

## 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.

77,231	+	Rental Income
22,452	-	Operating Expenses
34,922	-	Mortgage Payments
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19,857	=	Cash Flow
164,700	/	Downpayment + Closing Costs
12.1%	=	Return on Investment from Cash Flow

### 2 **Appreciation**

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

549,000	=	Acquisition Price
5%	*	First Year Appreciation
576,450	=	Value at the end of Year 1.
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27,450	=	Amount of Value Increase
164,700	/	Downpayment + Closing Costs
17%	=	Return on Investment from Appreciation

### 3 **Equity Build-Up**

7.00%      25 \$      2,910.16

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

411,750	=	Loan Amount at Closing
405,451	=	Loan Amount at the end of Year 1
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6,299	-	Equity Build-Up in Year 1
164,700	/	Downpayment + Closing Costs
3.8%	=	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.

54,779	=	Cash Flow Before Loan Payments (rents less expenses)
15,555	-	Depreciation (assumes 15% land, 30 year recovery)
28,623	-	Mortgage Interest
10,601	=	Taxable Income Year 1
8,481	=	Less 20% Exclusion for LLC Ownership under new tax law
37%	*	Marginal Tax Rate
3,137.98	=	Federal Income Tax
3,138	=	Federal Income Tax
19,857	/	Cash Flow
15.8%	=	Effective Tax Rate on This Investment
7,347	=	Tax if Cash Flow came from a non-preferred investment vehicle
3,138	-	Tax from this preferred investment vehicle.
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4,209	=	Income Tax Savings
2.6%	=	Return on Investment from Tax Savings

### **Total / Summary**

1:	19,857	Cash Flow
2:	27,450	Appreciation Year 1
3:	6,299	Equity Build Up Year 1
4:	4,209	Tax Savings Year 1
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	57,816	Total Return from this Investment
	164,700	Downpayment + Closing Costs
	35.1%	Total Return from this Investment

