NRG Financial Services - Bolwarra

PROPERTY INVESTMENT ANALYSIS (DESCRIPTIVE)

20-Dec-2012

Prepared for: Property Investor
Consultant:
Property: Lot 429 Example Ave Largs NSW 2320
Description: 4 Bedroom Double Garage Fully Turn Key Property

SUMMARY

Assumptions		**Projected results over**	**10 yrs**
Property value	$419,500	Property value	$651,471
Investment	$0	Equity	$224,528
Gross yield	5.16%	After-tax return /yr	55.27%
Net yield	3.80%	Net present value	$174,183
Growth rate	4.50%	**IF SOLD**	
Inflation rate	2.00%	Selling costs & CGT	$77,966
Interest rate	5.50%	Equity	$146,562
Taxable income	$75,000	After-tax return /yr	46.80%

COMPUTER PROJECTIONS

Investment Analysis				Projections over 10 years		
End of year	2012	1yr	2yr	3yr	5yr	10yr
Property value	$419,500	438,377	458,104	478,719	522,773	651,471
Purchase costs	$6,528					
Investments	$0					
Loan amount	$426,943	426,943	426,943	426,943	426,943	426,943
Equity	$-7,442	11,435	31,162	51,777	95,831	224,528
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	$425	21,658	22,091	22,533	23,443	25,883
Cash deductions						
Interest (I/O)	5.50%	23,482	23,482	23,482	23,482	23,482
Rental expenses	25.85%	5,712	5,940	6,178	6,682	8,130
Pre-tax cash flow	$0	-7,536	-7,331	-7,127	-6,721	-5,728
Non-cash deductions						
Deprec.of building	2.50%	6,175	6,175	6,175	6,175	6,175
Deprec.of fittings	$25,170	4,038	5,289	3,657	1,883	552
Loan costs	$915	183	183	183	183	
Total deductions		39,589	41,069	39,675	38,405	38,339
Tax credit (single)	$75,000	6,241	6,590	5,915	5,147	4,668
After-tax cash flow	$0	-1,295	-741	-1,212	-1,574	-1,060
Rate of return (IRR)	55.27%			Your cost /(income) per week		
Pre-tax equivalent	83.75%	25	14	23	30	20

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 NRG Financial Services - Bolwarra, 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:	419,500
Renovation costs:	0
Total book value:	419,500
Property market value:	**$419,500**

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:	2,000
Stamp duty (on land only):	4,528
Total Purchase costs:	**$6,528**

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:	0	419,500	419,500
Renovation costs:	0	0	0
Purchase costs:	0	6,528	6,528
Furniture costs:	0	0	0
Loan costs:	0	915	915
Totals:	**$0**	**$426,943**	**$426,943**

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

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	522,773	651,471	811,851	1.012m
Loan	426,943	426,943	426,943	426,943
EQUITY	**$95,831**	**$224,528**	**$384,908**	**$584,772**
Approximate costs if sold......				
Capital Gains Tax	24,364	59,166	104,213	157,635
Solicitor's fees	2,614	3,257	4,059	5,059
Sales commission	12,711	15,542	19,071	23,468
EQUITY (after sale)	**$56,142**	**$146,562**	**$257,565**	**$398,610**

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) (%)	5.50
Loan:	$426,943
Loan costs (written off over 5 yrs):	$915
Monthly payment:	$1,957
Annual payment:	**$23,482**

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:	1,500
Insurance:	1,000
Maintenance:	1,000
Special expenses:	0
Total expenses:	**$5,712**
Normal expenses as % of annual rent (%):	25.85
Net yield or Capitalisation rate (%):	3.80

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	22,091	22,533	23,443	25,883
Cash invested	0	0	0	0	0	0
Principal payments		0	0	0	0	0
Interest		23,482	23,482	23,482	23,482	23,482
Expenses		5,712	5,940	6,178	6,682	8,130
Pre-tax cash flow	**$0**	**$-7,536**	**$-7,331**	**$-7,127**	**$-6,721**	**$-5,728**

DEPRECIATION ON THE BUILDING

This represents the capital allowance on the construction costs.

Property value:	$419,500
Construction costs:	$247,000
Depreciation allowance rate (%):	2.50
Depreciation allowance:	**$6,175**

DEPRECIATION OF FITTINGS (diminishing value method)

Item	**Value**	**Effective Life (yrs)**	**Depreciation**
General fittings	12,585	15.00	1,678
Low-value pool	12,585	4.00	2,360
Total	**$25,170**		**$4,038**

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 (0.09% of loan):	395
Registration of mortgage:	230
Registration of title:	115
Search fees:	175
Total loan costs:	**$915**

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	23,482	23,482	23,482	23,482	23,482
Expenses	5,712	5,940	6,178	6,682	8,130
Deprec.-building	6,175	6,175	6,175	6,175	6,175
Deprec.-fittings	4,038	5,289	3,657	1,883	552
Loan costs	183	183	183	183	0
Total deductions	**$39,589**	**$41,069**	**$39,675**	**$38,405**	**$38,339**

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	**2012**	**1yr**	**2yr**	**3yr**	**5yr**	**10yr**
Pre-tax cash flow	0	-7,536	-7,331	-7,127	-6,721	-5,728
Tax credits		6,241	6,590	5,915	5,147	4,668
After-tax cash	0	-1,295	-741	-1,212	-1,574	-1,060
Cost /(income) per week		**25**	**14**	**23**	**30**	**20**

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	**2012**	**1yr**	**2yr**	**3yr**	**5yr**	**10yr**
After-tax cash flow	$0	$-1,295	$-741	$-1,212	$-1,574	$-1,060
Equity						$224,528

The total amount in your "account" (including interest) at the end of the period is the equity ($224,528) in the investment property. The IRR (55.27%) 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 83.75% before tax.

If the property were to be sold at the end of the period, the after-sale equity would be reduced to $146,562 after taking account of selling costs and capital gains tax and the IRR after the sale would be 46.80%.

TAX BENEFITS

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

Number of properties: 1

	Investor	Partner	Total
Ownership: single name	100.00%	0.00%	100%
Present taxable income:	75,000	0	75,000
Rental income:	21,658	0	21,658
Total income:	96,658	0	96,658
Rental deductions:	39,589	0	39,589
New taxable income:	57,069	0	57,069
Present tax:	17,047	0	17,047
New tax:	10,806	0	10,806
Tax saving:	**$6,241**	**$0**	**$6,241**

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 $5,455. Total initial outlay would be $0.

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

Income

Present net income	
Current assessable income (investor):	75,000
Current assessable income (partner):	0
Total net income:	75,000
New rental income:	21,658
Total income:	**$96,658**

Expenses

New tax (investor):	10,806
New tax (partner):	0
Rental expenses:	5,712
Investment loan expenses:	23,482
Home loan payments:	20,253
Living expenses:	30,950
Total expenses:	**$91,203**
Net surplus (first year of investment):	**$5,455**
Total initial outlay required:	$0