

## 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.

45,228	+	Rental Income
14,803	-	Operating Expenses
20,658	-	Mortgage Payments
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9,768	=	Cash Flow
103,500	/	Downpayment + Closing Costs
9.4%	=	Return on Investment from Cash Flow

### 2 Appreciation

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

345,000	=	Acquisition Price
5%	*	First Year Appreciation
362,250	=	Value at the end of Year 1.
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17,250	=	Amount of Value Increase
103,500	/	Downpayment + Closing Costs
17%	=	Return on Investment from Appreciation

### 3 Equity Build-Up

7.00% 30 \$ 1,721.47

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

258,750	=	Loan Amount at Closing
256,122	=	Loan Amount at the end of Year 1
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2,628	-	Equity Build-Up in Year 1
103,500	/	Downpayment + Closing Costs
2.5%	=	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.

30,425	=	Cash Flow Before Loan Payments (rents less expenses)
9,775	-	Depreciation (assumes 15% land, 30 year recovery)
18,029	-	Mortgage Interest
2,621	=	Taxable Income Year 1
2,097		Less 20% Exclusion for LLC Ownership under new tax law
37%	*	Marginal Tax Rate
775.85	=	Federal Income Tax
776		Federal Income Tax
9,768	/	Cash Flow
7.9%	=	Effective Tax Rate on This Investment
3,614	=	Tax if Cash Flow came from a non-preferred investment vehicle
776	-	Tax from this preferred investment vehicle.
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2,838	=	Income Tax Savings
2.7%	=	Return on Investment from Tax Savings

### Total / Summary

1:	9,768	Cash Flow
2:	17,250	Appreciation Year 1
3:	2,628	Equity Build Up Year 1
4:	2,838	Tax Savings Year 1
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	32,484	Total Return from this Investment
	103,500	Downpayment + Closing Costs
	31.4%	Total Return from this Investment

**Illustration of Internal Rate of Return over a 10-Year Holding Period**

**1 WEST 27TH STREET**

<b>Purchase Price</b>	<b>345,000</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>	<b>2030</b>			<b>2031</b>	<b>2032</b>
Annual Rent	4.0%	45,228	47,037	48,919	50,875	52,910	55,027	57,228	59,517			61,898	64,374
Vacancy	3.0%	1,357	1,411	1,468	1,526	1,587	1,651	1,717	1,786			1,857	1,931
Effective Income		43,871	45,626	47,451	49,349	51,323	53,376	55,511	57,731			60,041	62,442
Expenses	4.0%	14,803	15,395	16,011	16,651	17,317	18,010	18,730	19,479			20,258	21,069
Exp as a percent of Annual Rent		34%	34%	34%	34%	34%	34%	34%	34%			34%	34%
Exp per unit	3	4,934	5,132	5,337	5,550	5,772	6,003	6,243	6,493			6,753	7,023
NOI	0	29,069	30,231	31,441	32,698	34,006	35,366	36,781	38,252			39,782	41,374
Debt Service	\$ 1,721	20,658	20,658	20,658	20,658	20,658	20,658	20,658	20,658			20,658	20,658
<b>Before Tax Cash Flow</b>	<b>(103,500)</b>	<b>8,411</b>	<b>9,574</b>	<b>10,783</b>	<b>12,040</b>	<b>13,348</b>	<b>14,709</b>	<b>16,123</b>	<b>17,595</b>			<b>19,125</b>	<b>260,256</b>
<b>17.7% Internal Rate of Return</b>													
NOI		29,069	30,231	31,441	32,698	34,006	35,366	36,781	38,252			39,782	41,374
Less Interest		18,029	17,839	17,635	17,417	17,183	16,932	16,662	16,373			16,064	15,732
Less Depreciation		9,200	9,200	9,200	9,200	9,200	9,200	9,200	9,200			9,200	9,200
Taxable Income to Individuals		1,839	3,192	4,605	6,081	7,623	9,235	10,919	12,679			14,519	16,442
Pass Thru Entity	20%	(368)	(638)	(921)	(1,216)	(1,525)	(1,847)	(2,184)	(2,536)			(2,904)	(3,288)
Taxable Income	0	1,471	2,554	3,684	4,865	6,099	7,388	8,735	10,143			11,615	13,154
Tax @ *	37%	544	945	1,363	1,800	2,257	2,733	3,232	3,753			4,298	4,867
<b>After Tax Cash Flow</b>	<b>(103,500)</b>	<b>7,866</b>	<b>8,629</b>	<b>9,420</b>	<b>10,240</b>	<b>11,092</b>	<b>11,975</b>	<b>12,891</b>	<b>13,842</b>			<b>14,827</b>	<b>213,674</b>
<b>14.9% Internal Rate of Return</b>													
Purchase	345,000												
L-V	75%												64,374
Loan	258,750												7.6
Down Payment	86,250						annual appreciation	3.6%					491,043
Cap Improvement	-											6%	29,463
Closing Costs	17,250												253,000
Initial Investment	103,500												208,580
Rate	7.00%											20%	41,716
Term	30												222,040
P&I	\$1,721.47												239,540
													197,824
<b>Mortgage Amortization</b>		1	2	3	4	5	6	7	8			9	10
258,750 Beg Bal		258,750	256,122	253,303	250,281	247,040	243,565	239,839	235,844			231,560	226,966
7.00% Prin		2,628	2,818	3,022	3,241	3,475	3,726	3,995	4,284			4,594	4,926
30.0 Int		18,029	17,839	17,635	17,417	17,183	16,932	16,662	16,373			16,064	15,732
1,721 Bal EOY		256,122	253,303	250,281	247,040	243,565	239,839	235,844	231,560			226,966	222,040
<b>Cost Recovery / Depreciation</b>		345,000	345,000	Building	80%	276,000	Land	20%	69,000			Life	30
		9,200	9,200	9,200	9,200	9,200	9,200	9,200	9,200			9,200	9,200
Basis		335,800	326,600	317,400	308,200	299,000	289,800	280,600	271,400			262,200	253,000

\* Tax rate of 35% applies to income of \$200,001 to \$500,000 for singles; \$400,001 to \$600,000 for married filing jointly. Marginal rate above \$500k/\$600k is 37%.