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.

149,568+Rental Income34,592-Operating Expenses93,500-Mortgage Payments21,476=Cash Flow447,000/Downpayment + Closing Costs4.8%=Return on Investment from Cash Flow

2 Appreciation

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

1,490,000	=	Acquisiton Price
5%	*	First Year Appreciation
1,564,500	=	Value at the end of Year 1.
74,500	=	Amount of Value Increase
447,000	/	Downpayment + Closing Costs
17%	=	Return on Investment from Appreciation

3 *Equity Build-Up* 6.85% 25 \$ 7,791.65

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

1,117,500	=	Loan Amount at Closing
 1,100,007	=	Loan Amount at the end of Year 1
 17,493	-	Equity Build-Up in Year 1
447,000	/	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.

114,976	=	Cash Flow Before Loan Payments (rents less expenses)
46,055	-	Depreciation (assumes 15% land, 27.5 year recovery)
76,006	-	Mortgage Interest
(7,085)	=	Taxable Income Year 1
33%	*	Marginal Tax Rate
(2,338)	=	Federal Income Tax
(2,338)		Federal Income Tax
21,476	/	Cash Flow
-10.9%	=	Effective Tax Rate on This Investment
7,087	=	Tax if Cash Flow came from a non-preferred investment vehicle
(2,338)	-	Tax from this preferred investment vehicle.
9,425	=	Income Tax Savings
2.1%		Return on Investment from Tax Savings

Total / Summary

1:	21,476	Cash Flow
2:	74,500	Appreciation Year 1
3:	17,493	Equity Build Up Year 1
4:	9,425	Tax Savings Year 1
	122,895	Total Return from this Investment
	447,000	Downpayment + Closing Costs
	27.5%	Total Return from this Investment



