



Your Ultimate Guide to Investment Success: Return on Investment

Return on Investment (ROI) tells you how much money you're making compared to how much you spent. For a beginner real estate investor, it's the simplest way to measure whether a property is a smart financial move.

💡 ROI Explained for Beginners

Imagine you buy a property, fix it up, rent it out, and want to know: *"Was it worth it?"* ROI helps you answer that by comparing your **profit** to your **initial investment**.

📊 Basic ROI Formula:

$$\text{ROI} = (\text{Net Profit} / \text{Total Investment}) \times 100$$

- **Net Profit** = Income from rent or sale minus all expenses (mortgage, taxes, repairs, etc.)
 - **Total Investment** = Down payment + closing costs + renovation costs
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📌 Example:

You invest \$100,000 into a duplex (purchase + reno). After a year, you earn \$12,000 in net rental income.

$$\text{ROI} = (12,000 / 100,000) \times 100 = 12\%$$

That means your money earned a 12% return in one year.

Top Methods to Measure ROI in Real Estate

1. Cost Method

- **Formula:**

$$\text{ROI} = (\text{Net Profit} / \text{Total Cost of Investment}) \times 100$$

- **Use when:** You want to evaluate the overall profitability of a property, including purchase price, closing costs, and renovations.
- **Example:** You spend \$300,000 total and earn \$30,000 in net profit → ROI = 10%

2. Out-of-Pocket Method

- **Formula:**

$$\text{ROI} = (\text{Annual Cash Flow} / \text{Cash Invested}) \times 100$$

- **Use when:** You finance the property and want to measure return based on your actual cash invested (e.g., down payment, closing costs).
- **Example:** You invest \$60,000 cash and earn \$6,000 annually → ROI = 10%

3. Cash-on-Cash Return

- Similar to the out-of-pocket method but focuses on **annual cash flow only**, not total profit.
- Best for rental properties with financing.
- Helps compare deals with different leverage structures.

4. Cap Rate (Capitalization Rate)

- **Formula:**

$$\text{CAP RATE} = (\text{Net Operating Income} / \text{Property Value}) \times 100$$

- **Use when:** Evaluating income-producing properties without considering financing.
- Helps compare properties across markets.

5. Internal Rate of Return (IRR)

- Measures total return over time, factoring in cash flow and resale.
 - Best for long-term investors or multi-phase projects.
 - Requires more complex modeling but gives a full picture of performance.
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Which Method Should You Use?

- **Beginner investors:** Start with **Out-of-Pocket ROI** and **Cash-on-Cash Return** for simplicity and clarity.
 - **Portfolio builders:** Use **Cap Rate** and **IRR** to compare deals and forecast long-term growth.
 - **BRRRR investors:** Focus on **ROI after refinance** to measure recycled capital efficiency.
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Why ROI Matters

- **Compares deals:** Helps you choose between properties
 - **Tracks performance:** Shows if your strategy is working
 - **Guides decisions:** Tells you when to hold, sell, or refinance
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Tips for New Investors

- Focus on cash-on-cash ROI if you're using financing—it shows return based on your actual out-of-pocket cash
 - Don't forget hidden costs: vacancy, maintenance, property management
 - Use ROI alongside other metrics like Cap Rate and Net Operating Income (NOI) for a full picture
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Ready to take the next step in your real estate journey?

The Twin Waterfalls Team combines expert guidance, strategic insight, and a proven track record to help you build lasting wealth through smart property investment.

Whether you're a first-time buyer, seasoned investor, or exploring new opportunities, we're here to help you move forward with confidence.


 **Contact the Twin Waterfalls Team today** Let's turn your goals into reality—one property at a time.



Rita Fung

Broker – Team Leader

Certified Real Estate Investment Specialist


 613-720-0808

 ritafung@royalpage.ca

Tamara Villanyi Bokor

Tri-lingual REALTOR®

Team Leader

 613-796-9436

 tamaravb@royalpage.ca