

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.

58,257	+	Rental Income
12,883	-	Operating Expenses
35,866	-	Mortgage Payments
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9,507	=	Cash Flow
179,700	/	Downpayment + Closing Costs
5.3%	=	Return on Investment from Cash Flow

2 Appreciation

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

599,000	=	Acquisition Price
5%	*	First Year Appreciation
628,950	=	Value at the end of Year 1.
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29,950	=	Amount of Value Increase
179,700	/	Downpayment + Closing Costs
17%	=	Return on Investment from Appreciation

3 Equity Build-Up

7.00% 30 \$ 2,988.87

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

449,250	=	Loan Amount at Closing
444,686	=	Loan Amount at the end of Year 1
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4,564	-	Equity Build-Up in Year 1
179,700	/	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.

45,374	=	Cash Flow Before Loan Payments (rents less expenses)
16,972	-	Depreciation (assumes 15% land, 30 year recovery)
31,303	-	Mortgage Interest
(2,901)	=	Taxable Income Year 1
(2,321)		Less 20% Exclusion for LLC Ownership under new tax law
37%	*	Marginal Tax Rate
(858.67)	=	Federal Income Tax
(859)		Federal Income Tax
9,507	/	Cash Flow
-9.0%	=	Effective Tax Rate on This Investment
3,518	=	Tax if Cash Flow came from a non-preferred investment vehicle
(859)	-	Tax from this preferred investment vehicle.
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4,376	=	Income Tax Savings
2.4%		Return on Investment from Tax Savings

Total / Summary

1:	9,507	Cash Flow
2:	29,950	Appreciation Year 1
3:	4,564	Equity Build Up Year 1
4:	4,376	Tax Savings Year 1
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	48,397	Total Return from this Investment
	179,700	Downpayment + Closing Costs
	26.9%	Total Return from this Investment

Illustration of Internal Rate of Return over a 10-Year Holding Period
521 SOUTH WOLFE STREET

Purchase Price	599,000	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Annual Rent	4.0%	58,257	60,587	63,011	65,531	68,152	70,879	73,714	76,662	79,729	82,918
Vacancy	3.0%	1,748	1,818	1,890	1,966	2,045	2,126	2,211	2,300	2,392	2,488
Effective Income		56,509	58,770	61,120	63,565	66,108	68,752	71,502	74,362	77,337	80,430
Expenses	4.0%	12,883	13,399	13,935	14,492	15,072	15,675	16,302	16,954	17,632	18,337
Exp as a percent of Annual Rent		23%	23%	23%	23%	23%	23%	23%	23%	23%	23%
Exp per unit	3	4,294	4,466	4,645	4,831	5,024	5,225	5,434	5,651	5,877	6,112
NOI	0	43,626	45,371	47,186	49,073	51,036	53,078	55,201	57,409	59,705	62,093
Debt Service	\$ 2,989	35,866	35,866	35,866	35,866	35,866	35,866	35,866	35,866	35,866	35,866
Before Tax Cash Flow	(179,700)	7,760	9,505	11,319	13,207	15,170	17,211	19,334	21,542	23,839	442,125
14.6% Internal Rate of Return											

NOI		43,626	45,371	47,186	49,073	51,036	53,078	55,201	57,409	59,705	62,093
Less Interest		31,303	30,973	30,619	30,240	29,833	29,397	28,929	28,428	27,890	27,314
Less Depreciation		15,973	15,973	15,973	15,973	15,973	15,973	15,973	15,973	15,973	15,973
Taxable Income to Individuals		(3,650)	(1,575)	593	2,860	5,230	7,707	10,298	13,008	15,842	18,806
Pass Thru Entity	20%	730	315	(119)	(572)	(1,046)	(1,541)	(2,060)	(2,602)	(3,168)	(3,761)
Taxable Income	0	(2,920)	(1,260)	475	2,288	4,184	6,166	8,238	10,406	12,673	15,045
Tax @ *	37%	(1,080)	(466)	176	847	1,548	2,281	3,048	3,850	4,689	5,567
After Tax Cash Flow	(179,700)	8,840	9,971	11,144	12,360	13,622	14,930	16,286	17,692	19,150	364,129
12.4% Internal Rate of Return											

Purchase	599,000								Assume a Sale at End of Year 10		
L-V	75%								Annual Rent Roll		82,918
Loan	449,250								GRM		10.3
Down Payment	149,750					annual appreciation	3.6%		Price		852,564
Cap Improvement	-								Sale Costs	6%	51,154
Closing Costs	29,950								Less: Basis		439,267
Initial Investment	179,700								Gain		362,143
Rate	7.00%								Tax @	20%	72,429
Term	30								Mortgage Balance		385,512
P&I	\$2,988.87								Sale Proceeds Before Tax		415,898
									Sale Proceeds After Tax		343,469

Mortgage Amortization		1	2	3	4	5	6	7	8	9	10
449,250 Beg Bal		449,250	444,686	439,793	434,546	428,919	422,886	416,417	409,480	402,041	394,065
7.00% Prin		4,564	4,893	5,247	5,626	6,033	6,469	6,937	7,439	7,976	8,553
30.0 Int		31,303	30,973	30,619	30,240	29,833	29,397	28,929	28,428	27,890	27,314
2,989 Bal EOY		444,686	439,793	434,546	428,919	422,886	416,417	409,480	402,041	394,065	385,512
Cost Recovery / Depreciation	599,000	599,000	Building	80%	479,200	Land	20%	119,800	Life	30	
Basis		15,973	15,973	15,973	15,973	15,973	15,973	15,973	15,973	15,973	15,973
		583,027	567,053	551,080	535,107	519,133	503,160	487,187	471,213	455,240	439,267

* 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%.