



Property Whiz Pty Ltd ACN 123 995 835- Broadbeach

PROPERTY INVESTMENT ANALYSIS (DESCRIPTIVE)

30-Sep-2008

Prepared for: Fred Mainwheel  
 Consultant:  
 Property: Magic Grove, Ipswich  
 Description: 4 bedroom 2 bathroom, brick & tile

SUMMARY

	Assumptions		Projected results over		10 yrs
	Property value	\$375,000	Property value		\$972,653
	Investment	\$30,000	Equity		\$608,900
	Gross yield	4.80%	After-tax return /yr		23.09%
	Net yield	3.71%	Net present value		\$304,879
	Growth rate	10.00%	<b>IF SOLD</b>		
	Inflation rate	4.00%	Selling costs & CGT		\$159,816
	Interest rate	9.00%	Equity		\$449,083
	Taxable income	\$85,000	After-tax return /yr		18.52%

COMPUTER PROJECTIONS

Investment Analysis	Projections over 10 years					
	2008	1yr	2yr	3yr	5yr	10yr
End of year						
Property value	\$375,000	412,500	453,750	499,125	603,941	972,653
Purchase costs	\$13,100					
Investments	\$30,000					
Loan amount	\$363,754	363,754	363,754	363,754	363,754	363,754
Equity	\$11,246	48,746	89,996	135,371	240,187	608,900
Capital growth rate	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
Inflation rate (CPI)	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Gross rent /week	\$350	18,018	18,739	19,488	21,079	25,645
Cash deductions						
Interest (I/O)	9.00%	32,738	32,738	32,738	32,738	32,738
Rental expenses	22.58%	4,110	4,274	4,445	4,808	5,850
Pre-tax cash flow	<b>-\$30,000</b>	<b>-18,830</b>	<b>-18,274</b>	<b>-17,695</b>	<b>-16,467</b>	<b>-12,942</b>
Non-cash deductions						
Deprec.of building	2.50%	4,688	4,570	4,456	4,236	3,732
Deprec.of fittings	\$22,500	3,609	4,728	3,269	1,683	494
Loan costs	\$5,654	1,131	1,131	1,131	1,131	
Total deductions		46,275	47,441	46,039	44,596	42,814
Tax credit (joint)	\$85,000	6,945	7,063	6,579	5,644	5,816
After-tax cash flow	<b>-\$30,000</b>	<b>-11,885</b>	<b>-11,211</b>	<b>-11,116</b>	<b>-10,823</b>	<b>-7,126</b>
Rate of return (IRR)	23.09%	Your cost /(income) per week				
Pre-tax equivalent	33.70%	229	216	214	208	137

*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 Property Whiz Pty Ltd ACN 123 995 835- Broadbeach, 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
<b>Property market value:</b>	<b>\$375,000</b>

#### 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:	11,600
<b>Total Purchase costs:</b>	<b>\$13,100</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:	30,000	345,000	375,000
Renovation costs:	0	0	0
Purchase costs:	0	13,100	13,100
Furniture costs:	0	0	0
Loan costs:	0	5,654	5,654
<b>Totals:</b>	<b>\$30,000</b>	<b>\$363,754</b>	<b>\$393,754</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 (%):	4.00
Average rate of capital growth (%):	10.00

**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	603,941	972,653	1.566m	2.523m
Loan	363,754	363,754	363,754	363,754
<b>EQUITY</b>	<b>\$240,187</b>	<b>\$608,900</b>	<b>\$1.203m</b>	<b>\$2.159m</b>
<b>Approximate costs if sold.....</b>				
Capital Gains Tax	39,191	127,710	268,864	490,782
Solicitor's fees	3,020	4,863	7,832	12,614
Sales commission	17,103	27,243	43,573	69,872
<b>EQUITY (after sale)</b>	<b>\$180,874</b>	<b>\$449,083</b>	<b>\$882,445</b>	<b>\$1.586m</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 Yrs 1-40
Interest rate (yr 1) (%)	9.00
Loan:	\$363,754
Loan costs (written off over 5 yrs):	\$5,654
Monthly payment:	\$2,728
<b>Annual payment:</b>	<b>\$32,738</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:	350
Potential annual rent:	18,200
Vacancy rate (%):	1.00
<b>Actual annual rent:</b>	<b>\$18,018</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 (5.05%):	910
Letting fees:	350
Rates:	1,500
Insurance:	750
Maintenance:	600
Special expenses:	0
<b>Total expenses:</b>	<b>\$4,110</b>
Normal expenses as % of annual rent (%):	22.58
Net yield or Capitalisation rate (%):	3.71

