

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.

66,600	+	Rental Income	
11,622	-	Operating Expenses	
32,129	-	Mortgage Payments	
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22,849	=	Cash Flow	
238,500	/	Downpayment + Closing Costs	
9.6%	=	Return on Investment from Cash Flow	

2 **Appreciation**

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

795,000	=	Acquisition Price	
5%	*	First Year Appreciation	
834,750	=	Value at the end of Year 1.	
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39,750	=	Amount of Value Increase	
238,500	/	Downpayment + Closing Costs	
17%	=	Return on Investment from Appreciation	

3 **Equity Build-Up** 3.50% 30 \$ 2,677.43

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

596,250	=	Loan Amount at Closing	
584,807	=	Loan Amount at the end of Year 1	
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11,443	-	Equity Build-Up in Year 1	
238,500	/	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.

54,978	=	Cash Flow Before Loan Payments (rents less expenses)	
24,573	-	Depreciation (assumes 15% land, 27.5 year recovery)	
20,686	-	Mortgage Interest	
9,719	=	Taxable Income Year 1	
33%	*	Marginal Tax Rate	
3,207	=	Federal Income Tax	
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22,849	/	Cash Flow	
14.0%	=	Effective Tax Rate on This Investment	
7,540	=	Tax if Cash Flow came from a non-preferred investment vehicle	
3,207	-	Tax from this preferred investment vehicle.	
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4,333	=	Income Tax Savings	
1.8%		Return on Investment from Tax Savings	

Total / Summary

1:	22,849	Cash Flow	
2:	39,750	Appreciation Year 1	
3:	11,443	Equity Build Up Year 1	
4:	4,333	Tax Savings Year 1	
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	78,374	Total Return from this Investment	
	238,500	Downpayment + Closing Costs	
	32.9%	Total Return from this Investment	