

## 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
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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	=	Acquisition Price
5%	*	First Year Appreciation
207,900	=	Value at the end of Year 1.
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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
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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.

16,920	=	Cash Flow Before Loan Payments (rents less expenses)
4,208	-	Depreciation (assumes 15% land, 30 year recovery)
9,604	-	Mortgage Interest
3,109	=	Taxable Income Year 1
2,487		Less 20% Exclusion for LLC Ownership under new tax law
37%	*	Marginal Tax Rate
920.28	=	Federal Income Tax
920		Federal Income Tax
5,657	/	Cash Flow
16.3%	=	Effective Tax Rate on This Investment
2,093	=	Tax if Cash Flow came from a non-preferred investment vehicle
920	-	Tax from this preferred investment vehicle.
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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
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	18,389	Total Return from this Investment
	59,400	Downpayment + Closing Costs
	31.0%	Total Return from this Investment

