## 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.

21,600 + Rental Income 6,803 - Operating Expenses 9,955 - Mortgage Payments

4,842 = Cash Flow

52,500 / Downpayment + Closing Costs

9.2% = Return on Investment from Cash Flow

## 2 Appreciation

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

175,000 = Acquisiton Price

5% \* First Year Appreciation 183,750 = Value at the end of Year 1.

8,750 = Amount of Value Increase 52,500 / 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.

131,250 = Loan Amount at Closing

129,783 = Loan Amount at the end of Year 1

1,467 - Equity Build-Up in Year 1

52,500 / Downpayment + Closing Costs

2.8% = 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.

14,797 = Cash Flow Before Loan Payments (rents less expenses)

5,409 - Depreciation (assumes 15% land, 27.5 year recovery)

8,488 - Mortgage Interest

900 = Taxable Income Year 1

33% \* Marginal Tax Rate

297 = Federal Income Tax

297 Federal Income Tax

4,842 / Cash Flow

6.1% = Effective Tax Rate on This Investment

1,598 = Tax if Cash Flow came from a non-preferred investment vehicle

297 - Tax from this preferred investment vehicle.

1,301 = Income Tax Savings

2.5% Return on Investment from Tax Savings

### Total / Summary

1:	4,842	Cash Flow
2:	8,750	Appreciation Year 1
3:	1,467	Equity Build Up Year 1
<b>4</b> :	1,301	Tax Savings Year 1
	16,360	Total Return from this Investment
	52,500	Downpayment + Closing Costs
	31.2%	Total Return from this Investment

