



BAA Property

PROPERTY INVESTMENT ANALYSIS (DESCRIPTIVE)

18-Mar-2020

Prepared for: John & Jenny
 Consultant: Gary McAvoy
 Property: Lot 3633 Cochrane Avenue, Merrifield Estate, Mickleham, Vic
 Description: 4 Bed, 2 Bath, 2 Car Garage, Alfresco

SUMMARY

Assumptions		Projected results over 10 yrs	
Property value	\$634,900	Property value	\$939,807
Initial investment	\$63,490	Equity	\$335,615
Gross rental yield (yr 1)	3.41%	After-tax return /yr	13.90%
Net rental yield (yr 1)	2.31%	Net present value	\$150,673
Cap. growth rate	4.00%	IF SOLD	
Inflation rate	3.00%	Selling costs & CGT	\$105,130
Interest rate	5.00%	Equity	\$230,485
Taxable income (yr 1)	\$90,000	After-tax return /yr	9.23%

PROJECTIONS

Investment Analysis	2020	Projections over 10 years				
		1yr	2yr	3yr	5yr	10yr
End of year	2020	1yr	2yr	3yr	5yr	10yr
Property value	\$634,900	660,296	686,708	714,176	772,453	939,807
Purchase costs	\$25,944					
Investments	\$63,490					
Loan amount	\$604,192	604,192	604,192	604,192	604,192	604,192
Equity	\$30,708	56,104	82,516	109,984	168,261	335,615
Capital growth rate	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Inflation rate (CPI)	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Gross rent /week	\$425	21,658	22,308	22,977	24,376	28,259
Cash deductions						
Interest (I/O)	5.00%	30,210	30,210	30,210	30,210	30,210
Rental expenses	31.50%	6,962	7,171	7,386	7,836	9,084
Pre-tax cash flow	-\$63,490	-15,513	-15,072	-14,618	-13,669	-11,034
Non-cash deductions						
Deprec.of building	2.50%	7,936	7,936	7,936	7,936	7,936
Deprec.of fittings	\$15,700	2,375	1,967	1,640	1,160	607
Loan costs	\$6,838	1,368	1,368	1,368	1,368	
Total deductions		48,850	48,651	48,539	48,509	47,836
Tax credit (single)	\$90,000	9,439	9,296	9,230	9,173	8,222
After-tax cash flow	-\$63,490	-6,074	-5,776	-5,388	-4,496	-2,812
Rate of return (IRR)	13.90%	Your cost /(income) per week				
Pre-tax equivalent	22.78%	117	111	104	86	54

Disclaimer: Note that the projections listed above simply illustrate the outcome calculated from the input values and the assumptions contained in the model. Hence the figures can be varied as required and are in no way intended to be a guarantee of future performance. Although the information is provided in good faith, it is also given on the basis that no person using the information, in whole or in part, shall have any claim against At Property Investors - Melbourne, its servants, employees or consultants. This information is intended as general advice only and does not take account of individual needs or financial circumstances. Intending purchasers should do their own assessment or consult a licensed investment adviser. .

Detailed Notes on Spreadsheet Items

PROPERTY VALUE

The property (or market) value refers to how much the property is worth (i.e. how much you could sell it for). Its book value, on the other hand, refers to how much you have paid for it plus the cost of any immediate renovations.

Property price:	634,900
Renovation costs:	0
Total book value:	634,900
Property market value:	\$634,900

PURCHASE COSTS

These include your solicitor's conveyancing fees and, where applicable, State Government stamp duty and transfer of title fees. In Australia, stamp duty and transfer of title fees vary from State to State and are a function of purchase price whereas, in New Zealand, stamp duty has been abolished on all property transfers since May 1999. Conveyancing costs may also be dependent on purchase price and may be negotiable. In some States of Australia (e.g. A.C.T.), purchase costs are tax deductible in the first year of the investment, though normally they will only be taken into account in Capital Gains Tax calculations in the year of sale.

