

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.

27,600	+	Rental Income
7,390	-	Operating Expenses
10,710	-	Mortgage Payments
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9,501	=	Cash Flow
79,500	/	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.

265,000	=	Acquisition Price
5%	*	First Year Appreciation
278,250	=	Value at the end of Year 1.
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13,250	=	Amount of Value Increase
79,500	/	Downpayment + Closing Costs
17%	=	Return on Investment from Appreciation

3 Equity Build-Up

3.50% 30 \$ 892.48

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

198,750	=	Loan Amount at Closing
194,936	=	Loan Amount at the end of Year 1
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3,814	-	Equity Build-Up in Year 1
79,500	/	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.

20,210	=	Cash Flow Before Loan Payments (rents less expenses)
7,508	-	Depreciation (assumes 15% land, 30 year recovery)
6,895	-	Mortgage Interest
5,806	=	Taxable Income Year 1
4,645	=	Less 20% Exclusion for LLC Ownership under new tax law
37%	*	Marginal Tax Rate
1,718.71	=	Federal Income Tax
1,719	=	Federal Income Tax
9,501	/	Cash Flow
18.1%	=	Effective Tax Rate on This Investment
3,515	=	Tax if Cash Flow came from a non-preferred investment vehicle
1,719	-	Tax from this preferred investment vehicle.
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1,796	=	Income Tax Savings
2.3%	=	Return on Investment from Tax Savings

Total / Summary

1:	9,501	Cash Flow
2:	13,250	Appreciation Year 1
3:	3,814	Equity Build Up Year 1
4:	1,796	Tax Savings Year 1
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	28,361	Total Return from this Investment
	79,500	Downpayment + Closing Costs
	35.7%	Total Return from this Investment

**Illustration of Internal Rate of Return over a 10-Year Holding Period
4506 FURLEY AVENUE**

Purchase Price	265,000	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Annual Rent	4.0%	27,600	28,704	29,852	31,046	32,288	33,580	34,923	36,320	37,773	39,283
Vacancy	3.0%	828	861	896	931	969	1,007	1,048	1,090	1,133	1,179
Effective Income		26,772	27,843	28,957	30,115	31,319	32,572	33,875	35,230	36,639	38,105
Expenses	4.0%	7,390	7,685	7,993	8,312	8,645	8,991	9,350	9,724	10,113	10,518
Exp as a percent of Annual Rent		28%	28%	28%	28%	28%	28%	28%	28%	28%	28%
Exp per unit	2	3,695	3,843	3,996	4,156	4,322	4,495	4,675	4,862	5,057	5,259
NOI	0	19,382	20,158	20,964	21,802	22,674	23,581	24,525	25,506	26,526	27,587
Debt Service	\$ 892	10,710	10,710	10,710	10,710	10,710	10,710	10,710	10,710	10,710	10,710
Before Tax Cash Flow	(79,500)	8,673	9,448	10,254	11,093	11,965	12,872	13,815	14,796	15,816	217,538
20.0% Internal Rate of Return											

NOI		19,382	20,158	20,964	21,802	22,674	23,581	24,525	25,506	26,526	27,587
Less Interest		6,895	6,760	6,619	6,474	6,323	6,167	6,006	5,838	5,665	5,486
Less Depreciation		7,067	7,067	7,067	7,067	7,067	7,067	7,067	7,067	7,067	7,067
Taxable Income to Individuals		5,420	6,331	7,278	8,262	9,285	10,348	11,452	12,601	13,794	15,035
Pass Thru Entity	20%	(1,084)	(1,266)	(1,456)	(1,652)	(1,857)	(2,070)	(2,290)	(2,520)	(2,759)	(3,007)
Taxable Income	0	4,336	5,065	5,822	6,610	7,428	8,278	9,162	10,081	11,035	12,028
Tax @ *	37%	1,604	1,874	2,154	2,446	2,748	3,063	3,390	3,730	4,083	4,450
After Tax Cash Flow	(79,500)	7,068	7,574	8,100	8,647	9,217	9,809	10,425	11,066	11,733	181,045
16.4% Internal Rate of Return											

Purchase	265,000										Assume a Sale at End of Year 10		
L-V	75%										Annual Rent Roll	39,283	
Loan	198,750										GRM	9.6	
Down Payment	66,250					annual appreciation	3.6%				Price	377,178	
Cap Improvement	-										Sale Costs	6%	22,631
Closing Costs	13,250										Less: Basis		194,333
Initial Investment	79,500										Gain		160,214
Rate	3.50%										Tax @	20%	32,043
Term	30										Mortgage Balance		153,886
P&I	\$892.48										Sale Proceeds Before Tax		200,661
											Sale Proceeds After Tax		168,618

Mortgage Amortization		1	2	3	4	5	6	7	8	9	10
198,750	Beg Bal	198,750	194,936	190,986	186,895	182,659	178,273	173,730	169,026	164,155	159,110
3.50%	Prin	3,814	3,950	4,090	4,236	4,387	4,543	4,704	4,871	5,045	5,224
30.0	Int	6,895	6,760	6,619	6,474	6,323	6,167	6,006	5,838	5,665	5,486
892	Bal EOY	194,936	190,986	186,895	182,659	178,273	173,730	169,026	164,155	159,110	153,886
Cost Recovery / Depreciation		265,000	265,000	Building	80%	212,000	Land	20%	53,000	Life	30
		7,067	7,067	7,067	7,067	7,067	7,067	7,067	7,067	7,067	7,067
Basis		257,933	250,867	243,800	236,733	229,667	222,600	215,533	208,467	201,400	194,333

* 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%.