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.

	25,800	+	Rental Income
	8,880	-	Operating Expenses
_	11,263	-	Mortgage Payments
	5,657	=	Cash Flow
	59,400	/	Downpayment + Closing Costs
	9.5%	=	Return on Investment from Cash Flow

2 Appreciation

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

	198,000	=	Acquisiton Price
	5%	*	First Year Appreciation
_	207,900	=	Value at the end of Year 1.
	9,900	=	Amount of Value Increase
	59,400	/	Downpayment + Closing Costs
	17%	=	Return on Investment from Appreciation

3 Equity Build-Up 6.50% 30 \$ 938.62

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

148,500	=	Loan Amount at Closing
146,840	=	Loan Amount at the end of Year 1
1,660	-	Equity Build-Up in Year 1
59,400	/	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.

16	6,920	=	Cash Flow Before Loan Payments (rents less expenses)
4	,208	-	Depreciation (assumes 15% land, 30 year recovery)
g	9,604	-	Mortgage Interest
3	8,109	=	Taxable Income Year 1
2	2,487		Less 20% Exclusion for LLC Ownership under new tax law
	37%	*	Marginal Tax Rate
92	20.28	=	Federal Income Tax
	920		Federal Income Tax
5	5,657	/	Cash Flow
1	6.3%	=	Effective Tax Rate on This Investment
2	2,093	=	Tax if Cash Flow came from a non-preferred investment vehicle
	920	-	Tax from this preferred investment vehicle.
1	,173	=	Income Tax Savings
	2.0%		Return on Investment from Tax Savings

Total / Summary

1:	5,657	Cash Flow						
2:	9,900	Appreciation Year 1						
3:	1,660	Equity Build Up Year 1						
4:	: 1,173 Tax Savings Year 1							
	18,389	Total Return from this Investment						
	59,400	Downpayment + Closing Costs						
	31.0%	Total Return from this Investment						



Illustration of Internal Rate of Return over a 10-Year Holding Period											
			29	31 & 293	5 PULASP	<i>KIHIGHW</i>	ΆΥ				
Purchase Price	198,000	<u>2025</u>	2026	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	2031	<u>2032</u>	<u>2033</u>	<u>2034</u>
Annual Rent	4.0%	25,800	26,832	27,905	29,021	30,182	31,390	32,645	33,951	35,309	36,721
Vacancy	3.0%	774	805	837	871	905	942	979	1,019	1,059	1,102
Effective Income		25,026	26,027	27,068	28,151	29,277	30,448	31,666	32,933	34,250	35,620
Expenses	4.0%	8,880	9,235	9,604	9,989	10,388	10,804	11,236	11,685	12,153	12,639
Exp as a percent of Ann	ual Rent	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
Exp per unit	4	2,220	2,309	2,401	2,497	2,597	2,701	2,809	2,921	3,038	3,160
NOI	16,920	16,146	16,792	17,464	18,162	18,889	19,644	20,430	21,247	22,097	22,981
Debt Service	\$ 939	11,263	11,263	11,263	11,263	11,263	11,263	11,263	11,263	11,263	11,263
Before Tax Cash Flow	(56,430)	4,883	5,529	6,200	6,899	7,625	8,381	9,167	9,984	10,834	150,732
18.6%	Internal Rate of	Return									
NOI		16,146	16,792	17,464	18,162	18,889	19,644	20,430	21,247	22,097	22,981
Less Interest		9,604	9,492	9,374	9,247	9,112	8,968	8,815	8,650	8,476	8,289
Less Depreciation		5,280	5,280	5,280	5,280	5,280	5,280	5,280	5,280	5,280	5,280
Taxable Income to Indiv	iduals	1,263	2,020	2,810	3,635	4,496	5,396	6,336	7,317	8,342	9,412
Pass Thru Entity	20%	(253)	(404)	(562)	(727)	(899)	(1,079)	(1,267)	(1,463)	(1,668)	(1,882)
Taxable Income	0	1,010	1,616	2,248	2,908	3,597	4,317	5,068	5,853	6,673	7,530
Tax @ *	37%	374	598	832	1,076	1,331	1,597	1,875	2,166	2,469	2,786
After Tax Cash Flow	(56,430)	4,509	4,931	5,369	5,823	6,294	6,784	7,291	7,818	8,365	124,004
15.7%	Internal Rate of	Return									
Purchase	198,000							Assume a Sa	le at End of Y	ear 10	
I -V 75%								Annual Rent F	Roll		36,721
Loan	148,500							GRM			7.7
Down Payment	49,500				annua	appreciation	3.6%	Price			281,816
Cap Improvement	-							Sale Costs		6%	16,909
Closing Costs	6.930							Less: Basis			145,200
Initial Investment	56,430							Gain			119,707
Rate	6.50%							Tax @		20%	23,941
Term	30							Mortgage Bala	ance		125,893
P&I	\$938.62							Sale Proceed	s Before Tax		139,014
								Sale Proceeds After Tax			115,073
Mortgage Amortization	1	2	3	4	5	6	7	8	9	10	
148,500	Beg Bal	148,500	146,840	145,069	143,180	141,163	139,012	136,717	134,268	131,655	128,867
6.50%	Prin	1,660	1,771	1,890	2,016	2,151	2,295	2,449	2,613	2,788	2,975
30.0	Int	9,604	9,492	9,374	9,247	9,112	8,968	8,815	8,650	8,476	8,289
939	Bal EOY	146,840	145,069	143,180	141,163	139,012	136,717	134,268	131,655	128,867	125,893
Cost Recovery / Depreciation		198,000	198,000	Building	80%	158,400	Land	20%	39,600	Life	30
		5,280	5,280	5,280	5,280	5,280	5,280	5,280	5,280	5,280	5,280
Basis		192,720	187,440	182,160	176,880	171,600	166,320	161,040	155,760	150,480	145,200
* Tax rate of 35% applie	s to income of \$2	200,001 to \$500	,000 for single	s; \$400,001 to	\$600,000 for r	married filing jo	bintly. Margina	l rate above \$	500k/\$600k is	37%.	

