# 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.

68,229 + Rental Income
27,394 - Operating Expenses
25,045 - Mortgage Payments
15,789 = Cash Flow
115,500 / Downpayment + Closing Costs
13.7% = Return on Investment from Cash Flow

## 2 Appreciation

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

385,000 = Acquisiton Price
5% \* First Year Appreciation
404,250 = Value at the end of Year 1.

19,250 = Amount of Value Increase
115,500 / Downpayment + Closing Costs
17% = Return on Investment from Appreciation

### 3 Equity Build-Up

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

288,750 = Loan Amount at Closing
284,500 = Loan Amount at the end of Year 1
4,250 - Equity Build-Up in Year 1
115,500 / Downpayment + Closing Costs
3.7% = 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.

40,834 = Cash Flow Before Loan Payments (rents less expenses) 10,908 - Depreciation (assumes 15% land, 30 year recovery) 20,795 - Mortgage Interest = Taxable Income Year 1 9,131 Less 20% Exclusion for LLC Ownership under new tax law 7.305 \* Marginal Tax Rate 37% 2,702.79 = Federal Income Tax 2.703 Federal Income Tax / Cash Flow 15.789 17.1% = Effective Tax Rate on This Investment 5,842 = Tax if Cash Flow came from a non-preferred investment vehicle - Tax from this preferred investment vehicle. 2,703 3,139 = Income Tax Savings 2.7% Return on Investment from Tax Savings

# Total / Summary

1:	15,789	Cash Flow				
2:	19,250	Appreciation Year 1				
3:	4,250	Equity Build Up Year 1				
<b>4</b> :	3,139	Tax Savings Year 1				
	42,429	Total Return from this Investment				
	115,500	Downpayment + Closing Costs				
	36.7%	Total Return from this Investment				

			Illustration of	Internal Rate	of Return ove	er a 10-Year H	lolding Period	1			
				869 HO	LLINS S	TREET					
Purchase Price	385,000	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Annual Rent	3.0%	68,229	70,275	72,384	74,555	76,792	79,096	81,468	83,913	86,430	89,023
Vacancy	3.0%	2,047	2,108	2,172	2,237	2,304	2,373	2,444	2,517	2,593	2,671
Effective Income		66,182	68,167	70,212	72,319	74,488	76,723	79,024	81,395	83,837	86,352
Expenses	3.0%	27,394	28,216	29,063	29,934	30,832	31,757	32,710	33,691	34,702	35,743
Exp as a percent of Annual Rent 41%		41%	41%	41%	41%	41%	41%	41%	41%	41%	
Exp per unit	5	5,479	5,643	5,813	5,987	6,166	6,351	6,542	6,738	6,940	7,149
NOI	0	38,787	39,951	41,150	42,384	43,656	44,965	46,314	47,704	49,135	50,609
Debt Service	\$ 2,087	25,045	25,045	25,045	25,045	25,045	25,045	25,045	25,045	25,045	25,045
Before Tax Cash Flow 19.2%	(115,500) Internal Rate of R	<b>13,742</b> eturn	14,906	16,104	17,339	18,610	19,920	21,269	22,658	24,090	254,962
NOI		38,787	39,951	41,150	42,384	43,656	44,965	46,314	47,704	49,135	50,609
Less Interest		20,795	20,476	20,134	19,766	19,370	18,945	18,487	17,996	17,467	16,899
Less Depreciation		10,267	10,267	10,267	10,267	10,267	10,267	10,267	10,267	10,267	10,267
Taxable Income to Indiv	riduals	7,726	9,208	10,749	12,352	14,019	15,754	17,560	19,441	21,401	23,443
Pass Thru Entity	20%	(1,545)	(1,842)	(2,150)	(2,470)	(2,804)	(3,151)	(3,512)	(3,888)		(4,689)
Taxable Income	0	6,181	7,366	8,599	9,881	11,215	12,603	14,048	15,553	17,121	18,754
Tax @ *	37%	2,287	2,726	3,182	3,656	4,150	4,663	5,198	5,755	6,335	6,939
After Tax Cash Flow	(115,500)	11,455	12,180	12,923	13,683	14,461	15,257	16,071	16,904	17,755	212,883
	Internal Rate of R										
Purchase	385,000	otam						Assume a Sa	le at End of \	/ear 10	
L-V	75%							Annual Rent F		Cai 10	89,023
Loan	288,750							GRM	\\		5.5
Down Payment	96,250				annua	I appreciation	2 4%	Price			487,268
Cap Improvement	50,250				annac		2.470	Sale Costs		6%	29,236
Closing Costs	19,250							Less: Basis		070	282,333
Initial Investment	115,500							Gain			175,698
Rate	7.25%							Tax @		20%	35,140
Term	25							Mortgage Bala	l ance	2070	228,633
P&I	\$2,087.10							Sale Proceeds			229,399
1 4.1	Ψ2,007.10							Sale Proceeds After Tax			194,259
Mortgage Amortization 1		2	3	4	5	6			9	10	
288,750		288,750	284,500	279,931	275,020	269,740	264,065	257,964	251,406	244,357	236,779
7.25%		4,250	4,569	4,911	5,279	5,675	6,101	6,558	7,049	7,578	8,146
25.0		20,795	20,476	20,134	19,766	19,370	18,945	18,487	17,996	17,467	16,899
	Bal EOY	284,500	279,931	275,020	269,740	264,065	257,964	251,406	244,357	236,779	228,633
Cost Recovery / Depreciation 385,000		385,000		80%	308,000	•	20%	77,000		30	
		10,267	10,267	10,267	10,267	10,267	10,267	10,267	10,267	10,267	10,267
Basis		374,733	364,467	354,200	343,933	333,667	323,400	313,133	302,867	292,600	282,333
* Tax rate of 35% applie	s to income of \$20				· ·	·	· ·				- ,.,-

