

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.

118,800	+	Rental Income
32,081	-	Operating Expenses
63,997	-	Mortgage Payments
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22,722	=	Cash Flow
337,500	/	Downpayment + Closing Costs
6.7%	=	Return on Investment from Cash Flow

2 **Appreciation**

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

1,125,000	=	Acquisition Price
5%	*	First Year Appreciation
1,181,250	=	Value at the end of Year 1.
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56,250	=	Amount of Value Increase
337,500	/	Downpayment + Closing Costs
17%	=	Return on Investment from Appreciation

3 **Equity Build-Up**

6.50% 30 \$ 5,333.07

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

843,750	=	Loan Amount at Closing
834,319	=	Loan Amount at the end of Year 1
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9,431	-	Equity Build-Up in Year 1
337,500	/	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.

86,719	=	Cash Flow Before Loan Payments (rents less expenses)
23,906	-	Depreciation (assumes 15% land, 30 year recovery)
54,566	-	Mortgage Interest
8,246	=	Taxable Income Year 1
6,597		Less 20% Exclusion for LLC Ownership under new tax law
37%	*	Marginal Tax Rate
2,440.87	=	Federal Income Tax
2,441		Federal Income Tax
22,722	/	Cash Flow
10.7%	=	Effective Tax Rate on This Investment
8,407	=	Tax if Cash Flow came from a non-preferred investment vehicle
2,441	-	Tax from this preferred investment vehicle.
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5,966	=	Income Tax Savings
1.8%	=	Return on Investment from Tax Savings

Total / Summary

1:	22,722	Cash Flow
2:	56,250	Appreciation Year 1
3:	9,431	Equity Build Up Year 1
4:	5,966	Tax Savings Year 1
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	94,369	Total Return from this Investment
	337,500	Downpayment + Closing Costs
	28.0%	Total Return from this Investment

