Sale Proceeds Before Tax		115,518
									Sale Proceeds After Tax		95,567
Mortgage Amortization		1	2	3	4	5	6	7	8	9	10
123,750	Beg Bal	123,750	122,399	120,956	119,415	117,768	116,009	114,129	112,122	109,977	107,685
6.63%	Prin	1,351	1,443	1,542	1,647	1,759	1,879	2,008	2,145	2,291	2,448
30.0	Int	8,158	8,066	7,967	7,862	7,749	7,629	7,501	7,364	7,217	7,061
792	Bal EOY	122,399	120,956	119,415	117,768	116,009	114,129	112,122	109,977	107,685	105,237
Cost Recovery / Depreciation		165,000	165,000	Building	80%	132,000	Land	20%	33,000	Life	30
		4,400	4,400	4,400	4,400	4,400	4,400	4,400	4,400	4,400	4,400
Basis		160,600	156,200	151,800	147,400	143,000	138,600	134,200	129,800	125,400	121,000