

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.

128,221	+	Rental Income
40,582	-	Operating Expenses
60,579	-	Mortgage Payments
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27,060	=	Cash Flow
358,750	/	Downpayment + Closing Costs
7.5%	=	Return on Investment from Cash Flow

2 **Appreciation**

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

1,025,000	=	Acquisition Price
5%	*	First Year Appreciation
1,076,250	=	Value at the end of Year 1.
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51,250	=	Amount of Value Increase
358,750	/	Downpayment + Closing Costs
14%	=	Return on Investment from Appreciation

3 **Equity Build-Up**

6.95% 25 \$ 5,048.28

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

717,500	=	Loan Amount at Closing
706,439	=	Loan Amount at the end of Year 1
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11,061	-	Equity Build-Up in Year 1
358,750	/	Downpayment + Closing Costs
3.1%	=	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.

87,639	=	Cash Flow Before Loan Payments (rents less expenses)
29,042	-	Depreciation (assumes 15% land, 30 year recovery)
49,518	-	Mortgage Interest
9,079	=	Taxable Income Year 1
7,263		Less 20% Exclusion for LLC Ownership under new tax law
37%	*	Marginal Tax Rate
2,687.44	=	Federal Income Tax
2,687		Federal Income Tax
27,060	/	Cash Flow
9.9%	=	Effective Tax Rate on This Investment
10,012	=	Tax if Cash Flow came from a non-preferred investment vehicle
2,687	-	Tax from this preferred investment vehicle.
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7,325	=	Income Tax Savings
2.0%	=	Return on Investment from Tax Savings

Total / Summary

1:	27,060	Cash Flow
2:	51,250	Appreciation Year 1
3:	11,061	Equity Build Up Year 1
4:	7,325	Tax Savings Year 1
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	96,696	Total Return from this Investment
	358,750	Downpayment + Closing Costs
	27.0%	Total Return from this Investment

**Illustration of Internal Rate of Return over a 10-Year Holding Period
4017 - 4019 EASTERN AVENUE**

Purchase Price	1,025,000	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Annual Rent	4.0%	128,221	133,350	138,684	144,232	150,001	156,001	162,241	168,731	175,480	182,499
Vacancy	3.0%	3,847	4,001	4,161	4,327	4,500	4,680	4,867	5,062	5,264	5,475
Effective Income		124,375	129,350	134,524	139,905	145,501	151,321	157,374	163,669	170,216	177,024
Expenses	4.0%	40,582	42,206	43,894	45,650	47,476	49,375	51,350	53,404	55,540	57,761
Exp as a percent of Annual Rent		33%	33%	33%	33%	33%	33%	33%	33%	33%	33%
Exp per unit	7	5,797	6,029	6,271	6,521	6,782	7,054	7,336	7,629	7,934	8,252
NOI	0	83,793	87,144	90,630	94,255	98,025	101,946	106,024	110,265	114,676	119,263
Debt Service	\$ 5,048	60,579	60,579	60,579	60,579	60,579	60,579	60,579	60,579	60,579	60,579
Before Tax Cash Flow	(358,750)	23,213	26,565	30,051	33,676	37,446	41,367	45,445	49,686	54,097	843,866
15.6% Internal Rate of Return											
NOI		83,793	87,144	90,630	94,255	98,025	101,946	106,024	110,265	114,676	119,263
Less Interest		49,518	48,725	47,874	46,962	45,985	44,938	43,815	42,613	41,323	39,942
Less Depreciation		27,333	27,333	27,333	27,333	27,333	27,333	27,333	27,333	27,333	27,333
Taxable Income to Individuals		6,941	11,086	15,423	19,960	24,707	29,675	34,875	40,319	46,019	51,988
Pass Thru Entity	20%	(1,388)	(2,217)	(3,085)	(3,992)	(4,941)	(5,935)	(6,975)	(8,064)	(9,204)	(10,398)
Taxable Income	0	5,553	8,869	12,338	15,968	19,766	23,740	27,900	32,255	36,815	41,590
Tax @ *	37%	2,055	3,282	4,565	5,908	7,313	8,784	10,323	11,935	13,622	15,388
After Tax Cash Flow	(358,750)	21,159	23,283	25,486	27,768	30,133	32,583	35,122	37,751	40,475	709,094
12.9% Internal Rate of Return											
Purchase	1,025,000										
L-V	70%										182,499
Loan	717,500										7.9
Down Payment	307,500										1,434,664
Cap Improvement	-										86,080
Closing Costs	51,250										751,667
Initial Investment	358,750										596,917
Rate	6.95%										119,383
Term	25										563,402
P&I	\$5,048.28										785,182
											665,799
Mortgage Amortization		1	2	3	4	5	6	7	8	9	10
717,500 Beg Bal		717,500	706,439	694,584	681,879	668,262	653,668	638,026	621,262	603,296	584,040
6.95% Prin		11,061	11,855	12,705	13,617	14,594	15,641	16,764	17,967	19,256	20,638
25.0 Int		49,518	48,725	47,874	46,962	45,985	44,938	43,815	42,613	41,323	39,942
5,048 Bal EOY		706,439	694,584	681,879	668,262	653,668	638,026	621,262	603,296	584,040	563,402
Cost Recovery / Depreciation		1,025,000	1,025,000	Building	80%	820,000	Land	20%	205,000	Life	30
		27,333	27,333	27,333	27,333	27,333	27,333	27,333	27,333	27,333	27,333
Basis		997,667	970,333	943,000	915,667	888,333	861,000	833,667	806,333	779,000	751,667

* Tax rate of 35% applies to income of \$200,001 to \$500,000 for singles; \$400,001 to \$600,000 for married filing jointly. Marginal rate above \$500k/\$600k is 37%.