

## 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.

63,204	+	Rental Income
19,838	-	Operating Expenses
32,633	-	Mortgage Payments
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10,733	=	Cash Flow
163,500	/	Downpayment + Closing Costs
6.6%	=	Return on Investment from Cash Flow

### 2 **Appreciation**

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

545,000	=	Acquisition Price
5%	*	First Year Appreciation
572,250	=	Value at the end of Year 1.
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27,250	=	Amount of Value Increase
163,500	/	Downpayment + Closing Costs
17%	=	Return on Investment from Appreciation

### 3 **Equity Build-Up**

7.00%      30 \$      2,719.42

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

408,750	=	Loan Amount at Closing
404,598	=	Loan Amount at the end of Year 1
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4,152	-	Equity Build-Up in Year 1
163,500	/	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.

43,366	=	Cash Flow Before Loan Payments (rents less expenses)
15,442	-	Depreciation (assumes 15% land, 30 year recovery)
28,481	-	Mortgage Interest
(556)	=	Taxable Income Year 1
(445)		Less 20% Pass-Thru Entity per new tax code
37%	*	Marginal Tax Rate
(165)	=	Federal Income Tax
(165)		Federal Income Tax
10,733	/	Cash Flow
-1.5%	=	Effective Tax Rate on This Investment
3,971	=	Tax if Cash Flow came from a non-preferred investment vehicle
(165)	-	Tax from this preferred investment vehicle.
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4,136	=	Income Tax Savings
2.5%	=	Return on Investment from Tax Savings

### **Total / Summary**

1:	10,733	Cash Flow
2:	27,250	Appreciation Year 1
3:	4,152	Equity Build Up Year 1
4:	4,136	Tax Savings Year 1
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	46,271	Total Return from this Investment
	163,500	Downpayment + Closing Costs
	28.3%	Total Return from this Investment

**Illustration of Internal Rate of Return over a 10-Year Holding Period  
1722 BOLTON STREET - JUNE 2024**

<b>Purchase Price</b>	<b>545,000</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>	<b>2033</b>	<b>2034</b>
Annual Rent	4.0%	63,204	65,732	68,361	71,096	73,940	76,897	79,973	83,172	86,499	89,959
Vacancy	3.0%	1,896	1,972	2,051	2,133	2,218	2,307	2,399	2,495	2,595	2,699
Effective Income		61,308	63,760	66,311	68,963	71,722	74,590	77,574	80,677	83,904	87,260
Expenses	4.0%	19,838	20,631	21,456	22,315	23,207	24,136	25,101	26,105	27,149	28,235
Exp as a percent of Annual Rent		32%	32%	32%	32%	32%	32%	32%	32%	32%	32%
Exp per unit	3	6,613	6,877	7,152	7,438	7,736	8,045	8,367	8,702	9,050	9,412
NOI	0	41,470	43,129	44,854	46,648	48,514	50,455	52,473	54,572	56,755	59,025
Debt Service	\$ 2,719	32,633	32,633	32,633	32,633	32,633	32,633	32,633	32,633	32,633	32,633
<b>Before Tax Cash Flow</b>	<b>(163,500)</b>	<b>8,837</b>	<b>10,496</b>	<b>12,221</b>	<b>14,015</b>	<b>15,881</b>	<b>17,822</b>	<b>19,840</b>	<b>21,939</b>	<b>24,122</b>	<b>404,796</b>
<b>15.5% Internal Rate of Return</b>											
NOI		41,470	43,129	44,854	46,648	48,514	50,455	52,473	54,572	56,755	59,025
Less Interest		28,481	28,181	27,859	27,514	27,144	26,747	26,321	25,865	25,376	24,851
Less Depreciation		14,533	14,533	14,533	14,533	14,533	14,533	14,533	14,533	14,533	14,533
20% Pass Thru Discount		(309)	83	492	920	1,367	1,835	2,324	2,835	3,369	3,928
Taxable Income	0	(1,235)	332	1,969	3,681	5,470	7,340	9,295	11,339	13,476	15,712
Tax @	37%	(457)	123	729	1,362	2,024	2,716	3,439	4,195	4,986	5,814
<b>After Tax Cash Flow</b>	<b>(163,500)</b>	<b>9,294</b>	<b>10,373</b>	<b>11,492</b>	<b>12,653</b>	<b>13,857</b>	<b>15,106</b>	<b>16,401</b>	<b>17,744</b>	<b>19,135</b>	<b>333,084</b>
<b>13.1% Internal Rate of Return</b>											
Purchase	545,000								<b>Assume a Sale at End of Year 10</b>		
L-V	75%								Annual Rent Roll		89,959
Loan	408,750								GRM		8.6
Down Payment	136,250							annual appreciation	3.6%	Price	775,705
Cap Improvement	-								Sale Costs	6%	46,542
Closing Costs	27,250								Less: Basis		399,667
Initial Investment	163,500								Gain		329,496
Rate	7.00%								Tax @	20%	65,899
Term	30								Mortgage Balance		350,758
P&I	\$2,719.42								Sale Proceeds Before Tax		378,405
									Sale Proceeds After Tax		312,505
<b>Mortgage Amortization</b>		1	2	3	4	5	6	7	8	9	10
408,750	Beg Bal	408,750	404,598	400,146	395,371	390,252	384,763	378,877	372,565	365,797	358,540
7.00%	Prin	4,152	4,452	4,774	5,119	5,489	5,886	6,312	6,768	7,257	7,782
30.0	Int	28,481	28,181	27,859	27,514	27,144	26,747	26,321	25,865	25,376	24,851
2,719	Bal EOY	404,598	400,146	395,371	390,252	384,763	378,877	372,565	365,797	358,540	350,758
<b>Cost Recovery / Depreciation</b>		545,000	545,000	Building	80%	436,000	Land	20%	109,000	Life	30
		14,533	14,533	14,533	14,533	14,533	14,533	14,533	14,533	14,533	14,533
Basis		530,467	515,933	501,400	486,867	472,333	457,800	443,267	428,733	414,200	399,667