MyPropertyPro Pty Ltd

PROPERTY INVESTMENT ANALYSIS (DESCRIPTIVE)

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Property: 123 Fake Street, Cloudland, 4000
Description: House
4 bedroom
2 bathroom
2 lock up garage
650sqm

SUMMARY

Assumptions		**Projected results over**	**5 yrs**
Property value	$375,000	Property value	$501,835
Investment	$90,000	Equity	$202,236
Gross yield	5.04%	After-tax return /yr	16.55%
Net yield	2.53%	Net present value	$83,143
Growth rate	6.00%	**IF SOLD**	
Inflation rate	3.00%	Selling costs & CGT	$41,391
Interest rate	4.99%	Equity	$160,845
Taxable income	$70,000	After-tax return /yr	11.34%

COMPUTER PROJECTIONS

Investment Analysis		Projections over 5 years				
End of year	2015	1yr	2yr	3yr	4yr	5yr
Property value	$375,000	397,500	421,350	446,631	473,429	501,835
Purchase costs	$13,050					
Investments	$90,000					
Loan amount	$299,599	299,599	299,599	299,599	299,599	299,599
Equity	$75,401	97,901	121,751	147,032	173,830	202,236
Capital growth rate	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
Inflation rate (CPI)	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Gross rent /week	$375	18,915	19,482	20,067	20,669	21,289
Cash deductions						
Interest (I/O)	4.99%	14,950	14,950	14,950	14,950	14,950
Rental expenses	48.32%	9,422	9,704	9,995	10,295	10,604
Pre-tax cash flow	$-90,000	-5,457	-5,172	-4,878	-4,576	-4,265
Non-cash deductions						
Deprec.of building	2.50%	3,192	3,192	3,192	3,192	3,192
Deprec.of fittings	$22,500	3,609	4,728	3,269	2,315	1,683
Loan costs	$1,549	310	310	310	310	310
Total deductions		31,482	32,883	31,716	31,062	30,739
Tax credit (single)	$70,000	4,474	4,743	4,080	3,594	3,260
After-tax cash flow	$-90,000	-983	-429	-798	-982	-1,005
Rate of return (IRR)	16.55%	Your cost /(income) per week				
Pre-tax equivalent	25.26%	19	8	15	19	19

Disclaimer: Note that the computer 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 MyPropertyPro Pty Ltd, its servants, employees or consultants.

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:	375,000
Renovation costs:	0
Total book value:	375,000
Property market value:	**$375,000**

PURCHASE COSTS

These include your solicitor's conveyancing fees and, where applicable, State Government stamp duty charges. In Australia, stamp duty varies from State to State and is a function of purchase price whereas, in New Zealand, it 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:	1,500
Stamp duty:	11,550
Total Purchase costs:	**$13,050**

INVESTMENT & LOAN

Your initial investment is usually just the total of all monies outlayed 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:	90,000	285,000	375,000
Renovation costs:	0	0	0
Purchase costs:	0	13,050	13,050
Furniture costs:	0	0	0
Loan costs:	0	1,549	1,549
Totals:	**$90,000**	**$299,599**	**$389,599**

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 (%):	6.00

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	501,835	671,568	898,709	1.203m
Loan	299,599	299,599	299,599	299,599
EQUITY	**$202,236**	**$371,969**	**$599,110**	**$903,077**
Approximate costs if sold......				
Capital Gains Tax	24,586	67,142	127,130	205,162
Solicitor's fees	2,509	3,358	4,494	6,013
Sales commission	14,295	18,963	25,210	33,569
EQUITY (after sale)	**$160,845**	**$282,506**	**$442,277**	**$658,333**

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 Yrs 1-40
Interest rate (yr 1) (%)	4.99
Loan:	$299,599
Loan costs (written off over 5 yrs):	$1,549
Monthly payment:	$1,246
Annual payment:	**$14,950**

