

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.

215,922	+	Rental Income
70,696	-	Operating Expenses
102,903	-	Mortgage Payments
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42,324	=	Cash Flow
572,400	/	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.

1,908,000	=	Acquisition Price
5%	*	First Year Appreciation
2,003,400	=	Value at the end of Year 1.
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95,400	=	Amount of Value Increase
572,400	/	Downpayment + Closing Costs
17%	=	Return on Investment from Appreciation

3 **Equity Build-Up**

5.25% 25 \$ 8,575.23

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

1,431,000	=	Loan Amount at Closing
1,402,546	=	Loan Amount at the end of Year 1
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28,454	-	Equity Build-Up in Year 1
572,400	/	Downpayment + Closing Costs
5.0%	=	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.

145,226	=	Cash Flow Before Loan Payments (rents less expenses)
54,060	-	Depreciation (assumes 15% land, 30 year recovery)
74,449	-	Mortgage Interest
16,717	=	Taxable Income Year 1
13,374	=	Less 20% Exclusion for LLC Ownership under new tax law
37%	*	Marginal Tax Rate
4,948.26	=	Federal Income Tax
4,948	=	Federal Income Tax
42,324	/	Cash Flow
11.7%	=	Effective Tax Rate on This Investment
15,660	=	Tax if Cash Flow came from a non-preferred investment vehicle
4,948	-	Tax from this preferred investment vehicle.
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10,711	=	Income Tax Savings
1.9%	=	Return on Investment from Tax Savings

Total / Summary

1:	42,324	Cash Flow
2:	95,400	Appreciation Year 1
3:	28,454	Equity Build Up Year 1
4:	10,711	Tax Savings Year 1
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	176,889	Total Return from this Investment
	572,400	Downpayment + Closing Costs
	30.9%	Total Return from this Investment

