

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.

40,500	+	Rental Income
12,509	-	Operating Expenses
15,496	-	Mortgage Payments
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12,495	=	Cash Flow
105,000	/	Downpayment + Closing Costs
11.9%	=	Return on Investment from Cash Flow

2 Appreciation

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

350,000	=	Acquisition Price
5%	*	First Year Appreciation
367,500	=	Value at the end of Year 1.
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17,500	=	Amount of Value Increase
105,000	/	Downpayment + Closing Costs
17%	=	Return on Investment from Appreciation

3 Equity Build-Up

4.25% 30 \$ 1,291.34

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

262,500	=	Loan Amount at Closing
258,075	=	Loan Amount at the end of Year 1
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4,425	-	Equity Build-Up in Year 1
105,000	/	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.

27,991	=	Cash Flow Before Loan Payments (rents less expenses)
9,917	-	Depreciation (assumes 15% land, 30 year recovery)
11,071	-	Mortgage Interest
7,003	=	Taxable Income Year 1
5,603		Less 20% Exclusion for LLC Ownership under new tax law
37%	*	Marginal Tax Rate
2,073.00	=	Federal Income Tax
2,073		Federal Income Tax
12,495	/	Cash Flow
16.6%	=	Effective Tax Rate on This Investment
4,623	=	Tax if Cash Flow came from a non-preferred investment vehicle
2,073	-	Tax from this preferred investment vehicle.
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2,550	=	Income Tax Savings
2.4%		Return on Investment from Tax Savings

Total / Summary

1:	12,495	Cash Flow
2:	17,500	Appreciation Year 1
3:	4,425	Equity Build Up Year 1
4:	2,550	Tax Savings Year 1
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	36,970	Total Return from this Investment
	105,000	Downpayment + Closing Costs
	35.2%	Total Return from this Investment