

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.

59,700	+	Rental Income
17,678	-	Operating Expenses
24,208	-	Mortgage Payments
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17,814	=	Cash Flow
179,700	/	Downpayment + Closing Costs
9.9%	=	Return on Investment from Cash Flow

2 Appreciation

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

599,000	=	Acquisition Price
5%	*	First Year Appreciation
628,950	=	Value at the end of Year 1.
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29,950	=	Amount of Value Increase
179,700	/	Downpayment + Closing Costs
17%	=	Return on Investment from Appreciation

3 Equity Build-Up

3.50% 30 \$ 2,017.33

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

449,250	=	Loan Amount at Closing
440,628	=	Loan Amount at the end of Year 1
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8,622	-	Equity Build-Up in Year 1
179,700	/	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.

42,022	=	Cash Flow Before Loan Payments (rents less expenses)
16,972	-	Depreciation (assumes 15% land, 30 year recovery)
15,586	-	Mortgage Interest
9,464	=	Taxable Income Year 1
7,571		Less 20% Exclusion for LLC Ownership under new tax law
37%	*	Marginal Tax Rate
2,801.27	=	Federal Income Tax
2,801		Federal Income Tax
17,814	/	Cash Flow
15.7%	=	Effective Tax Rate on This Investment
6,591	=	Tax if Cash Flow came from a non-preferred investment vehicle
2,801	-	Tax from this preferred investment vehicle.
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3,790	=	Income Tax Savings
2.1%		Return on Investment from Tax Savings

Total / Summary

1:	17,814	Cash Flow
2:	29,950	Appreciation Year 1
3:	8,622	Equity Build Up Year 1
4:	3,790	Tax Savings Year 1
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	60,175	Total Return from this Investment
	179,700	Downpayment + Closing Costs
	33.5%	Total Return from this Investment

**Illustration of Internal Rate of Return over a 10-Year Holding Period
2703 NORTH CALVERT STREET**

Purchase Price	599,000	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Annual Rent	4.0%	59,700	62,088	64,572	67,154	69,841	72,634	75,540	78,561	81,704	84,972
Vacancy	3.0%	1,791	1,863	1,937	2,015	2,095	2,179	2,266	2,357	2,451	2,549
Effective Income		57,909	60,225	62,634	65,140	67,745	70,455	73,273	76,204	79,252	82,423
Expenses	4.0%	17,678	18,385	19,121	19,886	20,681	21,508	22,369	23,263	24,194	25,162
Exp as a percent of Annual Rent		31%	31%	31%	31%	31%	31%	31%	31%	31%	31%
Exp per unit	4	4,420	4,596	4,780	4,971	5,170	5,377	5,592	5,816	6,048	6,290
NOI	0	40,231	41,840	43,514	45,254	47,064	48,947	50,905	52,941	55,059	57,261
Debt Service	\$ 2,017	24,208	24,208	24,208	24,208	24,208	24,208	24,208	24,208	24,208	24,208
Before Tax Cash Flow	(179,700)	16,023	17,632	19,306	21,046	22,856	24,739	26,697	28,733	30,851	486,623
18.4% Internal Rate of Return											

NOI		40,231	41,840	43,514	45,254	47,064	48,947	50,905	52,941	55,059	57,261
Less Interest		15,586	15,280	14,962	14,633	14,293	13,940	13,575	13,197	12,805	12,399
Less Depreciation		15,973	15,973	15,973	15,973	15,973	15,973	15,973	15,973	15,973	15,973
Taxable Income to Individuals		8,671	10,587	12,578	14,647	16,798	19,033	21,356	23,771	26,280	28,888
Pass Thru Entity	20%	(1,734)	(2,117)	(2,516)	(2,929)	(3,360)	(3,807)	(4,271)	(4,754)	(5,256)	(5,778)
Taxable Income	0	6,937	8,470	10,062	11,718	13,439	15,227	17,085	19,017	21,024	23,110
Tax @ *	37%	2,567	3,134	3,723	4,336	4,972	5,634	6,322	7,036	7,779	8,551
After Tax Cash Flow	(179,700)	13,456	14,498	15,582	16,710	17,884	19,105	20,375	21,697	23,072	405,643
15.1% Internal Rate of Return											

Purchase	599,000										Assume a Sale at End of Year 10		
L-V	75%										Annual Rent Roll	84,972	
Loan	449,250										GRM	10.0	
Down Payment	149,750					annual appreciation	3.6%				Price	852,564	
Cap Improvement	-										Sale Costs	6%	51,154
Closing Costs	29,950										Less: Basis		439,267
Initial Investment	179,700										Gain		362,143
Rate	3.50%										Tax @	20%	72,429
Term	30										Mortgage Balance		347,840
P&I	\$2,017.33										Sale Proceeds Before Tax		453,570
											Sale Proceeds After Tax		381,141

Mortgage Amortization		1	2	3	4	5	6	7	8	9	10
449,250 Beg Bal		449,250	440,628	431,700	422,454	412,879	402,964	392,696	382,063	371,052	359,649
3.50% Prin		8,622	8,928	9,246	9,575	9,915	10,268	10,633	11,011	11,403	11,809
30.0 Int		15,586	15,280	14,962	14,633	14,293	13,940	13,575	13,197	12,805	12,399
2,017 Bal EOY		440,628	431,700	422,454	412,879	402,964	392,696	382,063	371,052	359,649	347,840
Cost Recovery / Depreciation		599,000	599,000	Building	80%	479,200	Land	20%	119,800	Life	30
Basis		15,973	15,973	15,973	15,973	15,973	15,973	15,973	15,973	15,973	15,973
		583,027	567,053	551,080	535,107	519,133	503,160	487,187	471,213	455,240	439,267

* 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%.