Conveyancing costs:	2,500
Stamp duty:	21,596
Transfer of title:	1,848
Total Purchase costs:	\$25,944

INVESTMENT & LOAN

Your initial investment is usually just the total of all monies outlaid at the time of purchase. These may include contributions toward any, or all, of the costs listed below. The remainder will largely determine the size of the loan. If you have sufficient equity in other property, it is possible to outlay nothing, and actually borrow the lot (i.e. the purchase price, purchase costs, loan costs, any renovation costs, and even additional monies to cover such things as fittings). If you are modelling an investment from some point in time after purchase (e.g. to assess the return on major renovations), your investment might also include the equity you already have built up in the property.

	Investments	Loan	Total Cost
Property costs:	63,490	571,410	634,900
Renovation costs:	0	0	0
Purchase costs:	0	25,944	25,944
Furniture package:	0	0	0
Loan costs:	0	6,838	6,838
Totals:	\$63,490	\$604,192	\$667,682

CAPITAL GROWTH & INFLATION RATES

Rate of capital growth is your anticipated annual compound rate of increase of the property value. It will undoubtedly vary substantially over the short term, but over the longer term (10 years or more), it has generally been about 2 to 3% above the rate of inflation.

Average rate of inflation (%):	3.00
Average rate of capital growth (%):	4.00

EQUITY

The equity is the difference between the property value and the loan. The equity increases in line with the increasing property value in the case of an interest-only loan. For a principal & interest loan, it also increases with the decrease in the debt.

Projected values over	5 yrs	10 yrs	15 yrs	20 yrs
Property value	772,453	939,807	1.143m	1.391m
Loan	604,192	604,192	604,192	604,192
EQUITY	\$168,261	\$335,615	\$539,227	\$786,952
Approximate costs if sold.....				
Capital Gains Tax	26,673	74,092	131,411	199,075
Solicitor's fees	3,862	4,699	5,717	6,956
Sales commission	21,737	26,340	31,939	38,751
EQUITY (after sale)	\$115,989	\$230,485	\$370,161	\$542,170

INTEREST COSTS & TYPE OF LOAN

The type of loan can be either interest-only and/or principal & interest. Repayments for interest-only loans, as the title suggests, consist of interest only. Repayments for principal & interest loans include a component of the principal. Interest-only loans are usually of a shorter term (e.g. 3 to 5 years) at which time they are usually rolled-over.

Loan type:	I/O
Interest rate (yr 1) (%)	5.00
Loan:	\$604,192
Loan costs (written off over 5 yrs):	\$6,838
Monthly payment:	\$2,517
Annual payment:	\$30,210

RENT

The potential annual rent is simply the rent per week times 52. The actual annual rent must account for any period that the property is vacant. Annual rents are assumed to increase in line with inflation.

Rent per week:	425
Potential annual rent:	22,100
Vacancy rate (%):	2.00
Actual annual rent:	\$21,658

ANNUAL RENTAL EXPENSES

These are all the real operating costs associated with the investment property with the exception of loan interest payments. The first cell of the spreadsheet represents the expenses expressed as a percentage of the potential annual rent. As a guide, expenses could vary anywhere from 13% to 30%, depending on the maintenance and whether a professional property management agent is used. For holiday letting, with higher vacancies, the percentage can be more than 50%.

Normal Expenses:	
Agent's commission (8.25%):	1,787
Letting fees:	425
Rates:	2,500
Insurance:	1,250
Maintenance:	1,000
Special expenses:	0
Total expenses:	\$6,962
Normal expenses as % of annual rent (%):	31.50
Net yield or Capitalisation rate (%):	2.31

PRE-TAX CASH FLOW

These are all of the monies that flow out of your pocket before tax is taken into account. Normally, it would represent the gross annual rent less interest and rental expenses. This will vary if interest or expenses are capitalised or rents used directly to reduce the loan.