			Illustration of	Internal Rate 7 - 729 S				d			
Purchase Price	1,490,000	2025	<u>2026</u>	2027	2028	<u>2029</u>	<u>2030</u>	2031	2032	2033	2034
Annual Rent	4.0%	154,194	160,362	166,776	173,447	180,385	187,601	195,105	202,909	211,025	219,466
Vacancy	3.0%	4,626	4,811	5,003	5,203	5,412	5,628	5,853	6,087	6,331	6,584
Effective Income		149,568	155,551	161,773	168,244	174,974	181,973	189,251	196,822	204,694	212,882
Expenses	4.0%	34,592	35,976	37,415	38,912	40,468	42,087	43,770	45,521	47,342	49,236
Exp as a percent of Ann	ual Rent	23%	23%	23%	23%	23%	23%	23%	23%	23%	23%
Exp per unit	8	4,324	4,497	4,677	4,864	5,059	5,261	5,471	5,690	5,918	6,154
NOI	0	114,976	119,575	124,358	129,332	134,506	139,886	145,481	151,301	157,353	163,647
Debt Service	\$ 7,792	93,500	93,500	93,500	93,500	93,500	93,500	93,500	93,500	93,500	93,500
Before Tax Cash Flow	(447,000)	21,476	26,075	30,858	35,833	41,006	46,386	51,981	57,801	63,853	1,188,627
15.7%	Internal Rate of	Return									
NOI		114,976	119,575	124,358	129,332	134,506	139,886	145,481	151,301	157,353	163,647
Less Interest		76,006	74,770	73,446	72,028	70,510	68,885	67,145	65,282	63,287	61,151
Less Depreciation		43,345	43,345	43,345	43,345	43,345	43,345	43,345	43,345	43,345	43,345
Taxable Income	0	(4,376)	1,460	7,567	13,959	20,650	27,656	34,991	42,673	50,720	59,150
Tax @	25%	(1,094)	365	1,892	3,490	5,163	6,914	8,748	10,668	12,680	14,788
After Tax Cash Flow	(447,000)	22,570	25,710	28,966	32,343	35,843	39,472	43,234	47,132	51,173	986,450
13.5%	Internal Rate of	Return									
Purchase	1,490,000							Assume a Sa	le at End of Y	(ear 10	
L-V	1,490,000 75%							Assume a Sa Annual Rent F		<u>(ear 10</u>	219,466
										<u>/ear 10</u>	219,466 9.7
L-V	75%				annua	appreciation	3.6%	Annual Rent F GRM		<u>/ear 10</u>	
L-V Loan	75% 1,117,500				annua	appreciation	1	Annual Rent F GRM		<u>(ear 10</u> 6%	9.7
L-V Loan Down Payment	75% 1,117,500 372,500				annua	appreciation	1	Annual Rent F GRM Price			9.7 2,120,735
L-V Loan Down Payment Cap Improvement	75% 1,117,500 372,500				annua	appreciation	1	Annual Rent F GRM Price Sale Costs			9.7 2,120,735 127,244
L-V Loan Down Payment Cap Improvement Closing Costs	75% 1,117,500 372,500 - 74,500				annua	appreciation	1	Annual Rent F GRM Price Sale Costs Less: Basis			9.7 2,120,735 127,244 1,056,545
L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment	75% 1,117,500 372,500 - 74,500 447,000				annua	appreciation	3.6%	Annual Rent F GRM Price Sale Costs Less: Basis Gain	Roll	6%	9.7 2,120,735 127,244 1,056,545 936,945
L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate	75% 1,117,500 372,500 - 74,500 447,000 6.85%				annua	appreciation	3.6%	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @	Roll	6%	9.7 2,120,735 127,244 1,056,545 936,945 187,389
L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term P&I	75% 1,117,500 372,500 - 74,500 447,000 6.85% 25 \$7,791.65				annua	appreciation	3.6%	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala	Roll	6%	9.7 2,120,735 127,244 1,056,545 936,945 187,389 875,011
L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term P&I Mortgage Amortization	75% 1,117,500 372,500 - 74,500 447,000 6.85% 25 \$7,791.65	1	2	3	4	5	3.6%	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala Sale Proceed Sale Proceed Sale Proceed	Roll ance s Before Tax s After Tax 8	6% 9	9.7 2,120,735 127,244 1,056,545 936,945 187,389 875,011 1,118,480 931,091 10
L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term P&I Mortgage Amortization 1,117,500	75% 1,117,500 372,500 - 74,500 447,000 6.85% 25 \$7,791.65 Beg Bal	1	1,100,007	1,081,276	4 1,061,222	5 1,039,750	3.6%	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala Sale Proceed Sale Proceed Sale Proceed 7 992,146	Roll ance s Before Tax s After Tax 8 965,791	6% 20% 9 937,572	9.7 2,120,735 127,244 1,056,545 936,945 187,389 875,011 1,118,480 931,091 10 907,360
L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term P&I Mortgage Amortization 1,117,500 6.85%	75% 1,117,500 372,500 - 74,500 447,000 6.85% 25 \$7,791.65 Beg Bal Prin	17,493	1,100,007 18,730	1,081,276 20,054	4 1,061,222 21,472	5 1,039,750 22,990	3.6% 6 1,016,761 24,615	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala Sale Proceed Sale Proceed Sale Proceed 7 992,146 26,355	Roll ance s Before Tax s After Tax 8 965,791 28,218	6% 20% 9 937,572 30,213	9.7 2,120,735 127,244 1,056,545 936,945 187,389 875,011 1,118,480 931,091 10 907,360 32,349
L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term P&I Mortgage Amortization 1,117,500 6.85% 25.0	75% 1,117,500 372,500 - 74,500 447,000 6.85% 25 \$7,791.65 Beg Bal Prin Int	17,493 76,006	1,100,007 18,730 74,770	1,081,276 20,054 73,446	4 1,061,222 21,472 72,028	5 1,039,750 22,990 70,510	3.6% 	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala Sale Proceed: Sale Proceed: 7 992,146 26,355 67,145	Roll ance s Before Tax s After Tax 8 965,791 28,218 65,282	6% 20% 9 937,572 30,213 63,287	9.7 2,120,735 127,244 1,056,545 936,945 187,389 875,011 1,118,480 931,091 10 907,360 32,349 61,151
L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term P&I Mortgage Amortization 1,117,500 6.85% 25.0 7,792	75% 1,117,500 372,500 - 74,500 447,000 6.85% 25 \$7,791.65 8eg Bal Prin Int Bal EOY	17,493 76,006 1,100,007	1,100,007 18,730 74,770 1,081,276	1,081,276 20,054 73,446 1,061,222	4 1,061,222 21,472 72,028 1,039,750	5 1,039,750 22,990 70,510 1,016,761	3.6% 	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala Sale Proceed Sale Proceed Sale Proceed 7 992,146 26,355 67,145 965,791	Roll ance s Before Tax s After Tax 8 965,791 28,218 65,282 937,572	6% 20% 9 937,572 30,213 63,287 907,360	9.7 2,120,735 127,244 1,056,545 936,945 187,389 875,011 1,118,480 931,091 10 907,360 32,349 61,151 875,011
L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term P&I Mortgage Amortization 1,117,500 6.85% 25.0	75% 1,117,500 372,500 - 74,500 447,000 6.85% 25 \$7,791.65 8eg Bal Prin Int Bal EOY	17,493 76,006 1,100,007 1,490,000	1,100,007 18,730 74,770 1,081,276 1,490,000	1,081,276 20,054 73,446 1,061,222 Building	4 1,061,222 21,472 72,028 1,039,750 80%	5 1,039,750 22,990 70,510 1,016,761 1,192,000	3.6% 3.6% 6 1,016,761 24,615 68,885 992,146 Land	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala Sale Proceed: Sale Proceed: Sale Proceed: 7 992,146 26,355 67,145 965,791 20%	Roll ance s Before Tax s After Tax 8 965,791 28,218 65,282 937,572 298,000	6% 20% 20% 9 937,572 30,213 63,287 907,360 Life	9.7 2,120,735 127,244 1,056,545 936,945 187,389 875,011 1,118,480 931,091 10 907,360 32,349 61,151 875,011 27.5
L-V Loan Down Payment Cap Improvement Closing Costs Initial Investment Rate Term P&I Mortgage Amortization 1,117,500 6.85% 25.0 7,792	75% 1,117,500 372,500 - 74,500 447,000 6.85% 25 \$7,791.65 8eg Bal Prin Int Bal EOY	17,493 76,006 1,100,007	1,100,007 18,730 74,770 1,081,276	1,081,276 20,054 73,446 1,061,222	4 1,061,222 21,472 72,028 1,039,750	5 1,039,750 22,990 70,510 1,016,761	3.6% 	Annual Rent F GRM Price Sale Costs Less: Basis Gain Tax @ Mortgage Bala Sale Proceed Sale Proceed Sale Proceed 7 992,146 26,355 67,145 965,791	Roll ance s Before Tax s After Tax 8 965,791 28,218 65,282 937,572	6% 20% 9 937,572 30,213 63,287 907,360	9.7 2,120,735 127,244 1,056,545 936,945 187,389 875,011 1,118,480 931,091 10 907,360 32,349 61,151 875,011