

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.

113,050	+	Rental Income
43,165	-	Operating Expenses
48,679	-	Mortgage Payments
<hr/>		
21,206	=	Cash Flow
234,000	/	Downpayment + Closing Costs
9.1%	=	Return on Investment from Cash Flow

2 Appreciation

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

780,000	=	Acquisition Price
5%	*	First Year Appreciation
819,000	=	Value at the end of Year 1.
<hr/>		
39,000	=	Amount of Value Increase
234,000	/	Downpayment + Closing Costs
17%	=	Return on Investment from Appreciation

3 Equity Build-Up

6.79% 25 \$ 4,056.62

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

585,000	=	Loan Amount at Closing
575,758	=	Loan Amount at the end of Year 1
<hr/>		
9,242	-	Equity Build-Up in Year 1
234,000	/	Downpayment + Closing Costs
3.9%	=	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.

69,885	=	Cash Flow Before Loan Payments (rents less expenses)
22,100	-	Depreciation (assumes 15% land, 30 year recovery)
39,437	-	Mortgage Interest
8,348	=	Taxable Income Year 1
6,678		Less 20% Exclusion for LLC Ownership under new tax law
37%	*	Marginal Tax Rate
2,470.95	=	Federal Income Tax
2,471		Federal Income Tax
21,206	/	Cash Flow
11.7%	=	Effective Tax Rate on This Investment
7,846	=	Tax if Cash Flow came from a non-preferred investment vehicle
2,471	-	Tax from this preferred investment vehicle.
<hr/>		
5,375	=	Income Tax Savings
2.3%	=	Return on Investment from Tax Savings

Total / Summary

1:	21,206	Cash Flow
2:	39,000	Appreciation Year 1
3:	9,242	Equity Build Up Year 1
4:	5,375	Tax Savings Year 1
<hr/>		
	74,823	Total Return from this Investment
	234,000	Downpayment + Closing Costs
	32.0%	Total Return from this Investment

Illustration of Internal Rate of Return over a 10-Year Holding Period
869 - 871 HOLLINS STREET

Purchase Price	780,000	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Annual Rent	3.0%	113,050	116,442	119,935	123,533	127,239	131,056	134,988	139,038	143,209	147,505
Vacancy	3.0%	3,392	3,493	3,598	3,706	3,817	3,932	4,050	4,171	4,296	4,425
Effective Income		109,659	112,949	116,337	119,827	123,422	127,125	130,939	134,867	138,913	143,080
Expenses	3.0%	43,165	44,460	45,794	47,168	48,583	50,040	51,542	53,088	54,680	56,321
Exp as a percent of Annual Rent		39%	39%	39%	39%	39%	39%	39%	39%	39%	39%
Exp per unit	8	5,396	5,558	5,724	5,896	6,073	6,255	6,443	6,636	6,835	7,040
NOI	0	66,494	68,488	70,543	72,659	74,839	77,084	79,397	81,779	84,232	86,759
Debt Service	\$ 4,057	48,679	48,679	48,679	48,679	48,679	48,679	48,679	48,679	48,679	48,679
Before Tax Cash Flow	(234,000)	17,814	19,809	21,864	23,980	26,160	28,405	30,717	33,099	35,553	508,764
15.5% Internal Rate of Return											
NOI		66,494	68,488	70,543	72,659	74,839	77,084	79,397	81,779	84,232	86,759
Less Interest		39,437	38,790	38,097	37,356	36,563	35,714	34,805	33,834	32,794	31,681
Less Depreciation		20,800	20,800	20,800	20,800	20,800	20,800	20,800	20,800	20,800	20,800
Taxable Income to Individuals		6,256	8,899	11,646	14,504	17,477	20,571	23,791	27,145	30,639	34,278
Pass Thru Entity	20%	(1,251)	(1,780)	(2,329)	(2,901)	(3,495)	(4,114)	(4,758)	(5,429)	(6,128)	(6,856)
Taxable Income	0	5,005	7,119	9,317	11,603	13,981	16,457	19,033	21,716	24,511	27,423
Tax @ *	37%	1,852	2,634	3,447	4,293	5,173	6,089	7,042	8,035	9,069	10,146
After Tax Cash Flow	(234,000)	15,962	17,175	18,416	19,687	20,987	22,316	23,675	25,064	26,484	427,426
12.7% Internal Rate of Return											
Purchase	780,000										
L-V	75%										147,505
Loan	585,000										6.7
Down Payment	195,000										987,191
Cap Improvement	-									6%	59,231
Closing Costs	39,000										572,000
Initial Investment	234,000										355,960
Rate	6.79%									20%	71,192
Term	25										457,275
P&I	\$4,056.62										470,685
											399,493
Mortgage Amortization		1	2	3	4	5	6	7	8	9	10
585,000 Beg Bal		585,000	575,758	565,868	555,286	543,963	531,846	518,880	505,006	490,160	474,274
6.79% Prin		9,242	9,889	10,582	11,324	12,117	12,966	13,874	14,846	15,886	16,999
25.0 Int		39,437	38,790	38,097	37,356	36,563	35,714	34,805	33,834	32,794	31,681
4,057 Bal EOY		575,758	565,868	555,286	543,963	531,846	518,880	505,006	490,160	474,274	457,275
Cost Recovery / Depreciation		780,000	780,000	Building	80%	624,000	Land	20%	156,000	Life	30
		20,800	20,800	20,800	20,800	20,800	20,800	20,800	20,800	20,800	20,800
Basis		759,200	738,400	717,600	696,800	676,000	655,200	634,400	613,600	592,800	572,000

* 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%.