

The 4 Ways to Win[™] Calculating ROI Activity

One of the key components of being a confident real estate investor is knowing how to perform calculations on investment properties. By knowing your Return on Investment (ROI), you can determine if a property aligns with your investing goals.

Please complete the following Calculating ROI Activity. Do this as many times as you require to feel confident about this skill.

Example – Turnkey Duplex

Purchase Price:	\$349,000	Passive Appreciation:	3%
Down Payment 20%:	\$69,800	Principal Recapture:	\$5,954.24
Gross Annual Rental Income:	\$26,400	Active Appreciation:	\$0
Total Expenses:	\$23,566.40	Vacancy Rate:	5%

Note: All Numbers Annual. Principal recapture based on 30 year amortization, monthly payments at 2.89%

Determining Cash Flow:

Vacancy Allowance	= Gross Annual Rental Income x Vacancy Rate	
	= \$26,400 x 0.05	
	= \$1320	
Gross Operating Incor	ne – Gross Annual Rental Income – Vacancy R	

Gross Operating Income	= Gross Annual Rental Income – Vacancy Rate	
	= \$26,400 - \$1320	
	= \$25,080	

Cash Flow = Gross Operating Income – Total Expenses

= \$25,080 - \$23,566,40

= \$1,513.60

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Determining ROI

- $= \frac{\$10,470.00 + \$1,513.60 + \$5,954.24 + \$0}{\$69,800.00}$
- = <u>\$17,937.84</u> \$69,800.00
- = 25.69%

Check your Understanding: Practice Exercise

Practice Example One – Turnkey Triplex

Purchase Price: <u>\$424,000</u>	Passive Appreciation: 3%
Down Payment 20%: <u>\$84,800</u>	Principle Recapture: <u>\$ 7,233.91</u>
Gross Annual Rental Income: <u>\$35,400</u>	Active Appreciation: <u>\$0</u>
Total Expenses: <u>\$32,557.15</u>	Vacancy Rate: 5%

Note – All Numbers Annual. Principal recapture based on 30 year amortization, monthly payments at 2.89%

Step One - Determine Cash Flow

Vacancy Allowance = Gross Annual Rental Income x Vacancy Rate

Vacancy Allowance =

Gross Operating Income = Gross Annual Rental Income – Vacancy Rate

Gross Operating Income =

Cash Flow = Gross Operating Income – Total Expenses

Cash Flow =

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Step Two – Determine ROI

ROI = <u>Passive Appreciation + Cash Flow + Principle Recapture + Active Appreciation</u> Cash Invested

ROI =

Practice Example Two – Turnkey Duplex

Purchase Price: <u>\$232,000</u>	Passive Appreciation: <u>1%</u>
Down Payment 20%: <u>\$46,400</u>	Principle Recapture: <u>\$ 3,958.19</u>
Gross Annual Rental Income: <u>\$21,600</u>	Active Appreciation: <u>\$0</u>
Total Expenses: <u>\$20,512.05</u>	Vacancy Rate: 5%

Note - All Numbers Annual. Principal recapture based on 30 year amortization, monthly payments at 2.89%

Step One - Determine Cash Flow

Vacancy Allowance = Gross Annual Rental Income x Vacancy Rate

Vacancy Allowance =

Gross Operating Income = Gross Annual Rental Income - Vacancy Rate

Gross Operating Income =

Cash Flow = Gross Operating Income – Total Expenses Cash Flow =

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Step Two – Determine ROI

ROI = <u>Passive Appreciation + Cash Flow + Principle Recapture + Active Appreciation</u> Cash Invested

ROI =

To continue practicing this skill, take this information and apply it to properties you are considering purchasing. By continually practicing you will become faster and more confident about your evaluations. Good luck!

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Check your Understanding: Answers

Practice Example One – Turnkey Triplex Cash Flow = \$1072.85 ROI = 24.80%

Practice Example Two – Turnkey Duplex

Cash Flow = \$7.95 ROI = 13.54%

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