			Illustration of		of Return ove		dolding Period	d			
Purchase Price	175,000	<u>2025</u>	2026	<u>2027</u>	2028	2029	2030	2031	2032	2033	2034
Annual Rent	4.0%	21,600	22,464	23,363	24,297	25,269	26,280	27,331	28,424	29,561	30,744
Expenses	3.0%	6,803	7,007	7,217	7,433	7,656	7,886	8,123	8,366	8,617	8,876
Exp as a percent of Ann	ual Rent	31%	31%	31%	31%	30%	30%	30%	29%	29%	29%
Exp per unit	1	6,803	7,007	7,217	7,433	7,656	7,886	8,123	8,366	8,617	8,876
NOI	0	14,797	15,457	16,146	16,864	17,612	18,394	19,208	20,058	20,944	21,868
Debt Service	\$ 830	9,955	9,955	9,955	9,955	9,955	9,955	9,955	9,955	9,955	9,955
<b>Before Tax Cash Flow</b>	(52,500)	4,842	5,502	6,191	6,909	7,657	8,438	9,253	10,103	10,989	134,779
19.0%	Internal Rate of	Return									
NOI		14,797	15,457	16,146	16,864	17,612	18,394	19,208	20,058	20,944	21,868
Less Interest		8,488	8,390	8,285	8,173	8,054	7,926	7,791	7,646	7,491	7,326
Less Depreciation		5,091	5,091	5,091	5,091	5,091	5,091	5,091	5,091	5,091	5,091
Taxable Income	0	1,218	1,977	2,770	3,600	4,468	5,376	6,327	7,321	8,362	9,451
Tax @	25%	305	494	692	900	1,117	1,344	1,582	1,830	2,090	2,363
After Tax Cash Flow	(52,500)	4,538	5,008	5,498	6,009	6,540	7,094	7,671	8,272	8,898	110,407
16.2%	Internal Rate of	Return									
1012/0	intoma rate or	Retuin									
Purchase	175,000	retuiii						Assume a Sa	le at End of \	Year 10	
		Retuin						Assume a Sa Annual Rent F		<u>Year 10</u>	30,744
Purchase	175,000	Return								<u>Year 10</u>	30,744
Purchase L-V	175,000 75%	returr			annua	I appreciation	3.6%	Annual Rent F GRM Price			
Purchase L-V Loan Down Payment Cap Improvement	175,000 75% 131,250 43,750	returr			annua	l appreciation	3.6%	Annual Rent F GRM		<u>Year 10</u>	8.1
Purchase L-V Loan Down Payment	175,000 75% 131,250 43,750 - 8,750	returi			annua	l appreciation	3.6%	Annual Rent F GRM Price			8.1 249,080 14,945 124,091
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment	175,000 75% 131,250 43,750 - 8,750 52,500	returr			annua	l appreciation	3.6%	Annual Rent F GRM Price Sale Costs Less: Basis Gain		6%	8.1 249,080 14,945 124,091 110,044
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate	175,000 75% 131,250 43,750 - 8,750 52,500 6.50%	return			annua	l appreciation	3.6%	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @	रु॥		8.1 249,080 14,945 124,091 110,044 22,009
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term	175,000 75% 131,250 43,750 - 8,750 52,500 6.50% 30	return			annua	I appreciation	3.6%	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala	Roll	6%	8.1 249,080 14,945 124,091 110,044 22,009 111,269
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate	175,000 75% 131,250 43,750 - 8,750 52,500 6.50%	return			annua	I appreciation	3.6%	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala Sale Proceeds	Roll  ance s Before Tax	6%	8.1 249,080 14,945 124,091 110,044 22,009 111,269 122,866
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term P&I	175,000 75% 131,250 43,750 - 8,750 52,500 6.50% 30 \$829.59							Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala Sale Proceed: Sale Proceed:	ance s Before Tax	20%	8.1 249,080 14,945 124,091 110,044 22,009 111,269 122,866 100,857
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term P&I  Mortgage Amortization	175,000 75% 131,250 43,750 - 8,750 52,500 6.50% 30 \$829.59	1	2	3	4	5	6	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala Sale Proceed: Sale Proceed:	ance s Before Tax s After Tax	20%	8.1 249,080 14,945 124,091 110,044 22,009 111,269 122,866 100,857
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term P&I  Mortgage Amortization 131,250	175,000 75% 131,250 43,750 - 8,750 52,500 6.50% 30 \$829.59 Beg Bal	1 131,250	129,783	128,218	4 126,548	5 124,766	6 122,864	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala Sale Proceed: Sale Proceed: 7 120,836	ance s Before Tax s After Tax 8 118,671	6% 20% 9 116,362	8.1 249,080 14,945 124,091 110,044 22,009 111,269 122,866 100,857 10
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term P&I  Mortgage Amortization 131,250 6.50%	175,000 75% 131,250 43,750 - 8,750 52,500 6.50% 30 \$829.59 Beg Bal	1 131,250 1,467	129,783 1,565	128,218 1,670	4 126,548 1,782	5 124,766 1,901	6 122,864 2,029	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala Sale Proceed: Sale Proceed: 7 120,836 2,164	ance s Before Tax s After Tax 8 118,671 2,309	9 116,362 2,464	8.1 249,080 14,945 124,091 110,044 22,009 111,269 122,866 100,857 10 113,898 2,629
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term P&I  Mortgage Amortization 131,250 6.50% 30.0	175,000 75% 131,250 43,750 - 8,750 52,500 6.50% 30 \$829.59 Beg Bal Prin	1 131,250 1,467 8,488	129,783 1,565 8,390	128,218 1,670 8,285	4 126,548 1,782 8,173	5 124,766 1,901 8,054	6 122,864 2,029 7,926	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala Sale Proceed: Sale Proceed: 2,164 7,791	ance s Before Tax s After Tax 8 118,671 2,309 7,646	9 116,362 2,464 7,491	8.1 249,080 14,945 124,091 110,044 22,009 111,269 122,866 100,857 10 113,898 2,629 7,326
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term P&I  Mortgage Amortization 131,250 6.50% 30.0 830	175,000 75% 131,250 43,750 - 8,750 52,500 6.50% 30 \$829.59 Beg Bal Prin Int Bal EOY	1 131,250 1,467 8,488 129,783	129,783 1,565 8,390 128,218	128,218 1,670 8,285 126,548	4 126,548 1,782 8,173 124,766	5 124,766 1,901 8,054 122,864	6 122,864 2,029 7,926 120,836	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala Sale Proceed: Sale Proceed: 2,164 7,791 118,671	ance s Before Tax s After Tax 8 118,671 2,309 7,646 116,362	9 116,362 2,464 7,491 113,898	8.1 249,080 14,945 124,091 110,044 22,009 111,269 122,866 100,857 10 113,898 2,629 7,326 111,269
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term P&I  Mortgage Amortization 131,250 6.50% 30.0	175,000 75% 131,250 43,750 - 8,750 52,500 6.50% 30 \$829.59 Beg Bal Prin Int Bal EOY	1 131,250 1,467 8,488 129,783 175,000	129,783 1,565 8,390 128,218 175,000	128,218 1,670 8,285 126,548 Building	4 126,548 1,782 8,173 124,766 80%	5 124,766 1,901 8,054 122,864 140,000	6 122,864 2,029 7,926 120,836 Land	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala Sale Proceed: Sale Proceed: 2,164 7,791 118,671 20%	ance s Before Tax s After Tax 118,671 2,309 7,646 116,362 35,000	9 116,362 2,464 7,491 113,898 Life	8.1 249,080 14,945 124,091 110,044 22,009 111,269 122,866 100,857 10 113,898 2,629 7,326 111,269 27.5
Purchase L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term P&I  Mortgage Amortization 131,250 6.50% 30.0 830	175,000 75% 131,250 43,750 - 8,750 52,500 6.50% 30 \$829.59 Beg Bal Prin Int Bal EOY	1 131,250 1,467 8,488 129,783	129,783 1,565 8,390 128,218	128,218 1,670 8,285 126,548	4 126,548 1,782 8,173 124,766	5 124,766 1,901 8,054 122,864	6 122,864 2,029 7,926 120,836	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala Sale Proceed: Sale Proceed: 2,164 7,791 118,671	ance s Before Tax s After Tax 8 118,671 2,309 7,646 116,362	9 116,362 2,464 7,491 113,898	8.1 249,080 14,945 124,091 110,044 22,009 111,269 122,866 100,857 10 113,898 2,629 7,326 111,269