**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		18,018	18,739	19,488	21,079	25,645
Cash invested	30,000	0	0	0	0	0
Principal		0	0	0	0	0
Interest		32,738	32,738	32,738	32,738	32,738
Expenses		4,110	4,274	4,445	4,808	5,850
<b>Pre-tax cash flow</b>	<b>\$-30,000</b>	<b>\$-18,830</b>	<b>\$-18,274</b>	<b>\$-17,695</b>	<b>\$-16,467</b>	<b>\$-12,942</b>

**DEPRECIATION ON THE BUILDING**

This represents the capital allowance on the construction costs.

Property value:	\$375,000
Construction costs:	\$187,500
Depreciation allowance rate (%):	2.50
<b>Depreciation allowance:</b>	<b>\$4,688</b>

**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
<b>Total</b>	<b>\$22,500</b>		<b>\$3,609</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):	1,819
Mortgagee stamp duty (0.40% of loan):	1,455
Mortgage insurance (0.32% of loan):	1,164
Mortgagee's solicitor's fees:	1,000
Registration of mortgage:	144
Registration of title:	72
<b>Total loan costs:</b>	<b>\$5,654</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	32,738	32,738	32,738	32,738	32,738
Expenses	4,110	4,274	4,445	4,808	5,850
Deprec.-building	4,688	4,570	4,456	4,236	3,732
Deprec.-fittings	3,609	4,728	3,269	1,683	494
Loan costs	1,131	1,131	1,131	1,131	0
<b>Total deductions</b>	<b>\$46,275</b>	<b>\$47,441</b>	<b>\$46,039</b>	<b>\$44,596</b>	<b>\$42,814</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	2008	1yr	2yr	3yr	5yr	10yr
Pre-tax cash flow	-30,000	-18,830	-18,274	-17,695	-16,467	-12,942
Tax credits		6,945	7,063	6,579	5,644	5,816
After-tax cash flow	<b>\$-30,000</b>	<b>\$-11,885</b>	<b>\$-11,211</b>	<b>\$-11,116</b>	<b>\$-10,823</b>	<b>\$-7,126</b>
<b>Cost /(income) per week</b>		<b>\$229</b>	<b>\$216</b>	<b>\$214</b>	<b>\$208</b>	<b>\$137</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>2008</b>	<b>1yr</b>	<b>2yr</b>	<b>3yr</b>	<b>5yr</b>	<b>10yr</b>
After-tax cash flow	\$-30,000	\$-11,885	\$-11,211	\$-11,116	\$-10,823	\$-7,126
Equity						\$608,900

The total amount in your "account" (including interest) at the end of the period is the equity (\$608,900) in the investment property. The IRR (23.09%) 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 33.70% before tax.

If the property were to be sold at the end of the period, the after-sale equity would be reduced to \$449,083 after taking account of selling costs and capital gains tax and the IRR after the sale would be 18.52%.

**TAX BENEFITS**

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

Number of properties: 1

	<b>Investor</b>	<b>Partner</b>	<b>Total</b>
Ownership: joint names	50.00%	50.00%	100%
Present taxable income:	60,000	25,000	85,000
Rental income:	9,009	9,009	18,018
Total income:	69,009	34,009	103,018
Rental deductions:	23,138	23,138	46,275
New taxable income:	45,871	10,871	56,743
Present tax:	13,500	3,225	16,725
New tax:	9,049	731	9,780
<b>Tax saving:</b>	<b>\$4,451</b>	<b>\$2,494</b>	<b>\$6,945</b>

**INVESTMENT CAPACITY**

Buying 1 such properties (registered in joint names), 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 \$27,440. Total initial outlay would be \$30,000.

Number of Properties: 1  
 Ownership: Investor (50.00%) Registered: joint names  
 Partner (50.00%)

**Income****Present net income**

Taxable income (investor):	60,000
Taxable income (partner):	25,000
Rebates & non-cash deductions:	0
Total net income:	85,000
New rental income:	18,018
<b>Total income:</b>	<b>\$103,018</b>

**Expenses**

New tax (investor):	9,049
New tax (partner):	731
Rental expenses:	4,110
Investment loan expenses:	32,738
Home loan payments:	0
Living expenses:	28,950
<b>Total expenses:</b>	<b>\$75,578</b>
<b>Net surplus (first year of investment):</b>	<b>\$27,440</b>
Total initial outlay required:	\$30,000