

Australian Property Finance - Peter Borg - 0402 472 727

PROPERTY INVESTMENT ANALYSIS DETAILS

08-Jun-2004

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 Property :
 Descrip Brand new Investment Property

SUMMARY

Assumptions		Projected results over	10 yrs
Property value	\$300,000	Property value	\$465,891
Initial outlay	\$0	Equity	\$152,891
Rent	\$280	After-tax return /yr	26.19%
Cap. growth rate	4.50%	IF SOLD	
Inflation rate	2.00%	Selling costs & CGT	\$61,986
Interest rate	6.50%	Equity	\$90,905
Taxable income	\$55,000	After-tax return /yr	17.43%

COMPUTER PROJECTIONS

Investment Analysis						
End of year	2004	1yr	2yr	3yr	5yr	10yr
Property value	\$300,000	313,500	327,600	342,350	373,850	465,891
Purchase costs	\$9,940					
Investments	\$0					
Loan amount	\$313,000	313,000	313,000	313,000	313,000	313,000
Equity	\$-13,000	500	14,608	29,350	60,850	152,891
Capital growth rate	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Inflation rate (CPI)	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Gross rent /week	\$280	14,269	14,554	14,845	15,445	17,053
Cash deductions						
Interest (I/O)	6.50%	20,345	20,345	20,345	20,345	20,345
Property expenses	24.97%	3,636	3,708	3,783	3,935	4,345
Pre-tax cash flow	\$0	-9,712	-9,499	-9,282	-8,835	-7,637
Non-cash deductions						
Deprec.of building	2.50%	3,750	3,750	3,750	3,750	3,750
Deprec.of fittings	\$15,000	1,875	1,875	1,875	1,875	0
Loan costs	\$2,789	558	558	558	558	
Total deductions		30,163	30,236	30,310	30,463	28,440
Tax credit (single)	\$55,000	5,367	5,432	5,499	5,635	5,115
After-tax cash flow	\$0	-4,345	-4,067	-3,783	-3,200	-2,522
Rate of return (IRR)	26.19%					
Pre-tax equivalent	46.35%	84	78	73	62	49

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 Australian Property Finance - Peter Borg - 0402 472 727, 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 (\$):	300,000
Renovation costs (\$):	0
Total book value (\$):	300,000
Property market value (\$):	300,000

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 (\$):	950
Stamp duty (\$):	8,990
Total Purchase costs (\$):	9,940

OUTLAYS & LOAN

The OUTLAYS as defined in the spreadsheet is 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).

	OUTLAYS	LOAN	TOTAL
Property costs (\$):	0	300,000	300,000
Renovation costs (\$):	0	0	0
Purchase costs (\$):	0	9,940	9,940
Furniture costs (\$):	0	0	0
Loan costs (\$):	0	2,789	2,789
Additional loan (\$):		271	
Totals (\$):	0	313,000	312,729

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 (\$)	373,855	465,891	580,585	723,514
Loan (\$)	313,000	313,000	313,000	313,000
EQUITY (\$)	60,855	152,891	267,585	410,514
Approximate costs if sold.....				
Capital Gains Tax (\$)	17,456	46,350	78,214	116,295
Solicitor's fees (\$)	1,869	2,329	2,903	3,618
Sales commission (\$)	10,776	13,307	16,461	20,392
EQUITY (after sale) (\$)	30,754	90,905	170,007	270,210

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 (%):	2.00
Average rate of capital growth (%):	4.50

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) (%)	6.50
Loan (\$):	313,000
Loan costs (written off over 5 yrs):	2,789
Monthly payment (\$):	1,695
Annual payment (\$):	20,345

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 (\$):	280
Potential annual rent (\$):	14,560
Vacancy rate (%):	2.00
Actual annual rent (\$):	14,269

ANNUAL PROPERTY 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 (i.e. rent/wk x 52). 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 the percentage can be more than 50%.

