## 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
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	=	Acquisiton Price
5%	*	First Year Appreciation
576,450	=	Value at the end of Year 1.
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
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 15,555 28,623 10,601 8,481 37% 3,137.98	*	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
3,138 19,857 15.8%		Federal Income Tax Cash Flow 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.
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				
<i>4:</i>	4,209	Tax Savings Year 1				
	57,816	Total Return from this Investment				
	164,700	Downpayment + Closing Costs				
	35.1%	Total Return from this Investment				

		,	llustration of	Internal Rate	of Poturn ov	or a 10-Voar b	Joldina Porio	d			
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Purchase Price	549,000	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	2029	2030	<u>2031</u>	<u>2032</u>	<u>2033</u>	<u>2034</u>
Annual Rent	4.0%	77,231	80,321	83,533	86,875	90,350	93,964	97,722	101,631	105,697	109,924
Vacancy	3.0%	2,317	2,410	2,506	2,606	2,710	2,819	2,932	3,049	3,171	3,298
Effective Income		74,914	77,911	81,027	84,269	87,639	91,145	94,791	98,582	102,526	106,627
Expenses	4.0%	22,452	23,350	24,284	25,256	26,266	27,316	28,409	29,545	30,727	31,956
Exp as a percent of Ann	ual Rent	30%	30%	30%	30%	30%	30%		30%	30%	30%
Exp per unit	3	7,484	7,783	8,095	8,419	8,755	9,105	9,470	9,848	10,242	10,652
NOI	0	52,462	54,561	56,743	59,013	61,373	63,828	66,382	69,037	71,798	74,670
Debt Service	\$ 2,910	34,922	34,922	34,922	34,922	34,922	34,922	34,922	34,922	34,922	34,922
Before Tax Cash Flow 21.5%	(164,700) Internal Rate of	<b>17,540</b> Return	19,639	21,821	24,091	26,452	28,906	31,460	34,115	36,876	513,831
NOI		52,462	54,561	56,743	59,013	61,373	63,828	66,382	69,037	71,798	74,670
Less Interest		28,623	28,168	27,679	27,156	26,594	25,992	25,347	24,655	23,912	23,117
Less Depreciation		14,640	14,640	14,640	14,640	14,640	14,640	14,640	14,640	14,640	14,640
Taxable Income to Indiv	riduals	9,199	11,753	14,424	17,217	20,139	23,196	26,395	29,742	33,246	36,914
Pass Thru Entity	20%	(1,840)	(2,351)	(2,885)	(3,443)	(4,028)	(4,639)	(5,279)	(5,948)	(6,649)	(7,383)
Taxable Income	0	7,359	9,403	11,539	13,774	16,111	18,557	21,116	23,794	26,597	29,531
Tax @ *	37%	2,723	3,479	4,269	5,096	5,961	6,866	7,813	8,804	9,841	10,926
After Tax Cash Flow	(164,700)	14,817	16,160	17,552	18,995	20,490	22,040	23,647	25,311	27,036	423,854
	Internal Rate of										
Purchase	549,000							Assume a Sale at End of Year 10			
L-V	75%							Annual Rent R		109,924	
Loan	411,750							GRM			7.7
Down Payment	137,250				annua	l appreciation	4.5%	Price			848,783
Cap Improvement	-							Sale Costs		6%	50,927
Closing Costs	27,450							Less: Basis			402,600
Initial Investment	164,700							Gain			395,256
Rate	7.00%							Tax @		20%	79,051
Term	25							Mortgage Bala	ince		323,773
P&I	\$2,910.16							Sale Proceeds			474,083
								Sale Proceeds	After Tax		395,032
Mortgage Amortization		1	2	3	4	5	6		8	9	10
411,750		411,750	405,451	398,697	391,454	383,688	375,360	366,431	356,855	346,588	335,578
7.00%	Prin	6,299	6,754	7,243	7,766	8,328	8,930	9,575	10,267	11,010	11,805
25.0	Int	28,623	28,168	27,679	27,156	26,594	25,992	25,347	24,655	23,912	23,117
2,910	Bal EOY	405,451	398,697	391,454	383,688	375,360	366,431	356,855	346,588	335,578	323,773
Cost Recovery / Depreciation		549,000	549,000	Building	80%	439,200	Land	20%	109,800	Life	30
		14,640	14,640	14,640	14,640	14,640	14,640	14,640	14,640	14,640	14,640
Basis		534,360	519,720	505,080	490,440	475,800	461,160	446,520	431,880	417,240	402,600
* Tax rate of 35% applie	s to income of \$2	200,001 to \$500	.000 for single	es: \$400,001 to	\$600,000 for	married filing i	jointly. Margin	al rate above \$	500k/\$600k is	37%.	