

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.

48,000	+	Rental Income
16,647	-	Operating Expenses
21,500	-	Mortgage Payments
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9,853	=	Cash Flow
133,500	/	Downpayment + Closing Costs
7.4%	=	Return on Investment from Cash Flow

2 Appreciation

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

445,000	=	Acquisition Price
5%	*	First Year Appreciation
467,250	=	Value at the end of Year 1.
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22,250	=	Amount of Value Increase
133,500	/	Downpayment + Closing Costs
17%	=	Return on Investment from Appreciation

3 Equity Build-Up

5.00% 30 \$ 1,791.64

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

333,750	=	Loan Amount at Closing
328,826	=	Loan Amount at the end of Year 1
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4,924	-	Equity Build-Up in Year 1
133,500	/	Downpayment + Closing Costs
3.7%	=	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.

31,353	=	Cash Flow Before Loan Payments (rents less expenses)
12,608	-	Depreciation (assumes 15% land, 30 year recovery)
16,576	-	Mortgage Interest
2,169	=	Taxable Income Year 1
1,735	=	Less 20% Exclusion for LLC Ownership under new tax law
37%	*	Marginal Tax Rate
641.95	=	Federal Income Tax
642	=	Federal Income Tax
9,853	/	Cash Flow
6.5%	=	Effective Tax Rate on This Investment
3,646	=	Tax if Cash Flow came from a non-preferred investment vehicle
642	-	Tax from this preferred investment vehicle.
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3,004	=	Income Tax Savings
2.2%	=	Return on Investment from Tax Savings

Total / Summary

1:	9,853	Cash Flow
2:	22,250	Appreciation Year 1
3:	4,924	Equity Build Up Year 1
4:	3,004	Tax Savings Year 1
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	40,031	Total Return from this Investment
	133,500	Downpayment + Closing Costs
	30.0%	Total Return from this Investment

**Illustration of Internal Rate of Return over a 10-Year Holding Period
911 NORTH CALVERT STREET**

Purchase Price	445,000	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Annual Rent	3.5%	48,000	49,680	51,419	53,218	55,081	57,009	59,004	61,069	63,207	65,419
Vacancy	3.0%	1,440	1,490	1,543	1,597	1,652	1,710	1,770	1,832	1,896	1,963
Effective Income		46,560	48,190	49,876	51,622	53,429	55,299	57,234	59,237	61,311	63,457
Expenses	3.5%	16,647	17,230	17,833	18,457	19,103	19,772	20,464	21,180	21,921	22,688
Exp as a percent of Annual Rent		36%	36%	36%	36%	36%	36%	36%	36%	36%	36%
Exp per unit	4	4,162	4,307	4,458	4,614	4,776	4,943	5,116	5,295	5,480	5,672
NOI	0	29,913	30,960	32,043	33,165	34,326	35,527	36,770	38,057	39,389	40,768
Debt Service	\$ 1,792	21,500	21,500	21,500	21,500	21,500	21,500	21,500	21,500	21,500	21,500
Before Tax Cash Flow	(133,500)	8,413	9,460	10,544	11,665	12,826	14,027	15,271	16,558	17,890	317,889
15.2% Internal Rate of Return											
NOI		29,913	30,960	32,043	33,165	34,326	35,527	36,770	38,057	39,389	40,768
Less Interest		16,576	16,324	16,059	15,781	15,488	15,180	14,857	14,517	14,160	13,785
Less Depreciation		11,867	11,867	11,867	11,867	11,867	11,867	11,867	11,867	11,867	11,867
Taxable Income to Individuals		1,470	2,769	4,118	5,518	6,971	8,480	10,047	11,673	13,363	15,117
Pass Thru Entity	20%	(294)	(554)	(824)	(1,104)	(1,394)	(1,696)	(2,009)	(2,335)	(2,673)	(3,023)
Taxable Income	0	1,176	2,215	3,294	4,414	5,577	6,784	8,037	9,339	10,690	12,093
Tax @ *	37%	435	820	1,219	1,633	2,063	2,510	2,974	3,455	3,955	4,475
After Tax Cash Flow	(133,500)	7,978	8,640	9,325	10,032	10,762	11,517	12,297	13,102	13,934	264,661
12.7% Internal Rate of Return											
Purchase	445,000										Assume a Sale at End of Year 10
L-V	75%										Annual Rent Roll
Loan	333,750										GRM
Down Payment	111,250					annual appreciation	3.1%				Price
Cap Improvement	-										Sale Costs
Closing Costs	22,250										6%
Initial Investment	133,500										Less: Basis
Rate	5.00%										Gain
Term	30										243,767
P&I	\$1,791.64										Tax @
											20%
											Mortgage Balance
											271,479
											Sale Proceeds Before Tax
											298,621
											Sale Proceeds After Tax
											249,867
Mortgage Amortization		1	2	3	4	5	6	7	8	9	10
333,750 Beg Bal		333,750	328,826	323,650	318,209	312,490	306,478	300,159	293,516	286,534	279,194
5.00% Prin		4,924	5,176	5,441	5,719	6,012	6,319	6,643	6,982	7,340	7,715
30.0 Int		16,576	16,324	16,059	15,781	15,488	15,180	14,857	14,517	14,160	13,785
1,792 Bal EOY		328,826	323,650	318,209	312,490	306,478	300,159	293,516	286,534	279,194	271,479
Cost Recovery / Depreciation		445,000	445,000	Building	80%	356,000	Land	20%	89,000	Life	30
		11,867	11,867	11,867	11,867	11,867	11,867	11,867	11,867	11,867	11,867
Basis		#####766,466	#####754,59:	#####73</733	#####6<: /866	#####6;8,99:	#####6<: /33	#####694<66	#####683,89:	#####66; /533	#####659,666

* 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%.