

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.

158,828	+	Rental Income
53,913	-	Operating Expenses
69,176	-	Mortgage Payments
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35,738	=	Cash Flow
448,500	/	Downpayment + Closing Costs
8.0%	=	Return on Investment from Cash Flow

2 **Appreciation**

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

1,495,000	=	Acquisition Price
5%	*	First Year Appreciation
1,569,750	=	Value at the end of Year 1.
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74,750	=	Amount of Value Increase
448,500	/	Downpayment + Closing Costs
17%	=	Return on Investment from Appreciation

3 **Equity Build-Up**

3.75% 25 \$ 5,764.70

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

1,121,250	=	Loan Amount at Closing
1,093,649	=	Loan Amount at the end of Year 1
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27,601	-	Equity Build-Up in Year 1
448,500	/	Downpayment + Closing Costs
6.2%	=	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.

104,914	=	Cash Flow Before Loan Payments (rents less expenses)
42,358	-	Depreciation (assumes 15% land, 30 year recovery)
41,576	-	Mortgage Interest
20,980	=	Taxable Income Year 1
16,784		Less 20% Exclusion for LLC Ownership under new tax law
37%	*	Marginal Tax Rate
6,210.19	=	Federal Income Tax
6,210		Federal Income Tax
35,738	/	Cash Flow
17.4%	=	Effective Tax Rate on This Investment
13,223	=	Tax if Cash Flow came from a non-preferred investment vehicle
6,210	-	Tax from this preferred investment vehicle.
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7,013	=	Income Tax Savings
1.6%	=	Return on Investment from Tax Savings

Total / Summary

1:	35,738	Cash Flow
2:	74,750	Appreciation Year 1
3:	27,601	Equity Build Up Year 1
4:	7,013	Tax Savings Year 1
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	145,102	Total Return from this Investment
	448,500	Downpayment + Closing Costs
	32.4%	Total Return from this Investment

**Illustration of Internal Rate of Return over a 10-Year Holding Period
4803 ROLAND AVENUE**

Purchase Price	1,495,000	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Annual Rent	3.0%	163,740	168,652	173,712	178,923	184,291	189,820	195,514	201,380	207,421	213,644
Vacancy	3.0%	4,912	5,060	5,211	5,368	5,529	5,695	5,865	6,041	6,223	6,409
Effective Income		158,828	163,593	168,500	173,555	178,762	184,125	189,649	195,338	201,198	207,234
Expenses	3.0%	53,913	55,531	57,197	58,913	60,680	62,500	64,375	66,307	68,296	70,345
Exp as a percent of Annual Rent		34%	34%	34%	34%	34%	34%	34%	34%	34%	34%
Exp per unit	6	8,986	9,255	9,533	9,819	10,113	10,417	10,729	11,051	11,383	11,724
NOI	0	104,914	108,062	111,304	114,643	118,082	121,625	125,273	129,031	132,902	136,890
Debt Service	\$ 5,765	69,176	69,176	69,176	69,176	69,176	69,176	69,176	69,176	69,176	69,176
Before Tax Cash Flow	(448,500)	35,738	38,885	42,127	45,466	48,906	52,448	56,097	59,855	63,726	1,108,610
16.5% Internal Rate of Return											
NOI		104,914	108,062	111,304	114,643	118,082	121,625	125,273	129,031	132,902	136,890
Less Interest		41,576	40,523	39,430	38,295	37,116	35,893	34,624	33,305	31,937	30,516
Less Depreciation		39,867	39,867	39,867	39,867	39,867	39,867	39,867	39,867	39,867	39,867
Taxable Income to Individuals		23,472	27,672	32,008	36,482	41,099	45,865	50,783	55,860	61,099	66,507
Pass Thru Entity	20%	(4,694)	(5,534)	(6,402)	(7,296)	(8,220)	(9,173)	(10,157)	(11,172)	(12,220)	(13,301)
Taxable Income	0	18,778	22,138	25,606	29,185	32,879	36,692	40,626	44,688	48,879	53,205
Tax @ *	37%	6,948	8,191	9,474	10,799	12,165	13,576	15,032	16,534	18,085	19,686
After Tax Cash Flow	(448,500)	28,790	30,694	32,653	34,668	36,740	38,872	41,065	43,321	45,641	941,471
13.3% Internal Rate of Return											
Purchase	1,495,000										
L-V	75%										213,644
Loan	1,121,250										9.1
Down Payment	373,750										1,950,636
Cap Improvement	-										117,038
Closing Costs	74,750										1,096,333
Initial Investment	448,500										737,264
Rate	3.75%										147,453
Term	25										792,701
P&I	\$5,764.70										1,040,897
											893,444
Mortgage Amortization		1	2	3	4	5	6	7	8	9	10
1,121,250 Beg Bal		1,121,250	1,093,649	1,064,996	1,035,249	1,004,367	972,307	939,024	904,471	868,600	831,361
3.75% Prin		27,601	28,654	29,747	30,882	32,060	33,283	34,553	35,871	37,240	38,660
25.0 Int		41,576	40,523	39,430	38,295	37,116	35,893	34,624	33,305	31,937	30,516
5,765 Bal EOY		1,093,649	1,064,996	1,035,249	1,004,367	972,307	939,024	904,471	868,600	831,361	792,701
Cost Recovery / Depreciation		1,495,000	1,495,000	Building	80%	1,196,000	Land	20%	299,000	Life	30
		39,867	39,867	39,867	39,867	39,867	39,867	39,867	39,867	39,867	39,867
Basis		1,455,133	1,415,267	1,375,400	1,335,533	1,295,667	1,255,800	1,215,933	1,176,067	1,136,200	1,096,333

* 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%.