

## 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.

54,708	+	Rental Income
19,314	-	Operating Expenses
25,126	-	Mortgage Payments
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10,268	=	Cash Flow
118,500	/	Downpayment + Closing Costs
8.7%	=	Return on Investment from Cash Flow

### 2 **Appreciation**

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

395,000	=	Acquisition Price
5%	*	First Year Appreciation
414,750	=	Value at the end of Year 1.
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19,750	=	Amount of Value Increase
118,500	/	Downpayment + Closing Costs
17%	=	Return on Investment from Appreciation

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

7.00%      25 \$      2,093.83

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

296,250	=	Loan Amount at Closing
291,718	=	Loan Amount at the end of Year 1
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4,532	-	Equity Build-Up in Year 1
118,500	/	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.

35,394	=	Cash Flow Before Loan Payments (rents less expenses)
11,192	-	Depreciation (assumes 15% land, 30 year recovery)
20,594	-	Mortgage Interest
3,608	=	Taxable Income Year 1
2,887		Less 20% Exclusion for LLC Ownership under new tax law
37%	*	Marginal Tax Rate
1,068.04	=	Federal Income Tax
1,068		Federal Income Tax
10,268	/	Cash Flow
10.4%	=	Effective Tax Rate on This Investment
3,799	=	Tax if Cash Flow came from a non-preferred investment vehicle
1,068	-	Tax from this preferred investment vehicle.
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2,731	=	Income Tax Savings
2.3%	=	Return on Investment from Tax Savings

### **Total / Summary**

1:	10,268	Cash Flow
2:	19,750	Appreciation Year 1
3:	4,532	Equity Build Up Year 1
4:	2,731	Tax Savings Year 1
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	37,281	Total Return from this Investment
	118,500	Downpayment + Closing Costs
	31.5%	Total Return from this Investment