Normal Expenses:	
Agents commission (8.80%):	1,256
Letting fees:	280
Rates:	1,100
Insurance:	700
Maintenance:	300
Special expenses:	0
Total expenses (\$):	3,636
Normal expenses as % of annual rent (%):	24.97
Net yield or Capitalisation rate (%):	3.54

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 property 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		14,269	14,554	14,845	15,445	17,053
Outlays	0					
Principal		0	0	0	0	0
Interest		20,345	20,345	20,345	20,345	20,345
Expenses		3,636	3,708	3,783	3,935	4,345
Pre-tax cash flow	0	-9,712	-9,499	-9,282	-8,835	-7,637

DEPRECIATION ON THE BUILDING

This represents the capital allowance on the construction costs.

Property value (\$):	300,000
Construction costs (\$):	150,000
Depreciation allowance rate (%):	2.50
Depreciation allowance (\$):	3,750

DEPRECIATION OF FITTINGS (prime cost method)

Item	Val (\$)	Effective Lif (yrs)	Depreciation (\$)
General fittings	15,000	8.00	1,875
Total	15,000		1,875

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 (0.19% of loan):	600
Mortgagee stamp duty (0.40% of loan):	1,252
Registration of mortgage (\$):	128
Registration of title (\$):	64
Search fees (\$):	145
Other loan costs/Solicitors Disbursement (\$):	600
Total loan costs (\$):	2,789

TOTAL TAX DEDUCTIONS (Cash & Non-Cash Deductions)

These are the sum of all of the deductions associated with the property, including both the "cash" and "non-cash" deductions.

Year	1yr	2yr	3yr	5yr	10yr
Interest	20,345	20,345	20,345	20,345	20,345
Expenses	3,636	3,708	3,783	3,935	4,345
Deprec.-building	3,750	3,750	3,750	3,750	3,750
Deprec.-fittings	1,875	1,875	1,875	1,875	0
Loan costs	558	558	558	558	0
Total deductions	30,163	30,236	30,310	30,463	28,440

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	2004	1yr	2yr	3yr	5yr	10yr
Pre-tax cash flow	0	-9,712	-9,499	-9,282	-8,835	-7,637
Tax credits		5,367	5,432	5,499	5,635	5,115
After-tax cash flow	0	-4,345	-4,067	-3,783	-3,200	-2,522
Cost /(income) per week		83.55	78.22	72.76	61.55	48.51

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	2004	1yr	2yr	3yr	5yr	10yr
After-tax cash flow	0	-4,345	-4,067	-3,783	-3,200	-2,522
Equity						152,891

The total amount in your "account" (including interest) at the end of the period is the equity (\$152,891) in the investment property. The IRR (26.19%) 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 46.35% before tax.

TAX BENEFITS

These are shown below for the given taxable incomes and are based on current tax scales.

Number of properties: 1

	Investor	Partner	Total
Ownership: single name	100.00%	0.00%	100%
Present taxable income:	55,000	32,000	87,000
Rental income:	14,269	0	14,269
Total income:	69,269	32,000	101,269
Rental deductions:	30,163	0	30,163
New taxable income:	39,105	32,000	71,105
Present tax:	13,857	6,252	20,109
New tax:	8,490	6,252	14,742
Tax saving:	5,367	0	5,367

INVESTMENT CAPACITY

Buying 1 such properties (registered in single name), and taking into account current net incomes and living expenses as shown, the difference between total income and total committed expenses in the first year would be \$28,916. Total initial outlay would be \$0.

Number of Properties: 1
 Ownership: Investor (100.00%) Registered: single name
 Partner (0.00%)

Income**Present net income**

Taxable income (investor) (\$):	55,000
Taxable income (partner) (\$):	32,000
Rebates & non-cash deductions:	0
Total net income	87,000
New rental income (\$):	14,269

Total income (\$): 101,269

Expenses

New tax (investor) (\$):	8,490
New tax (partner) (\$):	6,252
Rental expenses (\$):	3,636
Investment loan expenses(\$):	20,345
Home loan payments (\$):	13,630
Living expenses (\$):	20,000

Total expenses (\$): 72,353

Net surplus (first year of investment) (\$): 28,916

Total initial outlay required (\$): 0