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:	375
Potential annual rent:	19,500
Vacancy rate (%):	3.00
Actual annual rent:	**$18,915**

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 (10.45%):	1,977
Letting fees:	375
Rates:	2,500
Insurance:	1,300
Maintenance:	2,500
Pest control:	220
Other expenses:	550
Special expenses:	0
Total expenses:	**$9,422**
Normal expenses as % of annual rent (%):	48.32
Net yield or Capitalisation rate (%):	2.53

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**	**4yr**	**5yr**
Rent		18,915	19,482	20,067	20,669	21,289
Cash invested	90,000	0	0	0	0	0
Principal payments		0	0	0	0	0
Interest		14,950	14,950	14,950	14,950	14,950
Expenses		9,422	9,704	9,995	10,295	10,604
Pre-tax cash flow	**$-90,000**	**$-5,457**	**$-5,172**	**$-4,878**	**$-4,576**	**$-4,265**

DEPRECIATION ON THE BUILDING

This represents the capital allowance on the construction costs.

Property value:	$375,000
Construction costs:	$127,665
Depreciation allowance rate (%):	2.50
Depreciation allowance:	**$3,192**

DEPRECIATION OF FITTINGS (diminishing value method)

Item	Value	Effective Life (yrs)	Depreciation
General fittings	11,250	15.00	1,500
Low-value pool	11,250	4.00	2,109
Total	**$22,500**		**$3,609**

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 (0.08% of loan):	240
Registration of mortgage:	200
Registration of title:	1,039
Other loan costs:	70
Total loan costs:	**$1,549**

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**	**4yr**	**5yr**
Interest	14,950	14,950	14,950	14,950	14,950
Expenses	9,422	9,704	9,995	10,295	10,604
Deprec.-building	3,192	3,192	3,192	3,192	3,192
Deprec.-fittings	3,609	4,728	3,269	2,315	1,683
Loan costs	310	310	310	310	310
Total deductions	**$31,482**	**$32,883**	**$31,716**	**$31,062**	**$30,739**

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	**2015**	**1yr**	**2yr**	**3yr**	**4yr**	**5yr**
Pre-tax cash flow	-90,000	-5,457	-5,172	-4,878	-4,576	-4,265
Tax credits		4,474	4,743	4,080	3,594	3,260
After-tax cash	-90,000	-983	-429	-798	-982	-1,005
Cost /(income) per week		**19**	**8**	**15**	**19**	**19**

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	**2015**	**1yr**	**2yr**	**3yr**	**4yr**	**5yr**
After-tax cash flow	$-90,000	$-983	$-429	$-798	$-982	$-1,005
Equity						$202,236

The total amount in your "account" (including interest) at the end of the period is the equity ($202,236) in the investment property. The IRR (16.55%) 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 25.26% before tax.

If the property were to be sold at the end of the period, the after-sale equity would be reduced to $160,845 after taking account of selling costs and capital gains tax and the IRR after the sale would be 11.34%.

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:	70,000
Rental income:	18,915
Total income:	88,915
Rental deductions:	31,482
New taxable income:	57,433
Current tax (on 70,000):	15,697
New tax (on 57,433):	11,223
Tax saving:	4,474
Total tax credits:	**$4,474**

INVESTMENT CAPACITY

Buying 1 such properties (registered in single name), and taking into account current net incomes and expenses as shown, the difference between total income and total committed expenses in the first year would be $-13,195. Total initial outlay would be $90,000.

Number of Properties: 1 Registered: single name

Income

Current net income	
Current assessable income (Investor):	70,000
Total net income:	70,000
New rental income:	18,915
Total income:	**$88,915**

Expenses

New tax Investor:	11,223
Rental expenses:	9,422
Investment loan expenses:	14,950
Home loan payments:	35,565
Living expenses:	30,950
Total expenses:	**$102,110**
Net surplus (first year of investment):	**$-13,195**
Total initial outlay required:	$90,000