

## 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.

31,200	+	Rental Income
18,465	-	Operating Expenses
-	-	Mortgage Payments
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12,735	=	Cash Flow
257,250	/	Downpayment + Closing Costs
5.0%	=	Return on Investment from Cash Flow

### 2 **Appreciation**

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

245,000	=	Acquisition Price
5%	*	First Year Appreciation
257,250	=	Value at the end of Year 1.
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12,250	=	Amount of Value Increase
257,250	/	Downpayment + Closing Costs
5%	=	Return on Investment from Appreciation

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

0.00%      0 \$      -

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

-	=	Loan Amount at Closing
-	=	Loan Amount at the end of Year 1
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-	-	Equity Build-Up in Year 1
257,250	/	Downpayment + Closing Costs
0.0%	=	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.

12,735	=	Cash Flow Before Loan Payments (rents less expenses)
6,942	-	Depreciation (assumes 15% land, 30 year recovery)
-	-	Mortgage Interest
5,793	=	Taxable Income Year 1
4,635		Less 20% Exclusion for LLC Ownership under new tax law
37%	*	Marginal Tax Rate
1,714.83	=	Federal Income Tax
1,715		Federal Income Tax
12,735	/	Cash Flow
13.5%	=	Effective Tax Rate on This Investment
4,712	=	Tax if Cash Flow came from a non-preferred investment vehicle
1,715	-	Tax from this preferred investment vehicle.
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2,997	=	Income Tax Savings
1.2%		Return on Investment from Tax Savings

### **Total / Summary**

1:	12,735	Cash Flow
2:	12,250	Appreciation Year 1
3:	-	Equity Build Up Year 1
4:	2,997	Tax Savings Year 1
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	27,982	Total Return from this Investment
	257,250	Downpayment + Closing Costs
	10.9%	Total Return from this Investment

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

**THE BELVEDERE UNITS 311 & 408**

<b>Purchase Price</b>	<b>245,000</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%	31,200	32,448	33,746	35,096	36,500	37,960	39,478	41,057	42,699	44,407
Vacancy	3.0%	936	973	1,012	1,053	1,095	1,139	1,184	1,232	1,281	1,332
Effective Income		30,264	31,475	32,734	34,043	35,405	36,821	38,294	39,825	41,418	43,075
Expenses	4.0%	18,465	19,204	19,972	20,771	21,601	22,465	23,364	24,299	25,271	26,281
Exp as a percent of Annual Rent		61%	61%	61%	61%	61%	61%	61%	61%	61%	61%
Exp per unit	4	4,616	4,801	4,993	5,193	5,400	5,616	5,841	6,075	6,318	6,570
NOI	12,735	11,799	12,271	12,762	13,272	13,803	14,355	14,930	15,527	16,148	16,794
Debt Service	\$ -	-	-	-	-	-	-	-	-	-	-
<b>Before Tax Cash Flow</b>	<b>(253,575)</b>	<b>11,799</b>	<b>12,271</b>	<b>12,762</b>	<b>13,272</b>	<b>13,803</b>	<b>14,355</b>	<b>14,930</b>	<b>15,527</b>	<b>16,148</b>	<b>344,582</b>
<b>7.5% Internal Rate of Return</b>											
NOI		11,799	12,271	12,762	13,272	13,803	14,355	14,930	15,527	16,148	16,794
Less Interest		-	-	-	-	-	-	-	-	-	-
Less Depreciation		6,533	6,533	6,533	6,533	6,533	6,533	6,533	6,533	6,533	6,533
Taxable Income to Individuals		5,266	5,738	6,228	6,739	7,270	7,822	8,396	8,993	9,614	10,260
Pass Thru Entity	20%	(1,053)	(1,148)	(1,246)	(1,348)	(1,454)	(1,564)	(1,679)	(1,799)	(1,923)	(2,052)
Taxable Income	0	4,213	4,590	4,983	5,391	5,816	6,258	6,717	7,195	7,692	8,208
Tax @ *	37%	1,559	1,698	1,844	1,995	2,152	2,315	2,485	2,662	2,846	3,037
<b>After Tax Cash Flow</b>	<b>(253,575)</b>	<b>10,240</b>	<b>10,573</b>	<b>10,918</b>	<b>11,278</b>	<b>11,651</b>	<b>12,040</b>	<b>12,444</b>	<b>12,865</b>	<b>13,302</b>	<b>311,921</b>
<b>6.0% Internal Rate of Return</b>											
Purchase	245,000										
L-V	0%										44,407
Loan	-										7.9
Down Payment	245,000										348,711
Cap Improvement	-									6%	20,923
Closing Costs	8,575										179,667
Initial Investment	253,575										148,122
Rate	0.00%									20%	29,624
Term	0										-
P&I	\$0.00										327,789
											298,164
<b>Mortgage Amortization</b>		1	2	3	4	5	6	7	8	9	10
- Beg Bal		-	-	-	-	-	-	-	-	-	-
0.00% Prin		-	-	-	-	-	-	-	-	-	-
- Int		-	-	-	-	-	-	-	-	-	-
- Bal EOY		-	-	-	-	-	-	-	-	-	-
<b>Cost Recovery / Depreciation</b>		245,000	245,000	Building	80%	196,000	Land	20%	49,000	Life	30
		6,533	6,533	6,533	6,533	6,533	6,533	6,533	6,533	6,533	6,533
Basis		238,467	231,933	225,400	218,867	212,333	205,800	199,267	192,733	186,200	179,667

\* 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%.