Year		1yr	2yr	3yr	5yr	10yr
Rent		21,658	22,308	22,977	24,376	28,259
Cash invested	63,490	0	0	0	0	0
Principal payments		0	0	0	0	0
Interest		30,210	30,210	30,210	30,210	30,210
Expenses		6,962	7,171	7,386	7,836	9,084
Pre-tax cash flow	\$-63,490	\$-15,513	\$-15,072	\$-14,618	\$-13,669	\$-11,034

DEPRECIATION ON THE BUILDING

This represents the capital allowance on the construction costs.

Property value:	\$634,900
Construction costs:	\$317,450
Depreciation allowance rate (%):	2.50
Depreciation allowance:	\$7,936

DEPRECIATION OF FITTINGS (diminishing value method)

Item	Value	Effective Life (yrs)	Depreciation
General fittings	10,000	15.00	1,333
Curtains	2,000	7.00	571
Carpets	1,000	10.00	200
Hot water sys.	1,500	20.00	150
Stove	1,200	20.00	120
Total	\$15,700		\$2,375

LOAN COSTS

In Australia, the loan costs are written off over the term of the loan (or five years, whichever is the lesser).

Establishment fees (0.50% of loan):	3,021
Mortgage insurance (0.32% of loan):	1,933
Mortgagee's solicitor's fees:	1,000
Valuation fees:	300
Registration of 1st mortgage:	192
Registration of 2nd mortgage:	192
Search fees:	200
Total loan costs:	\$6,838

TOTAL TAX DEDUCTIONS (Cash & Non-Cash Deductions)

These include both "cash" (e.g. interest, rental expenses) and "non-cash" (e.g. depreciation) deductions.

Year	1yr	2yr	3yr	5yr	10yr
Interest	30,210	30,210	30,210	30,210	30,210
Expenses	6,962	7,171	7,386	7,836	9,084
Deprec.-building	7,936	7,936	7,936	7,936	7,936
Deprec.-fittings	2,375	1,967	1,640	1,160	607
Loan costs	1,368	1,368	1,368	1,368	0
Total deductions	\$48,850	\$48,651	\$48,539	\$48,509	\$47,836

TAX CREDITS & AFTER-TAX CASH FLOW

The after-tax cash flows are all of the monies that flow in or out of your pocket AFTER tax is taken into account. They represent the PRE-tax cash flow LESS any tax credits (or tax refunds). In this analysis, it is assumed that the investor has obtained a tax variation from the Taxation Office and thus the tax refunds are credited for the same year in which they are based.

Year	2020	1yr	2yr	3yr	5yr	10yr
Pre-tax cash flow	-63,490	-15,513	-15,072	-14,618	-13,669	-11,034
Tax credits		9,439	9,296	9,230	9,173	8,222
After-tax cash	-63,490	-6,074	-5,776	-5,388	-4,496	-2,812
Cost /(income) per week		117	111	104	86	54

INTERNAL RATE OF RETURN

The internal rate of return (IRR) is the method of calculating the return on a series of cash flows where the time factor is taken into account. To understand it, think of the money you are outlaying on your investment property as being deposited in a bank account, with interest added each year. In this case the "deposits" are represented by the after-tax cash flows

Year	2020	1yr	2yr	3yr	5yr	10yr
After-tax cash flow	\$-63,490	\$-6,074	\$-5,776	\$-5,388	\$-4,496	\$-2,812
Equity						\$335,615

The total amount in your "account" (including interest) at the end of the period is the equity (\$335,615) in the investment property. The IRR (13.90%) represents the effective "interest rate" that you have received, but with one important difference - because the interest remains in the property, it is not taxed. To receive an equivalent return from bank interest, you need to get 22.78% before tax.

If the property were to be sold at the end of the period, the after-sale equity would be reduced to \$230,485 after taking account of selling costs and capital gains tax and the IRR after the sale would be 9.23%.

TAX BENEFITS

These are shown below for the given taxable incomes and are based on the specified tax scale.

Number of properties: 1

	Investor
Current taxable income:	90,000
Rental income:	21,658
Total income:	111,658
Rental deductions:	48,850
New taxable income:	62,808
Current tax (on 90,000):	21,517
New tax (on 62,808):	12,078
Tax saving:	9,439
Total tax credits:	\$9,439