

## 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.

43,812	+	Rental Income
16,332	-	Operating Expenses
15,425	-	Mortgage Payments
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12,055	=	Cash Flow
107,700	/	Downpayment + Closing Costs
11.2%	=	Return on Investment from Cash Flow

### 2 **Appreciation**

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

359,000	=	Acquisition Price
5%	*	First Year Appreciation
376,950	=	Value at the end of Year 1.
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17,950	=	Amount of Value Increase
107,700	/	Downpayment + Closing Costs
17%	=	Return on Investment from Appreciation

### 3 **Equity Build-Up**

4.00%      30 \$      1,285.44

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

269,250	=	Loan Amount at Closing
264,508	=	Loan Amount at the end of Year 1
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4,742	-	Equity Build-Up in Year 1
107,700	/	Downpayment + Closing Costs
4.4%	=	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.

27,480	=	Cash Flow Before Loan Payments (rents less expenses)
10,172	-	Depreciation (assumes 15% land, 30 year recovery)
10,684	-	Mortgage Interest
6,625	=	Taxable Income Year 1
5,300		Less 20% Exclusion for LLC Ownership under new tax law
37%	*	Marginal Tax Rate
1,960.91	=	Federal Income Tax
1,961		Federal Income Tax
12,055	/	Cash Flow
16.3%	=	Effective Tax Rate on This Investment
4,460	=	Tax if Cash Flow came from a non-preferred investment vehicle
1,961	-	Tax from this preferred investment vehicle.
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2,499	=	Income Tax Savings
2.3%	=	Return on Investment from Tax Savings

### **Total / Summary**

1:	12,055	Cash Flow
2:	17,950	Appreciation Year 1
3:	4,742	Equity Build Up Year 1
4:	2,499	Tax Savings Year 1
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	37,246	Total Return from this Investment
	107,700	Downpayment + Closing Costs
	34.6%	Total Return from this Investment