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.

133,800 + Rental Income
37,499 - Operating Expenses
75,090 - Mortgage Payments

21,211 = Cash Flow
396,000 / Downpayment + Closing Costs

2 Appreciation

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

5.4% = Return on Investment from Cash Flow

1,320,000 = Acquisiton Price
5% * First Year Appreciation
1,386,000 = Value at the end of Year 1.
66,000 = Amount of Value Increase
396,000 / 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.

990,000 = Loan Amount at Closing
978,935 = Loan Amount at the end of Year 1
11,065 - Equity Build-Up in Year 1
396,000 / 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.

28,050 - Depreciation (assumes 15% land, 30 year recovery) 64,024 - Mortgage Interest = Taxable Income Year 1 4,227 Less 20% Exclusion for LLC Ownership under new tax law 3.381 * Marginal Tax Rate 37% 1,251.07 = Federal Income Tax 1,251 Federal Income Tax / Cash Flow 21.211 5.9% = Effective Tax Rate on This Investment 7,848 = Tax if Cash Flow came from a non-preferred investment vehicle - Tax from this preferred investment vehicle. 1,251 6,597 = Income Tax Savings 1.7% Return on Investment from Tax Savings

96,301 = Cash Flow Before Loan Payments (rents less expenses)

Total / Summary

1:	21,211	Cash Flow
2:	66,000	Appreciation Year 1
3:	11,065	Equity Build Up Year 1
4 :	6,597	Tax Savings Year 1
	104,874	Total Return from this Investment
	396,000	Downpayment + Closing Costs
	26.5%	Total Return from this Investment

			Illustration of	Internal Rate	of Return ove	er a 10-Year H	loldina Period	1					
Illustration of Internal Rate of Return over a 10-Year Holding Period PORTFOLIO OF 4 RENTAL HOMES													
Purchase Price	1,320,000	<u>2025</u>	2026	2027	2028	2029	2030	2031	2032	2033	2034		
Annual Rent	4.0%	133,800	139,152	144,718	150,507	156,527	162,788	169,300	176,072	183,115	190,439		
Vacancy	3.0%	4,014	4,175	4,342	4,515	4,696	4,884	5,079	5,282	5,493	5,713		
Effective Income		129,786	134,977	140,377	145,992	151,831	157,905	164,221	170,790	177,621	184,726		
Expenses	4.0%	37,499	38,999	40,559	42,182	43,869	45,624	47,448	49,346	51,320	53,373		
Exp as a percent of Annual Rent 29%		29%	29%	29%	29%	29%	29%	29%	29%	29%			
Exp per unit	4	9,375	9,750	10,140	10,545	10,967	11,406	11,862	12,337	12,830	13,343		
NOI	96,301	92,287	95,978	99,817	103,810	107,962	112,281	116,772	121,443	126,301	131,353		
Debt Service	\$ 6,257	75,090	75,090	75,090	75,090	75,090	75,090	75,090	75,090	75,090	75,090		
Before Tax Cash Flow (376,200) 17,197 15.3% Internal Rate of Return		20,889	24,728	28,720	32,873	37,191	41,683	46,353	51,211	983,025			
NOI		92,287	95,978	99,817	103,810	107,962	112,281	116,772	121,443	126,301	131,353		
Less Interest		64,024	63,283	62,492	61,649	60,749	59,788	58,763	57,670	56,503	55,259		
Less Depreciation		35,200	35,200	35,200	35,200	35,200	35,200	35,200	35,200	35,200	35,200		
Taxable Income to Individuals (6,937)		(2,505)	2,125	6,961	12,014	17,293	22,809	28,573	34,598	40,894			
Pass Thru Entity	20%	1,387	501	(425)	(1,392)	(2,403)	(3,459)	(4,562)	(5,715)		(8,179)		
Taxable Income	0	(5,550)	(2,004)	1,700	5,569	9,611	13,834	18,247	22,859	27,678	32,715		
Tax @ *	37%	(2,053)	(741)	629	2,061	3,556	5,119	6,751	8,458	10,241	12,105		
After Tax Cash Flow	(376,200)	19,251	21,630	24,099	26,660	29,317	32,073	34,931	37,896	40,970	811,311		
13.1%	Internal Rate of R	Return											
Purchase 1,320,000							Assume a Sa	le at End of \	ear 10				
L-V	75%							Annual Rent F		<u> </u>	190,439		
Loan	990,000							GRM			9.9		
Down Payment	330,000				annua	l appreciation	3.6%	Price			1,878,772		
Cap Improvement	-							Sale Costs		6%	112,726		
Closing Costs	46,200							Less: Basis			968,000		
Initial Investment	376,200							Gain			798,045		
Rate	6.50%							Tax @		20%	159,609		
Term	30							Mortgage Bala	ance		839,284		
P&I	\$6,257.47							Sale Proceeds	s Before Tax		926,762		
								Sale Proceeds After Tax			767,153		
Mortgage Amortization 1		2	3	4	5	6	7	8	9	10			
990,000	Beg Bal	990,000	978,935	967,128	954,531	941,090	926,749	911,447	895,121	877,701	859,115		
6.50%	Prin	11,065	11,807	12,597	13,441	14,341	15,302	16,326	17,420	18,586	19,831		
30.0	Int	64,024	63,283	62,492	61,649	60,749	59,788	58,763	57,670	56,503	55,259		
6,257	Bal EOY	978,935	967,128	954,531	941,090	926,749	911,447	895,121	877,701	859,115	839,284		
Cost Recovery / Depreciation 1,320,000		1,320,000	Building	80%	1,056,000	Land	20%	264,000	Life	30			
		35,200	35,200	35,200	35,200	35,200	35,200	35,200	35,200	35,200	35,200		
Basis		1,284,800	1,249,600	1,214,400	1,179,200	1,144,000	1,108,800	1,073,600	1,038,400	1,003,200	968,000		
* 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%.													

