



# BAA Property

## PROPERTY INVESTMENT ANALYSIS (DESCRIPTIVE)

18-Mar-2020

Prepared for: John & Jenny  
 Consultant: Gary McAvoy  
 Property: Lot 514 Willaroy Boulevard, Donnybrae Estate, Donnybrook, Vic  
 Description: 4 Bed, 2 Bath, 2 Car

### SUMMARY

Assumptions		Projected results over 10 yrs	
Property value	\$557,500	Property value	\$825,236
Initial investment	\$55,750	Equity	\$295,082
Gross rental yield (yr 1)	3.88%	After-tax return /yr	14.65%
Net rental yield (yr 1)	2.64%	Net present value	\$140,295
Cap. growth rate	4.00%	<b>IF SOLD</b>	
Inflation rate	3.00%	Selling costs & CGT	\$89,157
Interest rate	5.00%	Equity	\$205,925
Taxable income (yr 1)	\$90,000	After-tax return /yr	10.28%

### PROJECTIONS

Investment Analysis	Projections over 10 years					
	2020	1yr	2yr	3yr	5yr	10yr
End of year	2020	1yr	2yr	3yr	5yr	10yr
Property value	\$557,500	579,800	602,992	627,112	678,284	825,236
Purchase costs	\$22,173					
Investments	\$55,750					
Loan amount	\$530,154	530,154	530,154	530,154	530,154	530,154
Equity	\$27,346	49,646	72,838	96,958	148,130	295,082
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%	26,508	26,508	26,508	26,508	26,508
Rental expenses	31.50%	6,962	7,171	7,386	7,836	9,084
Pre-tax cash flow	<b>-\$55,750</b>	<b>-11,811</b>	<b>-11,371</b>	<b>-10,916</b>	<b>-9,967</b>	<b>-7,332</b>
Non-cash deductions						
Deprec.of building	2.50%	6,813	6,813	6,813	6,813	6,813
Deprec.of fittings	\$0	0	0	0	0	0
Loan costs	\$6,231	1,246	1,246	1,246	1,246	
Total deductions		41,528	41,737	41,952	42,402	42,404
Tax credit (single)	\$90,000	6,855	6,906	6,958	7,066	5,941
After-tax cash flow	<b>-\$55,750</b>	<b>-4,956</b>	<b>-4,465</b>	<b>-3,958</b>	<b>-2,901</b>	<b>-1,391</b>
Rate of return (IRR)	14.65%	Your cost /(income) per week				
Pre-tax equivalent	24.02%	95	86	76	56	27

*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:	557,500
Renovation costs:	0
Total book value:	557,500
<b>Property market value:</b>	<b>\$557,500</b>

#### 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:	18,113
Transfer of title:	1,560
<b>Total Purchase costs:</b>	<b>\$22,173</b>

#### 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.

	<b>Investments</b>	<b>Loan</b>	<b>Total Cost</b>
Property costs:	55,750	501,750	557,500
Renovation costs:	0	0	0
Purchase costs:	0	22,173	22,173
Furniture package:	0	0	0
Loan costs:	0	6,231	6,231
<b>Totals:</b>	<b>\$55,750</b>	<b>\$530,154</b>	<b>\$585,904</b>

#### 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.

<b>Projected values over</b>	<b>5 yrs</b>	<b>10 yrs</b>	<b>15 yrs</b>	<b>20 yrs</b>
Property value	678,284	825,236	1.004m	1.222m
Loan	530,154	530,154	530,154	530,154
<b>EQUITY</b>	<b>\$148,130</b>	<b>\$295,082</b>	<b>\$473,872</b>	<b>\$691,397</b>
<b>Approximate costs if sold.....</b>				
Capital Gains Tax	22,253	61,842	111,585	171,036
Solicitor's fees	3,391	4,126	5,020	6,108
Sales commission	19,148	23,189	28,106	34,088
<b>EQUITY (after sale)</b>	<b>\$103,338</b>	<b>\$205,925</b>	<b>\$329,162</b>	<b>\$480,166</b>

**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:	\$530,154
Loan costs (written off over 5 yrs):	\$6,231
Monthly payment:	\$2,209
<b>Annual payment:</b>	<b>\$26,508</b>

**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
<b>Actual annual rent:</b>	<b>\$21,658</b>

**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
<b>Total expenses:</b>	<b>\$6,962</b>
Normal expenses as % of annual rent (%):	31.50
Net yield or Capitalisation rate (%):	2.64

**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	55,750	0	0	0	0	0
Principal payments		0	0	0	0	0
Interest		26,508	26,508	26,508	26,508	26,508
Expenses		6,962	7,171	7,386	7,836	9,084
<b>Pre-tax cash flow</b>	<b>\$-55,750</b>	<b>\$-11,811</b>	<b>\$-11,371</b>	<b>\$-10,916</b>	<b>\$-9,967</b>	<b>\$-7,332</b>

**DEPRECIATION ON THE BUILDING**

This represents the capital allowance on the construction costs.

Property value:	\$557,500
Construction costs:	\$272,500
Depreciation allowance rate (%):	2.50
<b>Depreciation allowance:</b>	<b>\$6,813</b>

**DEPRECIATION OF FITTINGS (diminishing value method)**

Item	Value	Effective Life (yrs)	Depreciation
<b>Total</b>	<b>\$0</b>		<b>\$0</b>

**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):	2,651
Mortgage insurance (0.32% of loan):	1,696
Mortgagee's solicitor's fees:	1,000
Valuation fees:	300
Registration of 1st mortgage:	192
Registration of 2nd mortgage:	192
Search fees:	200
<b>Total loan costs:</b>	<b>\$6,231</b>

**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	26,508	26,508	26,508	26,508	26,508
Expenses	6,962	7,171	7,386	7,836	9,084
Deprec.-building	6,813	6,813	6,813	6,813	6,813
Deprec.-fittings	0	0	0	0	0
Loan costs	1,246	1,246	1,246	1,246	0
<b>Total deductions</b>	<b>\$41,528</b>	<b>\$41,737</b>	<b>\$41,952</b>	<b>\$42,402</b>	<b>\$42,404</b>

**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	-55,750	-11,811	-11,371	-10,916	-9,967	-7,332
Tax credits		6,855	6,906	6,958	7,066	5,941
After-tax cash	-55,750	-4,956	-4,465	-3,958	-2,901	-1,391
<b>Cost /(income) per week</b>		<b>95</b>	<b>86</b>	<b>76</b>	<b>56</b>	<b>27</b>

**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

<b>Year</b>	<b>2020</b>	<b>1yr</b>	<b>2yr</b>	<b>3yr</b>	<b>5yr</b>	<b>10yr</b>
After-tax cash flow	\$-55,750	\$-4,956	\$-4,465	\$-3,958	\$-2,901	\$-1,391
Equity						\$295,082

The total amount in your "account" (including interest) at the end of the period is the equity (\$295,082) in the investment property. The IRR (14.65%) 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 24.02% before tax.

If the property were to be sold at the end of the period, the after-sale equity would be reduced to \$205,925 after taking account of selling costs and capital gains tax and the IRR after the sale would be 10.28%.

**TAX BENEFITS**

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

Number of properties: 1

	<b>Investor</b>
Current taxable income:	90,000
Rental income:	21,658
Total income:	111,658
Rental deductions:	41,528
New taxable income:	70,130
Current tax (on 90,000):	21,517
New tax (on 70,130):	14,662
Tax saving:	6,855
<b>Total tax credits:</b>	<b>\$6,855</b>