

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.

42,900	+	Rental Income
11,279	-	Operating Expenses
15,275	-	Mortgage Payments
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16,347	=	Cash Flow
103,500	/	Downpayment + Closing Costs
15.8%	=	Return on Investment from Cash Flow

**2 Appreciation**

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

345,000	=	Acquisition Price
5%	*	First Year Appreciation
362,250	=	Value at the end of Year 1.
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17,250	=	Amount of Value Increase
103,500	/	Downpayment + Closing Costs
17%	=	Return on Investment from Appreciation

**3 Equity Build-Up**

4.25%      30 \$      1,272.89

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

258,750	=	Loan Amount at Closing
254,388	=	Loan Amount at the end of Year 1
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4,362	-	Equity Build-Up in Year 1
103,500	/	Downpayment + Closing Costs
4.2%	=	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.

31,621	=	Cash Flow Before Loan Payments (rents less expenses)
9,775	-	Depreciation (assumes 15% land, 30 year recovery)
10,913	-	Mortgage Interest
10,934	=	Taxable Income Year 1
8,747		Less 20% Exclusion for LLC Ownership under new tax law
37%	*	Marginal Tax Rate
3,236.38	=	Federal Income Tax
3,236		Federal Income Tax
16,347	/	Cash Flow
19.8%	=	Effective Tax Rate on This Investment
6,048	=	Tax if Cash Flow came from a non-preferred investment vehicle
3,236	-	Tax from this preferred investment vehicle.
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2,812	=	Income Tax Savings
2.7%		Return on Investment from Tax Savings

**Total / Summary**

1:	16,347	Cash Flow
2:	17,250	Appreciation Year 1
3:	4,362	Equity Build Up Year 1
4:	2,812	Tax Savings Year 1
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	40,771	Total Return from this Investment
	103,500	Downpayment + Closing Costs
	39.4%	Total Return from this Investment