

## 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.

55,500	+	Rental Income
17,391	-	Operating Expenses
20,167	-	Mortgage Payments
<hr/>		
17,942	=	Cash Flow
149,700	/	Downpayment + Closing Costs
12.0%	=	Return on Investment from Cash Flow

### 2 Appreciation

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

499,000	=	Acquisition Price
5%	*	First Year Appreciation
523,950	=	Value at the end of Year 1.
<hr/>		
24,950	=	Amount of Value Increase
149,700	/	Downpayment + Closing Costs
17%	=	Return on Investment from Appreciation

### 3 Equity Build-Up

3.50% 30 \$ 1,680.55

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

374,250	=	Loan Amount at Closing
367,068	=	Loan Amount at the end of Year 1
<hr/>		
7,182	-	Equity Build-Up in Year 1
149,700	/	Downpayment + Closing Costs
4.8%	=	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.

38,109	=	Cash Flow Before Loan Payments (rents less expenses)
14,138	-	Depreciation (assumes 15% land, 30 year recovery)
12,984	-	Mortgage Interest
10,986	=	Taxable Income Year 1
8,789		Less 20% Exclusion for LLC Ownership under new tax law
37%	*	Marginal Tax Rate
3,252.00	=	Federal Income Tax
3,252		Federal Income Tax
17,942	/	Cash Flow
18.1%	=	Effective Tax Rate on This Investment
6,639	=	Tax if Cash Flow came from a non-preferred investment vehicle
3,252	-	Tax from this preferred investment vehicle.
<hr/>		
3,387	=	Income Tax Savings
2.3%		Return on Investment from Tax Savings

### Total / Summary

1:	17,942	Cash Flow
2:	24,950	Appreciation Year 1
3:	7,182	Equity Build Up Year 1
4:	3,387	Tax Savings Year 1
<hr/>		
	53,462	Total Return from this Investment
	149,700	Downpayment + Closing Costs
	35.7%	Total Return from this Investment

**Illustration of Internal Rate of Return over a 10-Year Holding Period  
3012 NORTH CALVERT STREET**

Purchase Price	499,000	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Annual Rent	4.0%	55,500	57,720	60,029	62,430	64,927	67,524	70,225	73,034	75,956	78,994
Vacancy	3.0%	1,665	1,732	1,801	1,873	1,948	2,026	2,107	2,191	2,279	2,370
Effective Income		53,835	55,988	58,228	60,557	62,979	65,499	68,118	70,843	73,677	76,624
Expenses	4.0%	17,391	18,087	18,810	19,562	20,345	21,159	22,005	22,885	23,801	24,753
Exp as a percent of Annual Rent		32%	32%	32%	32%	32%	32%	32%	32%	32%	32%
Exp per unit	3	5,797	6,029	6,270	6,521	6,782	7,053	7,335	7,628	7,934	8,251
NOI	0	36,444	37,902	39,418	40,995	42,634	44,340	46,113	47,958	49,876	51,871
Debt Service	\$ 1,681	20,167	20,167	20,167	20,167	20,167	20,167	20,167	20,167	20,167	20,167
<b>Before Tax Cash Flow</b>	<b>(149,700)</b>	<b>16,277</b>	<b>17,735</b>	<b>19,251</b>	<b>20,828</b>	<b>22,468</b>	<b>24,173</b>	<b>25,947</b>	<b>27,791</b>	<b>29,710</b>	<b>409,553</b>
<b>20.0% Internal Rate of Return</b>											

NOI		36,444	37,902	39,418	40,995	42,634	44,340	46,113	47,958	49,876	51,871
Less Interest		12,984	12,729	12,464	12,190	11,907	11,613	11,309	10,994	10,667	10,329
Less Depreciation		13,307	13,307	13,307	13,307	13,307	13,307	13,307	13,307	13,307	13,307
Taxable Income to Individuals		10,153	11,866	13,647	15,498	17,421	19,420	21,498	23,658	25,902	28,235
Pass Thru Entity	20%	(2,031)	(2,373)	(2,729)	(3,100)	(3,484)	(3,884)	(4,300)	(4,732)	(5,180)	(5,647)
Taxable Income	0	8,123	9,493	10,918	12,398	13,937	15,536	17,198	18,926	20,722	22,588
Tax @ *	37%	3,005	3,512	4,040	4,587	5,157	5,748	6,363	7,003	7,667	8,358
<b>After Tax Cash Flow</b>	<b>(149,700)</b>	<b>13,272</b>	<b>14,223</b>	<b>15,212</b>	<b>16,241</b>	<b>17,311</b>	<b>18,425</b>	<b>19,583</b>	<b>20,789</b>	<b>22,043</b>	<b>340,859</b>
<b>16.3% Internal Rate of Return</b>											

Purchase	499,000										<b>Assume a Sale at End of Year 10</b>
L-V	75%										Annual Rent Roll
Loan	374,250										78,994
Down Payment	124,750										GRM
Cap Improvement	-										9.0
Closing Costs	24,950										Price
Initial Investment	149,700										annual appreciation
Rate	3.50%										3.6%
Term	30										Sale Costs
P&I	\$1,680.55										6%
											Less: Basis
											Gain
											Tax @
											20%
											Mortgage Balance
											289,770
											Sale Proceeds Before Tax
											377,849
											Sale Proceeds After Tax
											317,511

Mortgage Amortization		1	2	3	4	5	6	7	8	9	10
374,250 Beg Bal		374,250	367,068	359,630	351,928	343,951	335,691	327,138	318,280	309,107	299,607
3.50% Prin		7,182	7,438	7,702	7,976	8,260	8,554	8,858	9,173	9,499	9,837
30.0 Int		12,984	12,729	12,464	12,190	11,907	11,613	11,309	10,994	10,667	10,329
1,681 Bal EOY		367,068	359,630	351,928	343,951	335,691	327,138	318,280	309,107	299,607	289,770
<b>Cost Recovery / Depreciation</b>		499,000	499,000	Building	80%	399,200	Land	20%	99,800	<b>Life</b>	<b>30</b>
Basis		13,307	13,307	13,307	13,307	13,307	13,307	13,307	13,307	13,307	13,307
		485,693	472,387	459,080	445,773	432,467	419,160	405,853	392,547	379,240	365,933

\* 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%.