# 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.

1	118,800	+	Rental Income
	32,081	-	Operating Expenses
	63,997	-	Mortgage Payments
	22,722	=	Cash Flow
3	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	=	Acquisiton Price
5%	*	First Year Appreciation
1,181,250	=	Value at the end of Year 1.
56,250	=	Amount of Value Increase
337,500	/	Downpayment + Closing Costs
17%	=	Return on Investment from Appreciation

### 3 Equity Build-Up

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
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.

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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.
5,966	=	Income Tax Savings
1.8%		Return on Investment from Tax Savings

86.719 = Cash Flow Before Loan Payments (rents less expenses)

# Total / Summary

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

			Illustration of	Internal Rate	of Return ove	er a 10-Year H	oldina Period	1			
				RTFOLIO							
Purchase Price	1,125,000	<u>2025</u>	2026	<u>2027</u>	2028	<u>2029</u>	2030	2031	2032	2033	<u>2034</u>
Annual Rent	4.0%	118,800	123,552	128,494	133,634	138,979	144,538	150,320	156,333	162,586	169,089
Vacancy	3.0%	3,564	3,707	3,855	4,009	4,169	4,336	4,510	4,690	4,878	5,073
Effective Income		115,236	119,845	124,639	129,625	134,810	140,202	145,810	151,643	157,708	164,017
Expenses	4.0%	32,081	33,365	34,699	36,087	37,531	39,032	40,593	42,217	43,906	45,662
Exp as a percent of Ann	nual Rent	28%	28%	28%	28%	28%	28%	28%	28%	28%	28%
Exp per unit	4	8,020	8,341	8,675	9,022	9,383	9,758	10,148	10,554	10,976	11,415
NOI	86,719	83,155	86,481	89,940	93,538	97,279	101,170	105,217	109,426	113,803	118,355
Debt Service	\$ 5,333	63,997	63,997	63,997	63,997	63,997	63,997	63,997	63,997	63,997	63,997
Before Tax Cash Flow 16.4%	(320,625) Internal Rate of R	<b>19,158</b> Return	22,484	25,943	29,541	33,282	37,173	41,220	45,429	49,806	844,212
NOI		83,155	86,481	89,940	93,538	97,279	101,170	105,217	109,426	113,803	118,355
Less Interest		54,566	53,934	53,261	52,542	51,774	50,956	50,082	49,151	48,156	47,095
Less Depreciation		30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
Taxable Income to Indiv	riduals	(1,412)	2,546	6,679	10,996	15,505	20,214	25,135	30,275	35,646	41,259
Pass Thru Entity	20%	282	(509)	(1,336)	(2,199)	(3,101)	(4,043)	(5,027)	(6,055)		(8,252)
Taxable Income	0	(1,129)	2,037	5,343	8,797	12,404	16,171	20,108	24,220	28,517	33,008
Tax @ *	37%	(418)	754	1,977	3,255	4,589	5,983	7,440	8,961	10,551	12,213
After Tax Cash Flow	(320,625)	19,575	21,730	23,966	26,286	28,693	31,190	33,780	36,467	39,254	695,968
14.0%	Internal Rate of R	eturn									
Purchase	1,125,000							Assume a Sa	le at End of \	ear 10	
L-V	75%							Annual Rent Roll			169,089
Loan	843,750							GRM			9.5
Down Payment	281,250				annua	l appreciation	3.6%	Price			1,601,226
Cap Improvement	-							Sale Costs		6%	96,074
Closing Costs	39,375							Less: Basis			825,000
Initial Investment	320,625							Gain			680,152
Rate	6.50%							Tax @		20%	136,030
Term	30							Mortgage Bala	ance		715,299
P&I	\$5,333.07							Sale Proceeds	s Before Tax		789,854
								Sale Proceeds After Tax			653,823
Mortgage Amortization 1		2	3	4	5	6	7	8	9	10	
843,750	Beg Bal	843,750	834,319	824,257	813,520	802,065	789,843	776,802	762,887	748,041	732,200
6.50%		9,431	10,062	10,736	11,455	12,223	13,041	13,914	14,846	15,841	16,902
30.0	Int	54,566	53,934	53,261	52,542	51,774	50,956	50,082	49,151	48,156	47,095
5,333	Bal EOY	834,319	824,257	813,520	802,065	789,843	776,802	762,887	748,041	732,200	715,299
Cost Recovery / Depre	ciation	1,125,000	1,125,000	Building	80%	900,000	Land	20%	225,000	Life	30
		30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
Basis		1,095,000	1,065,000	1,035,000	1,005,000	975,000	945,000	915,000	885,000	855,000	825,000
* Tax rate of 35% applie	s to income of \$20	00,001 to \$500	,000 for single	s; \$400,001 to	\$600,000 for r	narried filing jo	intly. Margina	al rate above \$5	500k/\$600k is	37%.	

