



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:

$$\begin{aligned}\text{Vacancy Allowance} &= \text{Gross Annual Rental Income} \times \text{Vacancy Rate} \\ &= \$26,400 \times 0.05 \\ &= \$1320\end{aligned}$$

$$\begin{aligned}\text{Gross Operating Income} &= \text{Gross Annual Rental Income} - \text{Vacancy Rate} \\ &= \$26,400 - \$1320 \\ &= \$25,080\end{aligned}$$

$$\begin{aligned}\text{Cash Flow} &= \text{Gross Operating Income} - \text{Total Expenses} \\ &= \$25,080 - \$23,566.40 \\ &= \mathbf{\$1,513.60}\end{aligned}$$

Determining ROI

$$\begin{aligned}\text{ROI} &= \frac{\text{Passive Appreciation} + \text{Cash Flow} + \text{Principal Recapture} + \text{Active Appreciation}}{\text{Cash Invested}} \\ &= \frac{\$10,470.00 + \$1,513.60 + \$5,954.24 + \$0}{\$69,800.00} \\ &= \frac{\$17,937.84}{\$69,800.00} \\ &= \mathbf{25.69\%}\end{aligned}$$

Check your Understanding: Practice Exercise

Practice Example One – Turnkey Triplex

Purchase Price: \$424,000

Passive Appreciation: 3%

Down Payment 20%: \$84,800

Principle Recapture: \$ 7,233.91

Gross Annual Rental Income: \$35,400

Active Appreciation: \$0

Total Expenses: \$32,557.15

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 =



Step Two – Determine ROI

$$\text{ROI} = \frac{\text{Passive Appreciation} + \text{Cash Flow} + \text{Principle Recapture} + \text{Active Appreciation}}{\text{Cash Invested}}$$

ROI =

Practice Example Two – Turnkey Duplex

Purchase Price: \$232,000

Passive Appreciation: 1%

Down Payment 20%: \$46,400

Principle Recapture: \$ 3,958.19

Gross Annual Rental Income: \$21,600

Active Appreciation: \$0

Total Expenses: \$20,512.05

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 =



Step Two – Determine ROI

$$\text{ROI} = \frac{\text{Passive Appreciation} + \text{Cash Flow} + \text{Principle Recapture} + \text{Active Appreciation}}{\text{Cash Invested}}$$

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!

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%